

CSR+D and the role of companies in resolving social problems

CODESPA Foundation

Corporate Social Responsibility (CSR) begins from considering the role of companies in a globalized world; companies that are the leading social and economic actors in the 21st century. As their power increases, so do their social responsibility too¹.

Even though companies can promote positive social trends, they can also bring about trends and practices that may have a negative impact. In response to this situation, the companies responsible must take on the role of corporate citizens, endeavouring to clearly manage the impact – both positive and negative – and the possible shared value generated for interest groups.

This largely voluntary act of taking on a more responsible role should focus on a “reactive” approach to “self-protection”, or the “fulfilment of a minimum level of acceptable behaviour”². Nevertheless, it is much more relevant, challenging and worthwhile to approach this consideration on the role of companies from the premise that there is an opportunity to maximize – economically, socially and environmentally – the global value generated by business activities in our society.

At the same time, we of course live in a globalized and interconnected world. In this global reality, the serious problems of thousands of people eventually affect our own world and influence the business environment and market opportunities. Moreover, via social networks, they have an

effect on consumer assessments, opinions and preferences. Therefore, extreme poverty and social exclusion probably constitute the most relevant problems we face; pressing challenges that require a collective and immediate answer.

Some companies, particularly those concerned with their operations in emerging countries, are becoming increasingly aware of the fact that long-term sustainability and growth can only be achieved in healthy societies, and that they, as the most important economic agents, are key to influencing social problems in their own environments. The CSR policies and actions are clear and easy tools for articulating the participation of companies in resolving these problems whilst also becoming core parts of innovation and competitive advantage³.

Actions in which companies' CSR activities are more clearly in line with alleviating poverty and long-term development are generally recognized as Corporate Social Responsibility for Development (CSR+D), or “Business Action for Development”.

In practice, many companies are unaware of what steps to take in this direction, but at CODESPA we have discovered that when they find out how, it is easy for them to become committed to creating a significant social impact. The more awareness of poverty and the ways it can be combated there is, the more appealing and remarkable the CSR+D action is.

¹ In 1960, Keith Davis formulated the 'Iron Law' of CSR, stating that “The social power of businessmen should be equal to their social responsibilities”.

² Nelson, J 2004, *Leveraging the development impact of business in the fight against poverty, Corporate Social Responsibility Initiative, Working Paper N. 22*

³ Kramer, M.R & Porter M.E 2008, *Strategy & Society The Link Between Competitive Advantage and Corporate Social Responsibility, Harvard Business Review*

This is particularly relevant when companies discover that they do not need to radically change their practices to fight against poverty, rather that it is possible to use their most important responsibilities, assets and knowledge to design sustainable solutions to social problems.

To carry out the above mentioned two key components are required; on one side, business leaders with a strong sense of global responsibility and an awareness of the real potential that humanity and companies have to tackle the situation. Equally, they need to be bold enough to believe that it is possible to alleviate poverty, even from their core business strategy, and put their ideas into practice. The good news is that business leaders are becoming increasingly aware that maximizing economic benefits is not the only way to measure the success of a business, and that looking for other shared benefits with society, particularly those that affect the most impoverished, is also feasible. In the 21st century it is safe to say that social goals are easily compatible with economic benefits and with businesses – and social – leaders currently demonstrating this⁴.

That said, there is the need for collaboration with other actors, particularly civil society and NGOs, who know and understand, first hand, the needs related to poverty. They are also aware of how to work to alleviate this poverty in a constructive and participatory manner that provides long-term results.

Through our own work we can testify that business leaders have the potential to be highly important promoters of relevant initiatives in the fight against poverty and to encourage other companies to take pertinent measures regarding this issue.

In 2005 CODESPA published a book of case studies titled *Business and Poverty: Innovative Strategies for Global CSR*⁵ which compiled nine cases of businesses that

demonstrated how companies can contribute to the socio-economic development of the poor and that combining social, economic and environmental objectives is not just a possibility, but also a competitive advantage. This book constitutes an example of the multiple activities developed by CODESPA to help those companies that wish to take steps towards becoming actively involved in the fight against poverty.

The difference between CSR and philanthropy

In practice, many companies believe that they can only contribute to resolving social problems through social action or philanthropy (with an understanding of this as economic contributions or another kind of social cause that is probably not related to the business, but relevant in terms of solidarity). Meanwhile, others think that talking about more strategic CSR that is in line with the business practically means justifying the 'abandonment' of social actions of philanthropy and welfare. CODESPA believes that philanthropy is essential and forms part of the moral responsibility towards a society that any individual and organisation must bear. Furthermore, it is part of CSR - a very important part that must never be relinquished. There are many social causes that will never directly adhere to 'win-win' economic proposals; these actions must be carried out exclusively since solidarity and altruism are compulsory for any organisation or individual.

Nevertheless, philanthropy is not enough for those companies that wish to uphold socially responsible behaviour. In practice, the social action of a company that is beneficial to society is futile if at the same time it is

⁴ Kramer, M.R. & Porter M.E 2008, *Strategy & Society The Link Between Competitive Advantage and Corporate Social Responsibility*, Harvard Business Review

⁵ CODESPA and ICEP 2009, *Business and Poverty: Innovative Strategies for Global CSR*

creating a negative impact with its commercial activities.

Therefore, CSR represents a chance to combine philanthropic actions that lead companies to integrate the search for creating positive impacts – in their interest groups and society – into the core part of their business in order that the global impact is greater and more sustainable.

As a result, CSR can become driver of strategic business that truly creates more inclusion and sustainable growth. Many companies face up to the challenge of working out how their resources and responsibilities can be utilized to combat poverty. This potential must be made use of in order to have an impact on reducing poverty; moreover, we are convinced that global happiness and the satisfaction of companies as human organizations would grow!

RSC +D in practice

Any company that aims to tackle the problem of poverty through their core business (for instance, carrying out a CSR+D initiative), must be fully aware of the needs and problems facing the people that live in this situation to find the most suitable way of aligning their business with an efficient solution that helps to resolve the problem affecting these people.

This is vital and the key to success; and it is exactly what NGOs do. NGOs provide an in-depth understanding of needs and the method of approaching and developing participatory strategies geared towards reducing poverty in communities with limited resources. In practical terms, they know and understand 'what' is happening, and 'how' to reach these people and can easily obtain what is known as 'the license to operate'.

The collaborations between NGOs and companies that strategically work to

develop CSR+D action can come in many ways. Below, we will illustrate various examples of the work developed by CODESPA with certain companies:

(1) Development of products for the Bottom of the Pyramid (BoP)

This involves the development of products and services that are adapted to the needs and demands of people in poverty. For some companies it can represent an untapped market niche with considerable potential. The associations with NGOs enable the needs of the product or service to be identified in order that they are accepted by the population. To refer to products for the BoP as an inclusive business that produces social return, it is necessary to evaluate the benefits generated for new consumers. However, creating products for the BoP does not only involve creating new consumer needs, but rather providing products and services that guarantee additional social benefits for the people that acquire them. In other words: causing different social impacts through the access to new products of people that were previously excluded is not the same as delivering them new products; not all products designed for the BoP have a positive social impact and cannot be classified under the umbrella term of CSR+D actions.



In our development initiatives that examine products geared towards the BoP, CODESPA guarantees that these have different social and economic impacts on people with limited resources as well as ensuring the measurement and sustainability of these impacts.

The concept BoP was coined by an Indian economist C.K Prahalad in his book *The Fortune at the Bottom of the Pyramid*.

“In our development initiatives that examine products geared towards the BoP, CODESPA guarantees that these have different social and economic impacts on consumers with limited resources as well as ensuring the measurement and sustainability of these impacts”

One example of this is the initiative developed by CODESPA in the Dominican Republic as it created a 3x1 microinsurance that included life insurance and cover for accidents and death and funeral expenses. The ultimate aim was to provide protection for those people excluded from traditional insurance and without access to any Social Security system in order to reduce the negative impact of the risks they were exposed to, as well as reducing their vulnerability.

The design of this product was based on CODESPA and the Banco ADOPEM's extensive knowledge of the needs and characteristics of microbusiness women, and as a result of a process of successful negotiations with a local insurance company particularly interested in this microfinancial organization's potential

number of clients along with the possible social benefit produced by this new product.

The product's design was fully adapted to the ADOPEM customer, which was the key of its success. To begin with, three key products were combined in the same package: life insurance, accident insurance and death and funeral expenses. Moreover, the product's success lay mainly in its highly competitive price as well as its extensive coverage; for just 4 euros per year it provided coverage of almost 1,000 euros (406 euros for funeral costs and 507 for death expenses), with the minimum coverage exceeding the annual investment by 225 times.

As set out in the publication in which CODESPA outlined the methodology behind the creation of this 3x1 microinsurance⁶, this is a simple and flexible product that is accessible to anyone, whether they are an ADOPEM customer or not.

The microinsurance was designed around a development agreement co-financed with funds from AECID (the Spanish Agency for International Development Co-operation) from 2002-2006. At the moment it continues to form part of the portfolio of the microfinancing organization and in January 2012 the number of people to take out the insurance had reached nearly 19,000.

“CODESPA can confirm that this microinsurance has sustainably reduced the vulnerability of poor people as well as having a social and economic impact on around 20,000 people”

⁶ CODESPA Foundation 2010, *Social Innovation in Microfinance: Methodology Behind the Development of New Products: 3x1 Microinsurance and ADOPEM Loans for Setting Up Businesses* [http://www.codespa.org/images/stories/publicaciones/sistematizacion_adopem.pdf]

(2) Developing inclusive supply chains

This involves integrating people as suppliers and distributors that find themselves in a vulnerable situation in terms of the supply chain of a company. This is achieved by linking their economic activity to the contracts of the supply of inputs or services associated with the business of a company in a developing country⁷. Normally, besides the contracts, parallel activities are developed that allow the capacities of these companies to be strengthened in order that they operate efficiently - these actions are called 'development activities of suppliers'.

“The focus of value chains and inclusive businesses is one of the main strategies for combating the lack of market access for poorer communities”

As an example of the work developed by CODESPA in this area, it is worth mentioning the collaboration with the French distributor Carrefour in creating a range of agricultural products from the Andes whose suppliers were farming communities with very limited resources. In this case, CODESPA's experience of working with the value chain of farmers was linked to inclusive businesses.

This successful case is outlined in the aforementioned publication *Business and Poverty* and arose from the participation of the company in CODESPA's Corporate Volunteering Program called 'Professionals for Development' that has been running for over 10 years.

Through this project, CODESPA reinforced the organizational, technical and entrepreneurial aspects of small producers from Ecuador in order that they united as a consortium and could export their agricultural products – quinoa, oats, sugar cane – to Carrefour's product lines in Spain. CODESPA ensured that the necessary skills were developed inside the producers' organizations and increased both their productivity and competitiveness whilst also gaining additional social benefits due to the increased income from their image as suppliers to Carrefour.

The viability of this 'nostalgic trade' project was linked to the growth of Ecuadorian immigrants in Spain and their consumer habits – they had already been identified as a market niche by Carrefour. In the spring of 2006, the first 11⁸ 'nostalgic trade' products arrived and were available in 50 of the 154 hypermarkets in Spain. By April 2007, Carrefour had sold fair trade products to the value of 146,000 euros, with the demand still on the increase.

After four years, CODESPA's work strengthening the position of the producers had come to an end, and following the exit process carried out by the organization, they continued to sell not only in Carrefour's product lines, but also to other distributors directly. What is the key to success? The pilot work with Carrefour within a CSR+D framework allowed farming communities to suitably develop their commercialization capacities and then operate independently in the market.

As a result of this 'nostalgic trade', Carrefour and CODESPA contributed to the socio-economic development of farming communities as well as to the evolution of Carrefour's business model.

⁸ More detailed information on 'The strategic Relationship Between NGOs and Companies' at:

[http://www.codespa.org/images/stories/formacion/relacion_ong_empresa.pdf]

⁷ Commission on the Private Sector and Development 2004, *Unleashing Entrepreneurship: Making Business Work for the Poor*

(3) Corporate Volunteering Programs for Development, in coordination with an NGO, help maximize technical skills and the company's know-how to provide help to development projects via the participation of their employees

These programs have a great deal of potential. On the one hand, they constitute a tool to help companies directly integrate employees in their CSR activities, while on the other, companies can obtain benefits in terms of the social impact and human resources. The Corporate Volunteering Programs for Development enable companies to gain an understanding of the needs of people with scarce resources. This means there is a significant margin for social innovation and relevant feedback to increase the impact of CSR in development activities.

Throughout these different actions, social management and the management of social benefits is key. In the sphere of corporate volunteering, CODESPA, together with Boston Consulting Group, has developed a tool for measuring a particular impact⁹.

Key issues in companies-NGOs alliances

From the company's point of view, finding an NGO that truly offers some kind of social awareness is very important to the action to be developed.

Moreover, a series of factors that govern the success of their collaboration are required.

- Clarity in the collaboration goals and in the basic premises that each party must fulfil to guarantee that the interests and limitations of the other are taken into account. The required

objectives and actions to fulfil the goals (the project) must include committed human and financial resources; those that are necessary for the project to be developed successfully.

- The mutual recognition of the strengths offered by each party within the alliance, and the mutual respect and trust of the capacities of both sides.
- Clear and fluid communication throughout the whole process along with openness from both sides – this is facilitated with the formalization of periodic coordination spaces and communication.
- Clearly defined speakers, roles, work plans, resources and the expected impacts (not becoming too enthusiastic in the short term and being realistic is important. These impacts will grow exponentially over time).

NGOs must take on a more educational role and open companies' eyes to the potential of collaboration. It is important to think in terms of how the program can become a strategic activity for the company and how there can be a greater impact over the long-term. NGOs can guide companies to the fact that the role they can play favours development.

All of this could be mutually beneficial for both parties – a 'win-win' situation – and have a significant impact on contributing towards the fight against poverty. First and foremost, patience is important. In many cases, strategic alliances between NGOs and companies need a great deal of time as the results are noted over the medium- to long-term.

⁹ More detailed information on the 'Tool for evaluating the impact of Corporate Volunteering for Development' at: [<http://www.codespa.org/proyectos/archivos/herramienta-medicion-vc-para-desarrollo.pdf>]

Still some way to go, but we are getting closer every day

We are still some way off, but our on-going work at CODESPA advocates Spanish companies' participation in the fight against poverty, and we hope that society as a whole will be able to bring about these changes sooner rather than later to make the world a better place to live.

We are positive that companies' interest will continue to grow as they discover that these actions are a real and tangible possibility, and that consumers, with more and more information at their disposal, will reward those companies that back more inclusive and supportive growth in the not-too-distant future.