NRI DEVELOPMENT PROGRAMME

POLICY BRIEF

SUSTAINABLE TRADE AND RESPONSIBLE BUSINESS

RESPONSIBLE BUSINESS INITIATIVES: HOW EFFECTIVE ARE THEY AND WHAT IS THEIR IMPACT?

Responsible, Accountable and Transparent Enterprise (DFID) Programme: Evaluation[i]

Valerie Nelson and Michael Flint, 2019

KEY MESSAGES

- Business impact on human rights, working conditions, and the environment continues to be significant. There is an urgent need for greater business responsibility, and even more so, fundamental changes in economic development approaches to meet the Sustainable Development Goals.
- Responsible Business Initiatives (RBIs) seek to influence corporate behaviour towards greater social and environmental responsibility. Their approaches evolve, ranging from enabling strategies (e.g. tools, standards for companies), ideas-based strategies (new ways of doing business; new organizational forms) and pressure strategies (mobilizing civic, investor and governmental pressure for change). Each may play a role in catalysing business behaviour change, but a global evidence gap exists on the effectiveness / impact of RBIs. The available evidence indicates that voluntary RBIs alone will not fundamentally shift corporate behaviour. There is a need for more civic pressure to be exerted on companies to improve their sustainability performance, underpinned by stronger governmental policies and legislation to regulate corporate practices, plus investment in alternative community-owned economic development.
- To increase pressure on companies requires filling the global evidence gap on corporate practice. Currently, it is not possible to know how far company practices are responsible with respect to the workers, communities and environments they affect, nor what, if anything, is changing in their operations / supply chains and impacts, and the role and relative effectiveness of different RBIs in creating that change.
- Access to private sector data remains a key challenge with a widespread lack of transparency in global supply chains. Independent evaluation of corporate performance and of RBI effectiveness is critically required. Research is needed to understand which combinations of government policies, regulations, normative frameworks, and civic strategies can achieve responsible business or sustainable economic development. Publicly available datasets on sector and industry performance are needed: Both should be independent.
- DFID and other donors need to be cognisant of the scale and depth of the challenge presented by irresponsible business, and realistic about the potential of RBIs to tackle poverty and environmental degradation. Unfortunately, it cannot be assumed that general progress on corporate responsibility, or interventions of any RBI, will necessarily generate significant benefits for poor people in developing/emerging economies within a reasonable timeframe or tackle the significant harms caused by harmful business practices.
- Civic-led RBIs that build pressure on companies to act more responsibly deserve greater support, particularly in the light of closing civic space and the power inequalities in global value chains, but governmental support for necessary policy and legislative reforms in producing and consuming countries is also crucial.
- Ultimately, more systemic, transformative change requires measures which redistribute wealth and power, such as using more appropriate means of measuring development decoupled from economic growth, internalizing social and environmental externalities, promoting sustainable consumption both in established end markets and in emerging economies through education and campaigns, and supporting community-led economic development and inclusive corporate ownership models.

INTRODUCTION

Business and trade are increasingly globalized and global companies thus have a growing impact on the lives of poor people in developing countries, whether as employees in companies or in increasingly, long and complex supply chains, or as community members, whose livelihoods and environments are affected by corporate actions in diverse ways: the environmental impacts of corporates can be localized (e.g. local air and water pollution), and global in nature (e.g. contributions to Greenhouse Gas Emissions and climate change, biodiversity loss and land degradation). While business and trade create jobs and contribute to national economies, the underlying business case for irresponsible business remains strong, and social and environmental impacts continue to be externalized.

Workers in global value chains in ready-made garments, Bangladesh; vegetables, South Africa; tea, India. Photos, L–R: 1&2 M Hartog, 3: V Nelson

RESPONSIBLE BUSINESS INITIATIVES

Definitions vary, but responsibility in business is defined by DFID (RATE Business Case) as meaning an approach to business that is diligent, transparent and accountable with respect to its social and environmental impacts and implications of its direct operations and supply chains. Responsible Business Initiatives - defined as organisations or initiatives which seek to change ideas and norms on business purpose and practices, and to influence, and pressure companies to make their behaviour more responsible - have emerged over recent decades in response to a perceived governance gap with respect to the social and environmental impacts of globalised business and trade, especially in low income countries and emerging markets.

Smallholder coffee producer, Nicaragua. Photo: J Haggar

RBIs initially focused on codes and standards, social auditing, corporate reporting, and product sustainability standards, but the approaches are now diversifying. Increasingly, RBIs promote integrated approaches which move beyond Corporate Social Responsibility to 'Shared Value' approaches in which responsibility is a core part of the business case. RBI strategies are evolving (Nelson and Flint, in press[ii]). Firstly, there are 'enabling' strategies in which RBIs seek to work with companies to enable them to change. These include 'learning by doing' type multi-stakeholder processes and the development of diverse tools and standards to guide companies on responsible practice. Secondly, there are 'pressure strategy' approaches in which external civic actors pressure companies to change. An example is the development of public benchmarks which rate corporate performance. Thirdly, there are 'ideational strategies' which seek to change and disrupt business norms and practices through innovative business models and ideas. An example is the work of B Lab in seeking to change corporate law to enable companies to balance shareholder and stakeholder interests (Nelson and Flint, ibid). These are all voluntary with companies able to decide whether to engage, except for pressure strategies which may push companies to respond. However, there is a growing articulation between voluntary mechanisms and governmental policies and laws, legislation (e.g. on Modern Slavery), normative frameworks (e.g. the EU Directive on corporate non-financial reporting). More research is needed to establish how effective these combined efforts will be in changing corporate practice and over what time period.

RESPONSIBLE BUSINESS INITIATIVES SUPPORTED BY RATE:

B Lab; Ethical Trading Initiative; Fairtrade; Global Reporting Initiative; Humanity; ISEAL; ShareAction - Workforce Disclosure Initiative; Shift; United Nations Global Compact; World Benchmarking Alliance; UK National Contact Point.

INSIGHTS FROM THE RATE EVALUATION

DFID funds the Responsible, Accountable and Transparent Enterprise (RATE) Programme (2014–2020), a £27 million, programme which aims to improve the safety and well-being of poor women and men affected by business in developing and middle-income countries. It provides support to twelve responsible business initiatives (RBIs) which work to improve the way in which businesses manage and account for the social and environmental implications of their actions. The mid-term evaluation of the DFID RATE programme used a theory-based evaluation approach and drew on three main sources of evidence: a) organisational analyses of eight of the RBIs (UNGC, B Lab, ETI, GRI, ISEAL, Shift, ShareAction, Fairtrade; b) wider evidence on RBIs and responsible business more generally; c) and a structured review of secondary information for one sector (the ready-made garment sector in Bangalore, India).

The mid-term evaluation found that there was a strong case for supporting this type of programme to increase business responsibility. (However, we note that programmes that support alternative forms of economic development may be more valuable, such as use of policy levers, grants and technical advice to expand new community-based enterprise and more localized economic systems, as well as measures to democratize existing corporations, such as shared ownership models). Further, the programme itself was efficient in terms of delivering anticipated outputs. However, there was limited independent evidence at mid-term to draw conclusions about the RATE programme's contributions to outcomes and impacts. Key recommendations included, firstly, strengthening the capacity of the RATE partners on Monitoring, Evaluation and Learning, including the development of more robust theories of change, generating and publishing evidence on outcomes and impacts, especially evidence of changes in the behaviour of business as it directly affects poor people and the environment and the commissioning of robust independent, organisation-level impact assessments. Secondly, it was recommended that DFID should continue to consider alternative options that deliver change 'closer to-the-ground', ensuring coverage of issues at the key business-worker-community-environment interface in developing countries.

Workers in ready-made garments, Bangladesh. Photo: M Hartog

KEY LESSONS FOR RESPONSIBLE BUSINESS

Responsibility can cover a multitude of issues and the level of responses from companies vary in strength and significance (from incremental changes such as weak public commitments, for example, to not knowingly using cotton from Uzbekistan, to cases of more concrete changes in actual sourcing practices. It is thus difficult to generalize about whether RBIs have been effective as effectiveness is highly context specific.

The lack of data on the effectiveness and impact of RBIs is not surprising, given the challenges of accessing private sector data. In some areas, such as product standards, there is comparatively good data. In other areas, there is a lot of data, but no clear answers (e.g. on the business case for responsibility). In some areas there is a clear lack of evidence (e.g. on corporate reporting impact on corporate practices and supply chains). On purchasing practices there is almost no data, partly due to commercial confidentiality, and no easy

BANGALORE SECTOR PERFORMANCE ASSESSMENT

The initial findings of a sector study of the ready-made garment sector in Bangalore, based upon in-depth secondary evidence analysis, are as follows: social performance is rated as low, with no significant improvement over the past five years; environmental performance is also rated as low, but with some improvement over the past five years; some improvement in levels of support by brands for community Corporate Social Responsibility projects; and low, but improving, levels of supply chain transparency.

answers[iii]. In general, the evidence base for knowing what works in responsible business is extremely thin.

There has been a definite increase in the attention given by business to social and environmental issues[iv]. However, existing evidence and trends on the ground in emerging economies and developing countries suggest that assumptions at the later stages of the theory of change – such as those which assume that there are changes in corporate policy and practice and that these translate into significant changes in worker conditions, or improved community or environmental impacts – may not hold true. This has implications for the design of programmes and interventions on responsible business.

The business case for responsible business is variable and uncertain. It should not be assumed that responsibility makes business sense, at least in the short term. Progress towards responsibility in business has been heavily concentrated in a small minority of reputation-sensitive companies and sectors[v]. UNGC, the world's largest corporate sustainability initiative with over 9,500 business members, covers just 2% of global GDP, 2% of listed companies, and 4% of people working in the private sector. Evidence focused upon the market penetration and impact of product and supply chain standards also indicates that in some sectors the standard bodies may have hit an uptake ceiling. Many international supply chains have become extremely long, complex and opaque. Just understanding their supply chains, let alone acting to improve conditions within them, has proved to be a huge undertaking for the most committed of companies. If companies do not know what is going on – or do not want to – achieving impact is virtually impossible[vi]. There tends to be a sharp fall-off from commitments to action, particularly action in distant supply chains or beyond Tier 1 suppliers. A much higher percentage of companies have policies on human rights than carry out impact assessments, monitor or evaluate performance, or disclose information on policies and practices[vii].

Such improvements as have been achieved in supply chains have been seen on issues that are easier to deal with: 'basic improvements have been achieved in some areas such as occupational health and safety, but not in others (e.g. freedom of association, excessive working hours)'[viii]. An impact evaluation of ETI in 2003-2006 found a similar picture[ix]. Problems such as purchasing practices and living wages in supply chains that were correctly identified over ten years ago are still being discussed[x].

Much of the persistence of poor working conditions and labour rights, and negative community and environmental impacts are a systemic and structural feature of the current business and economic model, and the competitive drivers and risk environment of the global market economy. This, and the related points about the lack of a universal or sufficiently strong business case for the adoption of voluntary measures, the limited RBI coverage of and uptake by business, and poor governance in supplier countries, go a long way to explaining why the extent of improvements in global supply chains has been so limited, and why much less progress has been made on fundamental issues such as freedom of association and living wages/incomes. Progress on these issues will require more systemic changes to business models and the global economy.

CONCLUSIONS

Donors need to be cognisant of the scale and depth of the challenge represented by irresponsible business, and realistic about the potential of more responsible business to tackle poverty. It cannot be assumed that general progress on corporate responsibility, and any RBI, will necessarily generate significant benefits for poor people in developing countries within a reasonable timeframe, or tackle the significant harms caused by harmful business practices. It is also very difficult to know whether, in any specific sector, conditions are improving or worsening, especially if we consider not only impact per unit of product, but also the totality of production *viz.* a planet of finite resources. Overall, voluntary approaches are insufficient for achieving responsibility in business. A more critical appraisal and selection process is needed to identify the RBIs most likely to achieve change, but also: a) governmental support for harder policy and legal measures in producer and consumer countries to require greater responsibility in business and to promote community-led economic development, b) support for civil society capacity strengthening to enable them to increase pressure for change; c) enhanced investment in the independent and robust evidence base; the generation of public, independent data on progress in different sectors and industries, and independent evaluation of RBI impact; d) increased investment in the development of alternative, community led enterprise and economic systems.

Ultimately, more systemic, transformative change in the global economy will require more radical measures such as: different means of measuring development that are decoupled from economic growth; the internalization of social and environmental externalities; promotion of sustainable consumption in established end markets and in emerging economies through education and campaigns; and supporting community-led economic development and inclusive corporate ownership models.

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i See the main evaluation report for more details: Nelson, V. and M. Flint (2018) 'Responsible, Accountable and Transparent Enterprise Programme: Mid-Term Evaluation'. https://devtracker.dfid.gov.uk/projects/GB-1-203448/documents
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