

Different tensions coming from the corporate environment and from the ethical movement are pointing towards the same direction, with few cases of global multi-stakeholders platforms in which global NGOs and corporations are working together on the issues of equity and sustainability of value chains. Following Stiglitz (2006) on corporations, **the starting point at looking into Corporate Social Responsibility (CSR) should be the question: “Who is accountable?”**. Out of research and practice on CSR has increased in the 80’s and 90’s to become mainstreamed by the year 2000. Triple Bottom Line, ISO norms, UN Principles for Responsible Investment¹ are all CSR related mechanisms. **The most widely accepted definition of CSR** is the one adopted by Business for Social Responsibility (BSR), which asks to its members to **“achieve commercial success in ways that honor ethical values and respects people, communities, and natural environment”**.

Michael Porter (2010) expresses very precisely that **“leaders in both business and civil society have focused too much on the friction between them and not enough on the points of intersection. The mutual dependence of corporations and society implies both business decisions and social policies must follow the principle of shared value.”**, as if business success is made at the expenses of society at large, it might be a short term gain.

Companies can create shared value opportunities in three ways:

- **Reconceiving products and markets** – Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation
- **Redefining productivity in the value chain** – Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development
- **Enabling local cluster development** – Companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system

Many approaches to CSR put businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. Shared Value acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

The concept of the **license to operate** (part of both shared value and academic definitions of CSR) **implies the need and obligations for companies to redefine the social contract with society that allows them to operate** and derives from the fact that every company needs tacit or explicit permission from Government, communities and other stakeholders to do business.

The Opportunity: Sustainable trading relationships and Platforms

The development of sustainable trading relationships between large companies and small farmers represents a promising avenue to explore, to develop healthy value chains in the current economic context, both for farmers and for the companies. Some **advantages of working with small farmers include their access to land, capacity to produce high quality products, capacity to innovate,**

¹ Aspirational and voluntary guidelines and standards oriented at helping companies to address environmental and social performance - <http://www.unpri.org/>

diversification of a company's supply base, the potential to access development support to offset organizational costs as well as CSR points (Vorley *et al.*, 2008). In addition, some companies see sourcing from smallholders as an integral part of developing a consumer base for novel products for rural communities and securing future supply base. The **advantages to farmers are access to long-term strategic buyers** willing to help develop capacities and products that translate into income streams that depend more on business transactions and less on fickle donor or government support programs. In the end, the development of a **sustainable trading relationship** benefits both the farmer and the buyer **through reduced uncertainty, increased trust and access to the innovation potential among many actors.**

To realize this potential, however, requires not only the development of skills and capacities at both ends of the chain but also novel organizational models that link producers with buyers in a transparent, equitable and sustainable way. **The development of 'doubly specialized' intermediary organizations** – sustainable businesses that add value to the buyer as well as contribute to development objectives – is a critical and missing step in this process. Previous attempts in this direction have tended to miss the sweet spot between business and development because they were too skewed to either to the demands of business or development.

The **main risks** that have been identified include **over-exploitation of resources** (e.g. soil fertility), **low farmer organization capacities, cost of production** increase, **elite capture**, and a shift from farm to non- and off-farm employment. Thus the current experiences seek to promote a collaborative learning process involving farmer organizations, development NGOs, researchers and the private sector to learn from existing experiences in linking small-scale producers to modern markets and pilot the development of scaleable principals for sustainable trading relationships for widespread use. Over time, this would contribute to improved community – NGO – business linkages that provide both positive community development outcomes and sustainable sourcing options for companies. This process seeks to contribute to improved rural livelihoods, sustainable natural resource management, and more efficient and inclusive markets.

Beyond the examples of **Multi-Stakeholders Platforms** (MSPs) that are grounded on specific geographical areas, the last five years have seen the emergence of several industry oriented, global MSPs focused on sustainability with both an industry membership or a diverse one with INGOs, corporations and research institutions. **Platforms can provide networks and chains with positive externalities allowing an improved participation of small-scale farmers to global value-chains.** Altenburg highlights that the advantage of expanding networks, that can be interpreted in a broader sense as a platform, are related to the fact that *"all firms are more or less embedded in networks of firms that provide externalities such as easy access to information, material inputs, specialized business services and a skilled workforce. **The more developed these complementary networks are, the more can individual enterprise specialize in certain core capabilities, which in turn tend to raise the competitiveness of the network which the firm is embedded in**"* (Altenburg, 2007)

The most relevant platforms are interlinked and interconnected, and their members represent a huge share of the agri-food industry and some of the INGOs with global coverage and operational potential. These **platforms represent a unique space** for actors coming from different backgrounds **to share learning, build dialogue, and building joint operational experiences** that aim at building shared values based on mutual trust. The experience object of this work is the result of one of the first generation of projects born by the confidence building process initiated within these platforms. The work will try to

highlight the relevance of the processes of dialogue to build complex, value-chain driven development processes.

Reviewing the scientific literature **there are as well critiques of the different multi-stakeholders platform** models. Faysse (2007) describes the evolution of MSPs, from a starting point of means of *“resolving conflicts over natural resources, first in developed countries and, more recently, as a global good practice”*. In the same study, Faysse highlights then the challenges and issues that have prevented many MSPs to reaching the initial high expectations, mainly because of context in which social inequities were not addressed. Besides this bottleneck, Faysse identifies five main issues that represent a challenge for MSPs to achieve their goals: **(i) Power relationships; (ii) Platform composition; (iii) Stakeholder representation and capacity to participate meaningfully in the debates; (iv) Decision-making power and mechanisms; and finally (v) Cost of setting up an MSP.**

Other authors (Dentoni, and Peterson, 2010) have analyzed *“incentives and constraints of a firm investing resources to form and develop dialogue initiatives about sustainability with multiple stakeholders”*. Dentoni and Peterson approach highlights an important and relevant fact around the initial focus of most MSPs has been sustainability, emerging out of the more traditional CSR. The study adds the psychological theory of reasoned action to the financial and economic one of the theory of firm’s profit and value maximization. This effort represents, from the analysis of the present work, the first effort in scientific literature of analyzing how the process of building MSPs can influence the question industry managers should ask themselves to take strategic decisions on the *“firm’s expectations of changing stakeholders’ beliefs about “how much the firm is acting sustainably” and, in turn, their attitudes and behaviors towards the firm”*. At the same time the authors explore how **public policies can “increase firms’ incentives or reduce their constraints to invest in creating and developing dialogue initiatives on sustainability”**.

The applicability of the psychological lens to the challenges, incentives and limitations of participating to MSPs, can provide an indication of the relevance of civil society campaigns to induce industry firms to change their behaviors by engaging other actors in the dialogue beyond traditional CSR.

Through the work of INGOs and MSPs an important range of TNCs have started to invest to bring smallholders into their supply chains, among these companies global brands such as Unilever can be found, domestic food businesses, such as Sri Lankan cereal maker Plenty Foods; wholesale suppliers, such as Superior Foods US; smaller European or US brands, such as UK-based smoothie-maker Innocent. While the rationale for engaging in these ventures can vary from company to company, there is a common ground among different experiences that has emerged and been recognized by many organizations from the Civil Society. Some examples of the type of engagements that go beyond the explored mechanisms of Fair Trade and CSR have been found in literature (Bright, Seville, Borkenhagen, 2010):

Plenty Foods increased yields of soya grown by smallholders by 50 per cent over a period of nine years by making relatively small but consistent investments through forward contracts, sharing technology, and paying quality premiums to farmers. All the companies have adapted the way they do business – ranging from purchasing and sourcing practices to marketing strategies and corporate operations and culture – to deliver commercial value and development benefit.

From the same source (Bright, Seville, Borkenhagen, 2010). it was highlighted as well that **even where such companies are not trading directly with smallholder farmers, they are ‘reaching’ across the entire chain to work with intermediary suppliers and engage with farmers**. Companies’ motivations to invest in new trade relationships vary: Cadbury launched its Cocoa Partnership in Ghana to counter threats to

the viability of cocoa production at the smallholder level; Marks & Spencer converted 100 per cent of its tea and coffee (and subsequently other) sourcing to Fairtrade-certified products in response to growing consumer demand; SABMiller has invested in a South African sourcing model to meet the South African government's policy requirements for black empowerment. **While in the last three years there has been an evident increase of shared value initiatives** from companies, multilateral banks, civil society organizations, the transformational drive for these initiatives still has to be proven. While few outlier companies are setting shared value targets to measure their future performance, many companies are **realizing that under the pressure of global environmental and demand pressures, companies will need to adapt not to lose market shares and are consequently deploying new business models that are based more on the need of ensuring raw materials sourcing, rather than the will to redefine how values and margins are shared along value chains.**

New Business models

Understanding how value and revenues are generated implies the understanding of the business model under which one company, and more broadly a value chain, works. A business model is the way by which a business creates and captures value within a market network of producers, suppliers and consumers, or, in short, *"what a company does and how it makes money from doing it"*².

There is growing interest on the part of large agrifood corporations to be more inclusive of the majority smallholder producers, such as the a goal by Unilever to link 500,000 small-scale farmers and their distributors into their supply chains by 2020. **One of the most well-established models is contract farming**, involving pre-agreed supply contracts between farmers or their enterprises and company buyers. Contract arrangements range from informal purchase agreements through to highly specified schemes. There has been renewed interest in contract farming as a potential alternative to large-scale land acquisitions, whereby farmers work their own land, leaving existing land rights intact. **Other models are leases and management contracts** under which an agribusiness company works agricultural land belonging to smallholders; tenant farming and sharecropping where smallholders farm on land held by a larger-scale agribusiness; joint ventures, and farmer-owned businesses.

While contract farming can enable farmers to access more lucrative and more distant markets, and reduce market risk / increase income stability for farmers where the price of their produce is predetermined, without certain pre-conditions, contract farming, can bring to negative impacts for small scale farmers. Where market concentration, **unequal bargaining positions, asymmetry of information allow powerful firms to offload risks to smallholders and/or force down farm gate prices, they generate negative environmental and social impacts in the wider community** (Vermeulen and Cotula, 2010).

In defining business models Vermeulen and Cotula (2010) point to the **central role of public policy and market governance on the outcomes**, and the balance between the pros and cons. This was also one focus of the Regoverning Markets programme led by IIED, which included not just case studies of successful market linkage but also policy interventions to reduce market and coordination failures. One such is the Best Commercial Practices Code (BCPC) in Argentina, which was successfully introduced by key private sector players to drive improvement in free and fair trading practices between supermarkets and suppliers in the face of threatened government regulation. The shift described involve a critical change process for a company to adapt its business models and to *"adapt its practices for sourcing and purchasing and to work with key partners in the supply chain to restructure trading relationships or develop new chains. However, to enable change of this kind to happen, companies also need to adapt*

² <http://process.mit.edu/Info/eModels.asp>

their: corporate culture – from a competitive mindset to a partnership oriented outlook; operations – to create incentives for buyers to invest in creating long-term stability and development benefits in supply chains; corporate or brand communications – to integrate verified commercial and development benefits delivered through these changes” (Bright, Seville, and Borkenhagen, 2010).

In literature (Vorely et al. 2009, Vorely, 2008, Bright et al., 2010, among others) **it has been recognized that to the development of new inclusive business models**, the presence of **a specialized intermediary**, able to broker the social value between different stakeholders **is fundamental**. *“Specialized intermediaries are critical to link the world of diverse and dispersed producers with that of the global buyer. Buyers want a supply base where large volumes, standardized procedures, and minimal management requirements combine to minimize the cost of raw materials. Farmers, on the other hand, need fair returns and a variety of services”* (Bright, Seville, and Borkenhagen, 2010). In most cases **the agent playing the role of catalyzer of the new models is an organization from the international civil society** that can leverage on reputation, sustainability and moral dimensions of CSR and that can understand the different needs and languages of TNCs and farmers.

Around the above-mentioned experiences the Sustainable Food Laboratory, in collaboration with IIED (regoverning markets programme) and with the International Centre for Tropical Agriculture (CIAT – member of CGIAR) has published in 2009 a white paper on the principle for **the development of inclusive business models**³. The **five principles (more recently a sixth has been added)** from Vorely, Seville and Lundy to linking small-scale producers to formal markets have been used in most of the experienced developed globally since early 2009. **Beyond the vertical dimension, the horizontal models that can bring to “raise all boats”, generating collective collaboration, and allowing farmers to capture more value is recently emerging.** Examples of market modalities that raise the performance of the whole sector include marketing boards (provided they can adopt to new consumer requirements as well as WTO rules), and competitiveness agreements and export levies such as the FNC (Fondo Nacional del Café or National Coffee Fund managed by the National Federation of Coffee Growers of Colombia) in the Colombian coffee sector, which comprises 500,000 predominantly smallholder farmers. *“Innovations in market governance at the national level can still be trumped at the international level”* (Vorley et al. 2011).

An inclusive business model is the system by which a company aligns its strategies and operations to build socio-economic benefits for smallholder communities while achieving economic benefits for the business. The benefits for communities can be distinguished between direct economic benefits, indirect economic benefits, and broader social benefits. An inclusive business model should address (SIX PRINCIPLES):

1. **CHAIN-WIDE COLLABORATION** - The resolution of problems, in both the commercial and social performance of new business models requires all or most chain actors **SET SHARED GOALS FOR COLLABORATION**. The development of a systemic view of the chain recognizes and values the interdependence of the actors, and how each actor shares costs, risk and benefits. Reaching and implementing agreement often involves **IDENTIFYING** one or more **CHAMPIONS** along the chain to lead the process.
2. **MARKET LINKAGES** - For farmers and their organizations, market linkages should provide a **STABLE MARKET** with clear quality, volume and price signals as well as access to key services (Principle 4). These linkages must contribute to improved livelihoods. For buyers, solutions must provide **A**

³<http://www.sustainablefood.org/images/stories/pdf/nbm%20linking%20worlds%20.pdf>

CONSISTENT SUPPLY of safe, quality products at a competitive price. The achievement of both producer and buyer goals in practice requires the delivering social and commercial value up and down the chain.

3. **FAIR AND TRANSPARENT GOVERNANCE** - Fair and transparent governance refers to the establishment and enforcement of **CLEAR AND CONSISTENT GRADES AND STANDARDS, CLEAR COMMITMENTS** to buy and sell certain volumes of certain grade products at certain times, and equitable processes of **RISK MANAGEMENT**. Mutually **RECOGNIZED INTERDEPENDENCY** between chain actors is a key criteria. Shared commercial risk and insurance against failure are frequently cited as the cement of successful relationships.
4. **EQUITABLE ACCESS TO SERVICES** - One of the special challenges faced by small-scale producers is access to services such as finance, market information, and best agronomic practices that could improve quality, yields, food safety, and environment performance. Successful solutions enable smallholders to **ACCESS CREDIT, KNOWLEDGE, TECHNOLOGY**, and develop incentives that encourage producers to invest in their own production based on market needs.
5. **INCLUSIVE INNOVATION**- New business models **PROMOTE INNOVATION** by multiple actors along the chain in **PRODUCTS** and **SERVICES** as well as the **PROCESSES** that underpin both. Innovations should be done **‘WITH’ SMALLHOLDER FARMERS**, rather than ‘for’ them. Inclusive access to innovation provides a means to remain competitive in dynamic markets; build the commercial value of goods and services; and, share innovation gains among partners all of which builds business durability.
6. **MEASUREMENT OF OUTCOMES** - The business axiom states that you cannot manage what you do not measure. The sixth principle is to incorporate **TAILORED INDICATORS AND MONITORING PLANS** to assess the health of the on-going trading relationship as a for-profit business and also its effectiveness as a vehicle for community development. Constant monitoring of the health of the trading relationship reduces the risk the minor problems will destroy the business.

Implementation of these principles can help to achieve solutions that are:

- **DURABLE** - promote long-term, stable trading relationships
- **EQUITABLE** - increase market access for smallholders with an equitable balance of risk, responsibilities and benefits
- **EFFICIENT** - improve financial sustainability
- **EFFECTIVE** - strengthen purchaser access to consistent supplies
- **ADAPTABLE** - enable flexibility to respond to changing market, social and environmental conditions
- **CREDIBLE** - offer real benefits in the form of stable commercial relations that can be tracked and reported on

Key questions:

1. How to support inclusive business models and strengthen producers organizations collective action?
2. How can business model reflect the need for “raising all boats” and create positive, horizontal, collective and collaborative action to increase the inclusiveness of a mix of market channels?
3. How can farmers voices be brought more strongly in the debate between CSOs and companies?
4. Will inclusive business model be able to deliver more economic value to farmers, and support a chain shift from financial to economic rates of return?

5. Is the debate on shared value a sufficient entry point to reshape the social contract that provides companies with their license to operate, in order to deliver economic results beyond shareholder value?

Recommended resources:

Linking Worlds Platform - <http://www.linkingworlds.org/>

Sustainable Business Models - <http://www.local-sourcing.com/content/sustainable-business-models>

IIED Sustainable Markets - <http://www.iied.org/sustainable-markets>

B. Vorley (IIED), S. Ferris (CRS), D. Seville (SFL), and M. Lundy (CIAT) (2009) 'Linking Worlds: New Business Models for Sustainable Trading Relations between Smallholders and Formalized Markets',

<http://www.sustainablefood.org/images/stories/pdf/nbm%20linking%20worlds%20.pdf>

Think Big, Go Small - <http://policy-practice.oxfam.org.uk/publications/think-big-go-small-adapting-business-models-to-incorporate-smallholders-into-su-114051>

Seas of Change – Inclusive Business Models links - <http://seasofchange.net/literature/inclusive-business-models/>