

RESPONSIBLE BUSINESS AND SUSTAINABLE LIVELIHOODS

INTRODUCTION

“Whether we realise it or not, each of us lives eternally ‘in the red’. We are everlasting debtors to known and unknown men and women. When we arise in the morning, we go to the bathroom where we reach for a sponge provided for us by a Pacific Islander. We reach for soap that is created for us by a European. Then at the table we drink coffee which is provided for us by a South American, or tea by an Indian, or cocoa by a West African. Before we leave for our jobs we are already beholden to more than half the World.” Martin Luther King

Section One

An Overview

WHAT IS RESPONSIBLE BUSINESS?

Business is fundamental to livelihoods. The production and exchange of goods and services beyond what is required for subsistence is an integral part of human life.

Every type of business has social and environmental dimensions. Workers, local communities, others in the value chain, consumers, owners, wider society – a business has different relationships with all of these stakeholders.

Of course, the larger the company or the bigger the industry or the longer the value chain, so the greater the impact business can have. But any business can be responsible; no matter its size, the product or the location. **A responsible business is one that is aware of its social and environmental impact, and actively manages its operations to minimise and offset negative consequences, and optimise positive ones.**

Although there are many types of business, reflecting the different socio-economic relations throughout the world, in these Guidelines the term ‘business’ refers to all entities engaged in commercial production or trade of goods and services. Often these entities are limited liability companies, but the term also embraces family farms, producer co-operatives and many others.

Many large companies engage in corporate philanthropy, often run through community affairs programmes. These can bring significant benefit to local communities and others, as well as adding value to a company or brand’s reputation. However, responsible business is more than corporate philanthropy: it is about recognising social and environmental concerns as part of core business operations.

BUSINESS AND LIVELIHOODS

When Roosevelt made his comment about working conditions, he was referring to one level of business responsibility – the workplace. In contrast, we hear some economists argue that business is only responsible to shareholders, and its only responsibility is to make a profit.

Responsible business is about responsibility to both workers and shareholders and more ... It is also

about responsibility to local communities, to other companies in the value chain, to consumers, to wider society and to the natural environment. Annex 1 gives examples of some of these responsibilities.

Responsible business is not about poverty eradication. It is fair to say that with few exceptions business interacts with poor people when it is to business’s advantage, and not because it has a poverty agenda. Nonetheless, poor people interact with business in a variety of ways: as workers, as producers, as consumers, and as the owners or custodians of natural resources. Responsible business requires companies not to take advantage of poverty and the marginalisation that often accompanies it (e.g. by paying less than a living wage, by selling harmful products, by denying land rights without fair compensation). Moreover, there are instances where companies actively seek to reduce poverty (e.g. by locating factories in deprived areas, investing in education and health, providing poor people with market access).

There are seven main ways that business can have a positive influence on poor people’s livelihoods:

1. Creating employment
2. Providing adequate working conditions
3. Increasing or securing the poor’s assets
4. Investment in infrastructure and technology
5. Developing human capital
6. Providing appropriate, affordable goods and services
7. Fostering a sustainable natural environment

Business, especially influential companies, can also have an indirect impact on the poor by encouraging good governance, greater transparency, policy reform, etc.

DRIVERS OF RESPONSIBLE BUSINESS

Many people reading the above definitions of responsible business will shake their heads in disbelief at this journey to Damascus so many companies are said to be taking. Low wages, ignoring local people’s rights, damaging the envi-

“Goods produced under conditions which do not meet a rudimentary standard of decency should be regarded as contraband and ought not to be allowed to pollute the channels of interstate trade.” Franklin D. Roosevelt, announcing 1938 US Fair Labor Standards Act

ronment; this is what many people associate business with. When business talks about sustainability, it normally means sustainable growth not sustainable livelihoods. For some economists, the very idea that business has a responsibility other than to its shareholders is beyond the pale.

Business, particularly transnational and international companies, has fought long and hard to strengthen the free flow of commerce and to protect the property rights of capital. Today, such companies are larger than many national economies, and the shrinking role of government has not been replaced by other regulatory mechanisms. Business is in an unprecedented position; the only acknowledged engine of economic growth, it has created a global supply base to increase production and reduce costs, and become the largest source of direct foreign investment in poorer countries.

But this power has brought with it responsibilities. There are three broad drivers of responsible business for most companies:

- Stakeholder responsibility
- Sustainability
- Trade for development

STAKEHOLDER RESPONSIBILITY

Business can no longer depend on shareholder and customer satisfaction as performance indicators. It increasingly recognises that (often small) groups of shareholders, consumers, the media and advocacy NGOs can damage a company's reputation, particularly where the company name or its brands have a high profile. Food safety scares, worker and environmental exploitation, and abuses of indigenous people's rights are all issues that have had a negative effect on companies.

These high profile companies therefore talk about 'stakeholder capitalism', and seek to manage stakeholder relations in the same way as they would any area of risk. This means understanding and addressing stakeholder concerns at the six levels of interaction described above: employees, local community, value chain, wider society, shareholders and consumers. Only in this way can business retain its licence to operate.

SUSTAINABILITY

Responsible business is not just a reaction to stakeholder concerns. Some companies, especially those involved in renewable natural resources, are concerned about ensuring the sustainability of their activities. They want to know that in the future there will still be adequate supplies of fish, timber, cocoa, vegetables, etc. to meet consumer demand.

Although worries about sustainability were initially limited to environmental concerns, social dimensions of sustainability are also being recognised.

TRADE FOR DEVELOPMENT

Stakeholder Responsibility and Sustainability require companies to manage their social and environmental as well as financial performance. They require business to do what it does better and to be accountable to a broad range of stakeholders. But they leave untouched questions of what to produce, where to operate and how to trade.

However, there are some companies that see business as a mechanism for addressing poverty or conserving the environment at the micro-level, and use the impact in these areas as the starting point for choosing products, establishing trading relations, and deciding where to operate. In some cases this involves developing products and services that meet the needs of the poor, in others encouraging poor people to become producers, especially for export markets.

TRIPLE BOTTOM-LINE

The idea of responsible business is not new. In the West, many Victorian entrepreneurs built their companies around principles of responsibility, particularly to workers and local communities. Similar notions of responsibility, often based on religious philosophies, can be found throughout the world, and the concept of a responsible business is often culturally determined.

The emergence of publicly listed companies owned by shareholders as the favoured form of company ownership (particularly in Britain and the USA) made responsibility to shareholders a primary concern. But new knowledge about the environment and the decline of the State and trade union's power to act as social mediators has pushed social and environmental issues further and further up the agenda of business.

The first macro-level business sustainability initiatives such as the World Business Council for Sustainable Development were mainly concerned with environmental impact. Now, business talks more and more about the triple bottom-line where it must equally manage economic, social and environmental performance, and deliver value-added in each of these three areas.

Some well-known companies such as Shell have started to develop approaches of triple bottom-line management, especially at the policy and strategic levels. But triple bottom-line theory is in its infancy, and as the approaches to responsible business described in these Guidance Notes show there

is often a divide between social and environmental issues. However, the emphasis being placed on triple bottom-line management is a strong indicator, not only of business's serious intention, but also the direction of future developments.

INFLUENCES ON RESPONSIBLE BUSINESS

Do not expect the entire business community to be implementing responsible business strategies. Do not even expect many business people to have heard of responsible business or the plethora of other related terms such as corporate citizenship, sustainable business, ethical trade and reputations assurance. Despite the growing number of companies involved in responsible business, it remains a minority interest and many company managers will argue that they cannot be expected to be responsible when in today's competitive climate their main concern is to survive.

SECTORS

Yet in some sectors, responsible business is increasingly recognised as essential to survival. Whether it be to maintain a good image through stakeholder relations, to ensure the continuity of the supply base, or to gain market advantage, responsible business in its various forms is a major management concern.

The degree to which companies feel under pressure to adopt responsible business strategies depends partly on the industrial sector. Many sectors engaged with renewable natural resource management are ones where responsible business has taken hold (e.g. forests, fisheries, agriculture).

POSITION IN THE VALUE CHAIN

The type of responsible business strategies adopted is influenced by the company's position in the value chain. A commercial farm in an African country may not be under direct pressure from its workers, local communities or its owners to improve its social or environmental performance, and indeed national governments may be worried that responsible business will make the industry less competitive. But if the farm is selling to a European importer who in turn sells to a major retailer, then the farm will have to pay attention to what the retailer demands, and increasingly Northern buyers are placing the same emphasis on social and environmental criteria as they do on quality, quantity and timeliness.

The further from the consumer or the lower the company's profile, the less likely it is that the company will be involved in setting responsible business standards. Business exporting to Europe

and North America are more likely to have to comply with formal responsible business policies than others.

SIZE AND LOCATION

Much of the current thinking about responsible business distinguishes between the size of companies and the geographical scope of their operations. There are important distinctions between national, international, multinational, transnational companies etc. (see Table), and global companies may be more aware of the importance of good stakeholder relations than national companies supplying a developing country market.

OWNERSHIP

Business behaviour is also affected by the form of ownership. Historically, the fact that companies such as Cadbury, Fry's and Clarke's adopted enlightened business practices in Victorian times is attributed to their Quaker roots. The link between religious belief and corporate vision is still evident in the fair-trade movement where many alternative trading organisations are owned by church-related bodies. Likewise, the impact of entrepreneurs of strong moral vision such as Salt, Tata and Carnegie, is seen today in companies such as The Body Shop.

Types of ownership that can affect responsible business strategies include:

- Shareholder-owned publicly listed companies (in their myriad forms).
- Private limited companies.
- Partnership-owned companies (e.g. the John Lewis Partnership).
- Mutually-owned organisations (e.g. the Co-op, Kuapa Kokoo).
- Alternative trade organisations.
- State-owned companies (particularly parastatals and newly privatised industries and co-operatives in developing countries).
- Franchised operations (e.g. retail franchisees of The Body Shop, McDonalds).

REGULATIONS

At the very least, responsible business means that business must comply with the legal requirements in the producing and consuming country. This covers corporate governance (e.g. tax, bribery), product safety and suitability (e.g. food safety, quality guarantees), and conditions of production (e.g. worker health and safety, toxic emissions, child labour, integrated crop management).

| Type of Company | Explanation |
|--|--|
| International | A company based in one country but trading with many countries (e.g. Tata). |
| Multinational | A company based in one country but with management, manufacturing and distribution operations in other countries (e.g. Nestle). |
| Supranational | A company with no clear home base, operating in many countries (e.g. Lohro). |
| Global | A company manufacturing components in different countries to make a final product which is sold globally (e.g. Ford). (NB: MNC and SNC may be global.) |
| National | A company based in a single country and with management, manufacturing and distribution operations limited to that country. |
| Local | A company based in a region of a single country and with management, manufacturing and distribution operations limited to that region. |
| NB: The definitions of international, multinational, supranational and global companies are adapted from McIntosh, Leipziger, Jones and Coleman, 1998. | |

Much of the current work on responsible business concerns the setting of standards that serve as an international plimsoll line for best practice. However, compliance with such standards is not an excuse for failure to comply with national law, and there may be instances where national laws are more stringent than international standards (e.g. trade union recognition, pesticide prohibition), or address issues not yet common in such standards (e.g. industrial compensation, land rights, rights of the disabled).

The amount of regional and international agreements and regulations is growing. Economic blocs such as the EU, NAFTA and ASEAN all have regulations that affect business beyond these regions. The World Trade Organisation is often seen to be a barrier to the development of international standards for responsible business because of fears that it will interpret externally imposed environmental and social standards as a non-tariff barrier to trade in goods and (in future) services. The recent protests at the meeting in Seattle were partly designed to put pressure on the WTO to adopt core social and environmental standards. However, the types of standard employed in responsible business are voluntary and business to business, and are there-

There's much talk about the Third Way and the need to involve the private sector in action on social exclusion. But there's precious little hard talking about practical ways companies should get involved – where their rights end, where their responsibilities start and ... where the opportunities lie to succeed commercially while still caring for those suffering disadvantage in society.

Mike Tuffrey, The Corporate Citizenship

fore unlikely to be contested.

THE ROLE OF GOVERNMENT

One of the drivers of responsible business is the declining influence of national governments, and the absence of international regulatory frameworks in an age of globalisation. However, this should not be interpreted as saying that governments have no influence at all.

Even under WTO, governments can prevent trade where legitimate health, safety, product quality and environmental protection concerns can be proven. Governments can also foster a positive arena for responsible business through, for instance, establishing favourable tax and financial incentives, and allowing pension fund managers to move beyond a responsibility to maximise returns to investors by considering the social and environmental performance of companies.

The British government included corporate responsibility in its recent review of pension funds. There is more that could be done; for instance in regulated industries such as utilities and telecommunications where corporate actions in the field responsible business could be included alongside pricing and service provision performance indicators.

Business is eager to involve government in the responsible business debate because it brings legitimacy, and also because it can help define the rights and responsibilities of business in the new era. DFID support for the Ethical Trading Initiative has played an important part in ensuring business participation. However, amongst international initiatives ETI is rare, and some initiatives (e.g. the Forest Stewardship Council) have deliberately excluded government from their partnerships.

National and provincial governments in developing countries have already introduced responsible business issues into their policies on foreign investment (e.g. Brazil and the Brazilian state of Amapa), and **assisting governments develop ethical business policies is a possible role for DFID.**

Of course, government can also be a source of funding for responsible business.

Alternative trade organisations, particularly in Europe, have relied on donor funding, and donors have also contributed to the development of international standards. The emerging DFID business challenge funds, in some

ways building upon USAID's long history of business partnerships, will show whether funding is a key concern to mainstream business.

GOVERNMENT AS BUSINESS

Despite recent trends for privatisation of government-owned companies and services, in many countries the state is itself a major business owner. Several privatised companies in Britain have been at the forefront of responsible business (e.g. United Utilities, BT), and privatisation in developing countries, if accompanied by government regulation, is an opportunity to promote responsible business practice. Where companies and services continue to be operated by the state, these should also be a target for promoting responsible business.

TRENDS AND ISSUES

There are three main ways that business seeks to affect society: corporate philanthropy, policy influence and core business operations. Responsible business refers primarily to core business operations. However, it is important to note that **the types of corporate philanthropy conducted by the community or corporate affairs departments of major companies may be of relevance and interest to DFID advisors** (e.g. charitable donations, investment in health and education, secondment of company personnel). The London Benchmarking Group has developed standards to compare the performance and impact of corporate philanthropy.

At the present time, the most high profile approach to responsible business is the development and implementation of a wide variety standards of social and environmental responsibility. This is particularly true for industry sectors exploiting renewable natural resources.

Because of the importance of standards, these are addressed in a separate section. This section describes other core themes, trends and issues.

STAKEHOLDER ACCOUNTABILITY AND PARTNERSHIPS

Accountability is at the heart of responsible business. This means business should be accountable for its behaviour to all stakeholders, and requires that companies not only **comply** with principles, policies and standards, but be **transparent** about acts and omissions, risks and dependencies, and be **responsive** to the concerns of its stakeholders.

The move from shareholder companies to stakeholder companies means that companies committed to responsible business are finding new ways to engage with civil society organisations and other stakeholders. This engagement may involve

seeking the advice of NGOs, trade unions and academics on responsibility issues. Consultancy companies have not been slow to add this type of advisory service to their repertoire, but companies are often keen to use the legitimacy that interaction with NGOs and non-commercial organisations can provide.

These advisory roles place business as the client, and while some civil society organisations (and governments) have been keen to engage with business on this basis, others have resisted what they see as unequal power relations.

More challenging to business is the acceptance of civil society as an equal partner. There are several examples of joint initiatives where groups of companies, NGOs and trade unions have come together to develop approaches to responsible business (e.g. the Ethical Trading Initiative, the Forest Stewardship Council). These tripartite alliances (which have now begun to recognise government as a fourth pillar) bring different types of organisation together as equal partners, although it is too early to evaluate whether certain partners become more equal than others over time.

The emerging field of stakeholder accountability is a more formalised approach to partnerships that places stakeholder interaction at the heart of business sustainability, and allows companies to measure and manage the quality of that interaction through a defined process (AA1000).

For DFID advisors, these approaches to partnership provide **models that can be built on in new sectors and countries.** They are also **a strong indication of business's willingness to engage with other stakeholders.**

DOING AND SHOWING

A major difference between traditional corporate philanthropy and today's responsible business is that it is not enough for companies to be responsible: **they must be seen to be responsible.** This is one reason why the use of benchmarked, transparent and auditable standards is common.

In some instances, meeting a standard allows the company to use a label or mark to distinguish its product at the point of sale (e.g. the Fairtrade label, Forest Stewardship Council, organic labels). In some instances, it is a particular site (e.g. factory, farm) rather than a product that is certified as complying with a standard (e.g. ISO 9000, ISO 14000, EMAS, SA8000). However, the majority of companies use in-house standards, and responsible business is still rarely used as a unique selling point in the market place.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The previously mentioned triple bottom-line emphasises the importance of integrating financial, social and environmental responsibility. However, we are a long way from putting this theory into practice, and many companies and approaches to responsibility treat social and environmental issues as separate spheres. Some companies focus on social issues to the exclusion of environmental ones and vice versa; others have separate strategies for social and environmental performance. The degree of integration varies between sectors. It is high in forests and mining, and low in tourism (which has an environmental focus) and manufacturing (which has a worker welfare/human rights focus).

Nonetheless, there are signs of a growing consensus on the interrelationship between social and environmental issues, but integration is generally a long way off. **DFID advisors may have a role in accelerating this integration**, not least because of DFID's **integrated view of sustainability** and the British government's commitment to **joined-up government**.

Some national and international standards for production (e.g. Forest Stewardship Council, Eurep, Kenya Flower Council) include both social and environmental criteria of some kind. Significantly, several standards from developing countries have attempted to integrate social and environmental criteria (e.g. Zimbabwe Horticulture Promotion Council, Florverde [Colombia]).

Some individual companies are starting to move from separate financial, social and environmental reports to 'sustainability reports' as part of their annual reporting process (e.g. Shell, United Utilities, The Body Shop), although these vary in content and approach. AA1000 is the first attempt to establish a quality floor for the process of sustainability auditing and reporting.

MAINSTREAM AND ALTERNATIVE TRADE

Some people still associate responsible business with fair-trade and conservation driven trade. Mainstream business would argue that there is less of a gap between conventional and alternative approaches to trade than some consumers imagine, and that modern business best practice complements some of the principles of alternative trade (e.g. investment in suppliers, long-term contracts, stabilised prices, sustainable production, reduced role of middlemen). Furthermore, the relative volumes of mainstream and alternative trade together with more critical assessments of the actual benefits of the latter support the argument that responsible approaches to mainstream trade

have a greater impact than alternative trade.

Nonetheless, alternative trade continues to grow, and more importantly has distinctive features that are of relevance from an international development perspective. The features set out below are generic, and are not found in all approaches to or examples of alternative trade.

People and Places not Commodities

The starting point for mainstream business is the product. Location, technologies and employees are all chosen based on the needs of the product.

Alternative trade is more likely to begin with place and people, and then look at how trade can bring benefits. For instance, conservation organisations will begin with the conservation area and then look at what can be produced to strengthen conservation efforts. Fair-trade organisations will often begin by identifying groups of poor people, and then look at how trade can be used to reduce poverty.

Markets

For many primary producers the main constraint is price, often reinforced by monopsonistic buyers. Most mainstream buyers depend on traditional market mechanisms to determine price, not least because they in turn are subject to strong market forces.

Fair-trade is the only systematic attempt to develop an alternative international market where producers are guaranteed a price floor (at least equivalent to the cost of production), and to some extent where there are guarantees to buy produce even at the risk of supply exceeding demand. For some commodities (e.g. cocoa, coffee, tea) the fair-trade market is internationally regulated, but for others price and other transaction issues are negotiated between producers and individual fair-trade buyers (e.g. Tropical Wholefoods/Fruits of the Nile).

Development Premium

The price premium associated with alternative trade products is often used to support development activities in the areas the primary commodities are grown. Fair-trade and to an extent conservation-driven trade encourages producers to organise in co-operatives or similar associations, and these have the responsibility for using the premium for social or conservation activities.

The Body Shop is one of a very few mainstream companies to offer a similar development scheme, although some aspects of corporate philanthropy may have a similar outcome.

Small Producers

The requirements of mainstream trade tend to favour larger producers that are generally better placed to meet requirements of quality, quantity and timeliness, and adapt to the demands of commercial production in general.

Fair-trade favours small producers, organising these in co-operatives that provide marketing, extension and group development services. Conservation-driven trade does not deliberately target small producers, but often works with community groups because of their relationship with the natural resource.

It is important to note that **a focus on small producers does not necessarily mean a greater impact on poor people**. A large fair-trade scheme such as fair-trade cotton in Uganda or cocoa in Ghana may affect less people than a commercial flower farm in Kenya with a workforce of 5,000 people, most of whom are migrants from degraded regions.

RESPONSIBLE BUSINESS AND SUSTAINABLE LIVELIHOODS

When business talks about sustainability, it is more likely to be talking about sustainable growth than sustainability in a DFID sense. There are examples, most notably alternative trade, of trade being used explicitly to deliver international development objectives. Of growing importance are initiatives that view good social and environmental practice as good for business, and thus make the business case as well as the moral case for greater responsibility.

It can be argued that responsible business in the mainstream is most effective when either poor people and/or the environment are intrinsic to a company's core business activities, or poor people form part of the consumer base. For instance, utilities companies may have a legal obligation to provide for the poor or a household goods company may see poor communities as a market for washing soap etc. Likewise, mining companies may exploit oil or gas in remote areas inhabited by marginalised people, or tour companies may offer destinations in poor regions or areas of ecological interest.

This is a very different conceptual starting point than that of DFID. There are environmental-economic trade-offs in many industry sectors, and business has a clear interest in certain outcomes. There are many poor people who cannot engage in export-oriented trade, and are therefore outside of the current scope of most responsible business

initiatives. There are also many poor countries and regions that lack the infrastructure, skills base, technology and financial capital to engage significantly in world trade. Foreign direct investment is the single largest source of transfers to developing countries. There appears to be a virtuous circle of FDI, economic growth and trade expansion, but many poor countries (particularly in Africa and Latin America) are unattractive to foreign investors and experience the opposing vicious circle of decline.

Responsible business for the most part does not alleviate these underlying problems, just as it does not challenge the structural constraints faced by many developing countries such as the international commodities markets and debt. The international development community should not regard responsible business as a substitute for policy and practical initiatives to establish the conditions for private sector growth, just as it should not depend on business as the sole mechanism for sustainable livelihoods. However, **DFID is justified in looking to business as one arm of its poverty eradication strategy in order to:**

- a. add value to its own programmes by using the human, financial and technical resources of business; and
- b. optimise the benefits and minimise the disbenefits of business growth for poor people.

"It has become an article of faith that liberalisation and deeper integration into the global economy are good for growth and for poverty reduction."
Kevin Watkins, UNDP

BENEFICIARIES OF RESPONSIBLE BUSINESS

Responsible business can have a positive impact on sustainable livelihoods in the following broad areas:

- **Workplace:** providing good employment conditions for workers, and good standards of health care, housing and education for workers' families
- **Communities:** investing in local communities; contributing to their human, financial, physical and social capital; building positive community-business relations
- **National economies:** helping economic growth; increasing government revenues and access to foreign exchange; technology transfer; infrastructure development; financial investment; development of human capital

In the best instances, business will hold itself accountable for its activities in these areas.

LIVELIHOOD FRAMEWORK

There has been no comprehensive assessment of how responsible business affects the capital assets

of the poor. The later sections of this report dealing with responsible business in different renewable natural resource sub-sectors highlights the current state of knowledge of the impact of specific initiatives. At present, however, it is easier to assess the potential rather than actual contribution responsible business can make to sustainable livelihoods.

Futurity

The more advanced examples of responsible business acknowledge that business has a responsibility to current and future generations. This is most evident in environmental performance where companies have sought to reduce toxic emissions, reduce packaging, increase recyclable product content and reduce the use of non-renewable natural resources through the adoption of in-house strategies and industry environmental management systems (e.g. ISO14000, Business in the Environment Index of Corporate Environmental Engagement, EMAS). Identifying impacts with greatest long-term significance, and particularly making trade-offs between current and future goals, is a problematic and contested area, but companies increasingly acknowledge the need for life-cycle assessment of their products from the production to the disposal stages.

Futurity is less explicit in socially responsible business where the focus is often on the narrow fields of worker welfare and human rights rather than inter-generational issues. Some progress has been made in trying to expand companies' responsibility to workers beyond conditions in the workplace to include issues such as redeployment, career development (within and beyond contracts with the company) and downsizing, but this is still at an early stage, and except for pensions business does not generally feel an obligation to its workforce beyond the period of employment.

These approaches to futurity assume that business itself, and particularly international trade, is itself sustainable, and there are some who question this, both in terms of its environmental consequences (e.g. the energy consumption resulting from the international trade in fresh produce) and its social impact (e.g. the marginalisation of poor people as a result of business activities). However, just as it is ill-advised to consider international trade as the sole mechanism of poverty eradication, it is less than pragmatic to ignore the opportunities that business will provide for the foreseeable future.

Human Capital

Business often has an interest in human capital. A healthy, well-educated workforce is often important for productivity and competitiveness. Traditionally business has played a role in looking after the human capital of its workers, and both education and health are common areas of corporate philanthropy.

Sustainable enterprise is not a synonym for responsible business. Responsible businesses no matter how well-intentioned cannot be sustainable enterprises if they do not address business fundamentals.

The World Bank Business Partnerships in Development programme has an example of business going beyond this role to working in partnership with government to systematically improve IT education in India. There is a long history in developing countries of large commercial farms and planta-

tions providing education and health facilities for workers and their families, often because of the shortcomings of state-run services. Other companies provide health insurance, although the quality of service varies and little is done to address many workers' preference to use traditional medicine.

Alternative trade organisations in particular invest in building the capacity of small producer groups to improve their management and production systems. The same is also true of some mainstream exporters and traders who source from small producers (e.g. Everest, a horticulture importer specialising in smallholder produce), and the UK horticulture industry together with DFID is funding a human development programme to encourage the adoption of best practice by smallholder producers.

Foreign companies are also a significant conduit for technology transfer to developing countries, although recently what has been highlighted is business's growing dominance of intellectual property rights which can be disadvantageous to the poor.

Physical Capital

There are sound financial reasons why business often invests in the frequently dilapidated infrastructure of developing countries. In the past, any benefits from such investments to local communities were coincidental, but responsible business can lead to the exploration of win-win situations for both companies and communities (e.g. the extension of logging roads to villages, provision of public transport, community access to water and electricity from company sources).

Business can also be an efficient means of making services available to the poor. For instance, investment in strategically located cold stores which help farmers reach new markets; the establishment of fish processing facilities that are accessible to poor

fisherfolk.

However, responsible business can also negatively affect poor people. For instance, more stringent quality control procedures at vegetable pack-houses can deprive poor people of discarded food used to feed livestock; improved waste disposal can prevent poor people obtaining unwanted machinery or other items that could be put to use. Ideally, a responsible business would identify such issues and find solutions through stakeholder consultation.

There is also a strong case to be made that the biggest improvements for poor people come from increasing local value added (e.g. through local or in-country processing). Responsible business to date has not addressed this point to any great extent, although some companies taking advantage of improved infrastructure in certain countries are investing in this area (e.g. Mars UK's development of cocoa processing plants near smallholder cocoa growers in Sulawesi, Indonesia).

Financial Capital

The biggest social impact of business is the creation of jobs and the purchase of goods and services. A significant driver of responsible business is the perception that business has exploited workers in developing countries, and responsible business therefore seeks to improve the financial capital of its workers by paying a living wage for a basic working week. This may not be a general benefit because poor and marginalised people are not always able to gain employment, and there are gender dimensions to labour in certain industries and countries. Furthermore, definitions of a 'living wage' vary, some companies are reluctant to pay more than the national minimum wage, and some governments are eager to promote low labour costs as a comparative advantage (although on this last point theorists are starting to argue that this is not a long-term advantage [e.g. Mike Porter, Harvard]).

Larger companies provide markets for smaller producers. Non-transparent price setting, reliance on middlemen, and the lack of local value added have all been linked to a perception that developing country primary producers are poorly remunerated. Alternative trade has tried to address the first two of these issues, although many of the criticisms of middlemen are unjustified. Responsible business in the commercial mainstream may find that increasing local value added is the best way to increase producer incomes (e.g. Blue Skies pineapple processing in Ghana).

The development of standards such as those in the forest and organic agriculture sectors was not linked to trade, but many producers have adopted them because of a perceived market advantage. Meeting a standard can mean that the producer gains access to higher value markets, has a more secure position, or can enter new markets. Failure to realise any financial gain from improving social and environmental practice is a common criticism amongst producers of responsible business standards. However, this normally results from the fact that the producer has ignored business fundamentals such as quality, price, volume and timeliness. It is a fact that **good products from an 'irresponsible business' will continue to find a market while poor products from a responsible business will not.**

Business can also improve the financial capital of the poor by providing investment. This is not new, and large farms, exporters and trading companies have a long history of providing credit and inputs for outgrowers and other suppliers. These relations have often been criticised as being unfair to the producer, and companies such as Candela (a Peruvian fair-trade brazil nut trading company) are attempting to develop financially viable alternative models.

The core problem with trade-related investment, no matter how 'fair', is that the investment is made in the commodity. If a person does not have the resources to produce that commodity or has a variety of competing needs, then such channels are of limited use. Micro-finance of the type developed in Bangladesh and now promoted world-wide is not normally considered an approach to responsible business, but as a commercial activity that aims to improve the social conditions of poor people it should not be overlooked.

Social Capital

Responsible business has helped increase the profile of trade union recognition, collective bargaining and freedom of association, and these issues are often covered in labour standards. For poor people that are well-served by trade unions, this is a major contribution to their social capital, and is further reinforced by responsible business's encouragement of including workers as stakeholders in business management.

However, trade unions do not serve the needs of all poor people, either because of imbalances in power amongst different types of worker (e.g. women, migrants, casual labourers), or due to the relationship between customer and producer (e.g. home workers, smallholders). Furthermore, not all unions are effective, and in some cases worker committees

may be a preferred option (although this is strongly resisted by Northern unions who are influential in the responsible business debate).

The emphasis on multi-stakeholder participation in many approaches to responsible business has brought together groups that have had little contact before, although there has been little objective assessment of how effective these processes have been. The existence of company codes of practice can be a positive force for developing social capital. NGOs such as Women Working Worldwide and Verité have used companies' adoption of codes as an empowerment tool for workers in Latin America and China.

Alternative trading actively encourages collective action by producers (e.g. through co-operatives), and seeks to strengthen their position within the trading chain. However, there is some evidence that while such trade can benefit producers, the benefits are not shared with others lower down the chain (e.g. workers, small sub-contractors) whose wages, fees etc. remain the same as before. Fair-trade organisations are becoming aware of this, and are starting to invest more in impact assessment (e.g. Oxfam UK, Fairtrade Labelling Organisation). However, it raises critical questions for responsible business as a whole, i.e.:

- How can business know that it is involving all of the relevant stakeholders?
- Who decides what stakeholders can participate? Does business have the final say?

DFID experience in participation and empowerment may be of relevance in identifying and involving stakeholders. Moreover, in some situations **DFID is well placed to play a watchdog role** to ensure that all the relevant voices are heard.

Natural Capital

Business can have a negative as well as a positive impact on all types of capital, and it is important to re-emphasise that DFID needs to be as aware of negative effects of business as the positive ones. Nowhere is this more true than in relation to the natural capital necessary for poor people's sustainable livelihoods.

Responsible business in such diverse forms as the Sustainable Cocoa Initiative, responsible forest management, organic agriculture, integrated crop management, and the Marine Stewardship Council, can promote the development of a sustainable natural resource base. In sectors such as tourism it may actively encourage conservation for commercial ends. In industry sectors such as mining, oil and gas, it exploits non-renewable resources in a

way that does not undermine long-term utility for other purposes.

But often a prerequisite of these activities is purchase of the right of ownership, thereby alienating the resource from its previous owner. Where individual ownership is accepted cultural practice, backed by an adequate system to ensure just compensation, this may not be problematic. However, in many parts of the developing world there are numerous forms of ownership, and there may be more complex bonds between people and resources than are normal in the West. Furthermore, business often depends on governments for its access rights, and developing country governments may decide that the advantages of business investment outweigh the interests of local communities and use their powers accordingly. Current approaches to responsible business do not always guarantee that the alienation of natural capital from the poor has been conducted justly, and provides little guidance on how to address non-commodities systems of resource ownership.

Vulnerability

Risk is a fundamental part of business. For some companies, responsible business is part of risk management in that it helps develop tools to identify and prevent certain types of externality. By promoting understanding of stakeholders, it is likely that responsible business reduces the likelihood of companies having an unintended negative impact on workers and communities.

But neither workers nor producers are inherently less vulnerable because a company has a responsible business strategy. Current responsible business practice offers little to protect workers from redundancy or small producers from falls in market price and drops in orders. A factory or a banana plantation may still be certified as adhering to good labour practice even if it lays off 50% of its workforce. In agriculture, it is in the interests of both mainstream and alternative trading companies to encourage cultivation of a narrow range of crops, even though diversity might be more in the producer's interest.

Annex 1: Examples of roles for responsible business

| Stakeholder | Stewardship Role | Communications Role |
|--------------|---|--|
| Shareholders | Ensure a competitive return. Conserve, protect, increase assets. Promote healthy and safe investments. | Disclose relevant information. Respect significant requests. |
| Customers | Meet all guarantees. Meet reasonable performance expectations. Promote health & safety in products and services. | Disclose relevant information. Respect significant requests. Respect customer privacy. Respectful marketing and advertising |
| Workplace | Fair compensation. Respect labour and human rights. Show sensitivity in dislocation. Invest in employees' future. Avoid corrupt practices. Provide healthy & safe working conditions. | Disclose relevant information. Respect significant requests. Respect employee privacy. Respectful marketing and advertising |
| Value Chain | Foster equitable relationships. Foster responsibility in stewardship. Foster responsibility in health & safety. | Disclose relevant information. |
| Communities | Respect integrity of local eco-systems. Promote responsible exploitation of renewable natural resources. Respect culture & law. Promote human rights. Contribute to local economies. Promote fair trading. Show sensitivity in dislocation. Promote the health & safety of society. | Disclose relevant information. Respect societal concerns. |
| Society | Promote responsible stewardship of renewable natural resources Promote responsible management of eco-systems Respect national law. Promote human rights. Contribute to national/regional economies. Promote best practice in corporate governance. Avoid corrupt practices and promote transparency. Promote efficient public administration & service delivery. Support the development of a fair & transparent regulatory environment. Show sensitivity in dislocation. Promote the health & safety of society. | Disclose relevant information. Identify & respect societal concerns. |