

Proyecto de Cooperación para el Fortalecimiento Institucional de la AMEXCID

El Proyecto AMEXCID busca contribuir al fortalecimiento de la Agencia, a través del acompañamiento en el proceso de consolidación, el mejoramiento del enfoque sistémico de la cooperación mexicana, el acercamiento con otros actores de la sociedad y, la conformación de un sistema de capacitación de recursos humanos en materia de cooperación internacional.

Sustainable Development Goals as a Business Case: Redefining the Post-2015 Development Agenda for the Private Sector

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ACRONYMS

SDGS	SUSTAINABLE DEVELOPMENT GOALS
MDGS	MILLENNIUM DEVELOPMENT GOALS
SDGSM	SUSTAINABLE DEVELOPMENT GOALS METHODOLOGY
FFD	FINANCIAL FOR DEVELOPMENT
FDI	FOREIGN DIRECT INVESTMENT
NGOS	NON-GOVERNMENTAL ORGANIZATIONS
CSR	CORPORATE SOCIAL RESPONSIBILITY
CSV	CREATING SHARED VALUE
BOP	BASE OF THE PYRAMID
SCA	STRATEGIC COLLECTIVE ACTION
SMES	SMALL AND MEDIUM ENTERPRISES
IOE	INTERNATIONAL ORGANIZATION OF EMPLOYERS
IMF	INTERNATIONAL MONETARY FUND

FOREWORD

As we are drawing closer to the expiration of the Millennium Development Goals (MDGs), the international development agenda has entered into a phase of redefinition. Enormous progress has been achieved so far, but even with all the advances, other approaches and evaluations should be considered. Currently, the new global development agenda is being discussed and mapped out by various global stakeholders such as the United Nations (UN) High Level Panel, the United Nations Development Program (UNDP) and the UN Global Compact (including the national chapters), who have already defined tentative frameworks for the Post-2015 Agenda.

Within the private sector, the potential role of business in the development agenda has been debated in global fora and within international organizations like the OECD or the World Bank. The conclusions drawn until now have been that private sector engagement is critical to the success of any Post-2015 framework. Today it is common understanding that if we do not integrate and join forces with businesses, we will not be able to solve the multifaceted development challenges.

As a main creator of jobs and a provider of basic goods and services the private sector plays a major role and is a strategic partner in tackling poverty. Moreover, it (through companies or corporate foundations) has the potential to bring effective solutions to local problems and make a contribution to sustained economic growth.

Doing good business and doing business good is the strategy to follow. Investments in reducing poverty are investments in future business opportunities. When poverty is low and future policy stability is high, this will help to protect business investments. Furthermore, investments in sectors such as education are investments in future leaders, innovators, and entrepreneurs.

As part of the bilateral cooperation between Mexico and Germany the project “Institutional Strengthening of the AMEXCID (Mexican Agency for International Development Cooperation)” has been launched in 2013. It comprises strategic areas related to Mexican cooperation policy, internal and external institutional coordination, human capacity development and other tools.

The engagement with other development cooperation stakeholders is one of the Agency’s priorities. Supported by the GIZ it has therefore designed the AMEXCID Collaboration Framework with the Private Sector. The Framework is a dynamic instrument that aims to strengthen the Mexican Development Cooperation approach and to engage with private sector activities. The document fosters the implementation of innovative projects that reduce fragmentation, improve development impacts and lead to a more effective cooperation.

Against this background, the Sustainable Development Goals Methodology contributes to identify opportunities where corporate objectives align with development objectives. It is intended to effectively engage the private sector in the implementation of the Post-2015 commitments. A first draft of the Methodology

was presented at the international conference “Living a New Global Partnership: the Post-2015 Development Agenda and Private Sector Engagement,” held in Mexico City, 27-28 April, 2015, organized by AMEXCID and the Federal Ministry for Economic Cooperation and Development (BMZ).

With this study Mexico and Germany bring new ideas on how to engage with the private sector with respect to the upcoming global development agenda. The SDGs Methodology feeds the debate on the implementation process and should not be considered as a finished product but as live instrument that can be enriched by all development actors to foster better and more effective partnerships.

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EXECUTIVE SUMMARY

The paper presents a Sustainable Development Goals Methodology (SDGsM) as well as practical steps, which can help strengthen the private sector implementation capacity and capabilities to improve the effectiveness and efficiency of its engagement with the SDGs.

The emphasis is on the private sector's perspective on how to engage with the SDGs, while taking into consideration the other stakeholders' interest, capabilities, and expectations (sometimes disconnected and unrealistic)¹. The main premise is that companies can primarily contribute to the realization of the SDGs through their core strategy, including inclusive growth, innovation, investment, employment, a mass customer and supply base, partnerships, etc. Although the methodology addresses the SDGs and corporate priorities based on corporate and other stakeholders' core competences, it also recognizes the importance and potential positive impact of donations, grants, and philanthropy², if they are properly structured and implemented.

Corporate engagement with the SDGs is too complex for any single, freestanding framework or tool to provide on its own useful guidance on how to deal with the SDGs and related targets. The proposed multi-framework approach moves away from a single framework or tool to a more comprehensive approach. The SDGsM can provide managers an extensive guidance than any single framework.

The SDGsM utilizes various frameworks and tools usually used to address social and environmental issues, including Corporate Social Responsibility (CSR), Creating Shared Value (CSV), the Base of the Pyramid (BoP), Strategic Collective Action (SCA), etc., thus allowing for a more flexible, innovative, and effective corporate engagement with the SDGs.

The methodology can be used regardless of the context and can help develop context-specific guidelines. It can assist top executives in executing upon the company's competitive advantage in search for opportunities presented by the SDGs. In the process, addressing the SDGs can create additional insights and opportunities to strengthen the corporate competitive advantage.

The SDGsM provides enough flexibility to fine-tune the design and the implementation of corporate SDGs related strategies (a SDGs strategy) to specific circumstances and the needs of the other stakeholders. If properly grafted and implemented SDGsM can:

- ▶ Allow companies to more systematically assess the efficiency of the internal processes, organizational structures, and the business ecosystem and the way they affect the outcomes of the SDGs related activities;
- ▶ Offer a complementary approach to companies to strengthen their competitive position;
- ▶ Provide a base to map the main SDGs related initiatives taking into consideration the role

¹ The paper does not explicitly address the issue on how the private sector engages in the ongoing debate on defining the overall Post-2015 framework and reaching agreements at the international level. For these issues see: Lucci Paula (2012).

² Donations, grants and philanthropy can also have a positive impact, but usually they have only a limited ability to achieve sustainable impact and scale, unless they are complemented by other activities.

of governments, the private sector, and other relevant stakeholders, including multilateral development organizations, donors, cooperation agencies, foundations, and NGOs and better utilize the resources and implementation capabilities of the key stakeholders and the potential power of SCA for value co-creation; and

- ▶ Be used to more systematically identify capacity gaps and recommend specific initiatives for capacity development and knowledge and innovation exchange.

In no way is the SDGsM a replacement for corporate strategy but can rather provide critical insights and guidelines on how to better adjust the strategy in the Post-2015 world. To avoid commandments without content, companies and their partners and stakeholders need more holistic and at the same time practical approaches. SDGsM is a possibility as it is specifically designed to provide practical guidance, which can hopefully complement other approaches aimed at supporting private sector engagement with the SDGs.

Several practical examples and cases are used to illustrate how the SDGsM, rather than a framework alone, can better equip senior executives to engage with the SDGs as part of their corporate strategy.

The grafting of the SDGs Methodology has been based on:

- ▶ The development community's implementation learning and best practices of effective corporate engagement in addressing social and environmental issues, including the MDGs;
- ▶ Rich academic management literature on this subject;
- ▶ Interviews with various stakeholders, primarily from the private sector, donor agencies, and multilateral development banks, such as the World Bank, international development organizations, such as IOE;
- ▶ The recommendations from the Living a New Global Partnership: The Post-2015 Development Agenda and Private Sector Engagement, 27-28 April, 2015, Mexico City.

The effectiveness of the SDGsM implementation and its impact depends on the way the five building blocks of the system function as a whole (1. SDGsM Diamond; 2. SDGsM Business Case; 3. SDGsM Stages of Response to SDGs Pressures; 4. SDGsM Stages of Engagement; 5. SDGsM Process of Engagement). What matters is the cumulative effect of all five blocks taken together. The functions performed by each individual block and the way they interact with each other vary across the SDGs and their targets, industries, among countries, and within a country. The main challenge is to provide consistency in the analysis and to get critical, additional insights from the first four blocks in order to inform the SDGsM Process of Engagement, so that a positive and lasting impact on SDGs is effectively achieved.

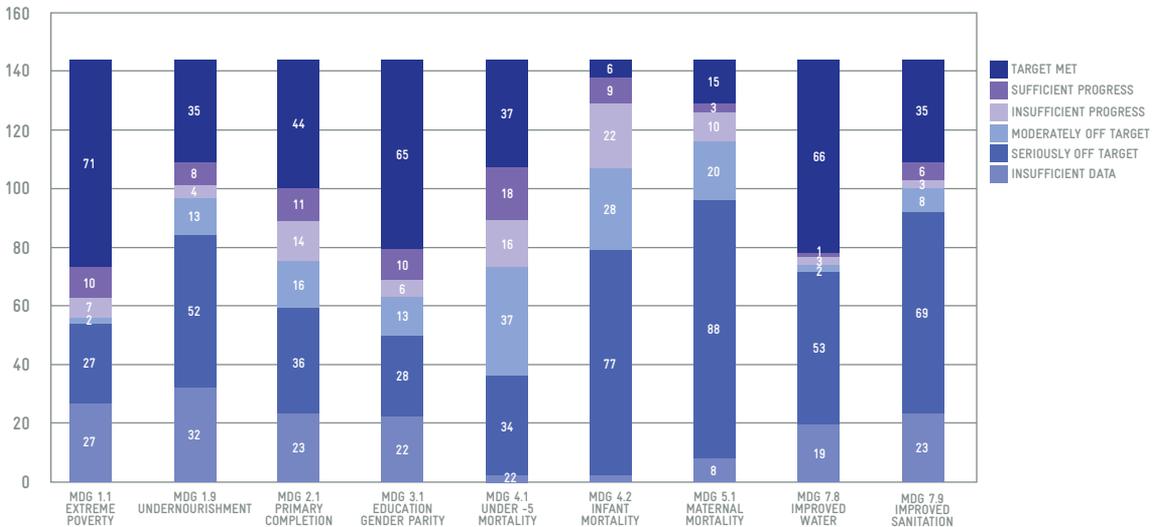
INTRODUCTION

The paper presents a Sustainable Development Goals Methodology (SDGsM), which can help strengthen the implementation capacity of business and public sector executives to more productively influence national and corporate development priorities and strategies in reaching the Sustainable Development Goals (SDGs). The emphasis of this paper is on the private sector's perspective while taking into consideration the other stakeholders' interest and capabilities. The main premise is that companies can primarily contribute to the SDGs through their core business and strategy. The SDGs, in turn, can amplify the opportunity for business to be successful by strengthening the enabling ecosystem and by providing directions for more effective strategic partnerships. Corporate engagement with the SDGs is too complex for a single framework to provide on its own useful guidance on how to deal with the SDGs. The SDGsM utilizes a multi-framework approach that provides enough flexibility to fine tune the corporate engagement with specific SDGs and needs of the key stakeholders. In no way is the SDGsM a replacement for corporate strategy but can rather provide critical insights and guidelines on how to adjust the strategy in the Post-2015 world. The grafting of the SDGsM has been based on intensive consultations with relevant stakeholders. This is work in progress and the SDGsM will be constantly updated based on the experience and lessons learned while testing the main ideas in practice – a kind of open source approach. Several practical examples and cases are used to illustrate how the SDGsM, rather than a framework alone, can better equip senior executives to engage with the SDGs as part of their corporate strategy.

1. BACKGROUND: MILLENNIUM DEVELOPMENT GOALS AND THE POST-2015 DEVELOPMENT AGENDA

Many countries have experienced substantial economic growth, which has however not fully contributed to shared prosperity. Although it has led to increased income and living standards and improved health for many, most of the population still faces serious social problems and much more needs to be done in order to make growth truly inclusive. Organizations around the world and their stakeholders are becoming increasingly aware of the need for and benefits of socially and environmentally responsible behavior. This has been partly triggered by mixed results with the Millennium Development Goals (MDGs), the consequences of the relatively recent financial crisis, global recession, and tectonic shifts in political and economic power across countries. Although there has been reasonable progress with the MDGs³ at a global level, many countries are still behind, see Figure 1 and 2. There has been growing pressure on governments to ensure the delivery of basic services, and contribute to healthy ecosystems, sustainable development, social equity, financial literacy, transparency, accountability, access to information, good governance, etc.

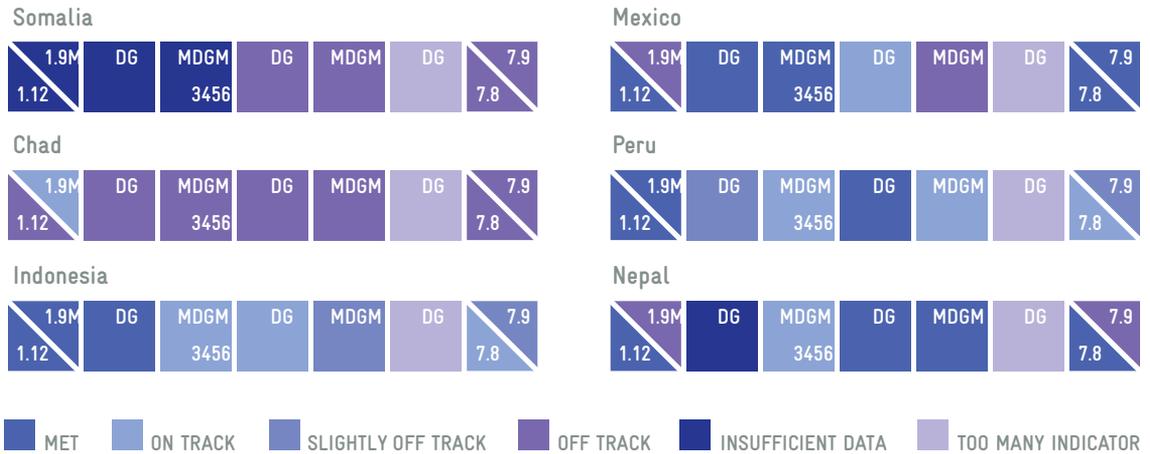
FIGURE 1. THE MDGS PROGRESS AT THE GLOBAL LEVEL



Source: World Bank – World Development Indicators Database, 2014.

³ Primarily thanks to the progress made by China and India.

FIGURE 2. THE MDGS PROGRESS AT THE COUNTRY LEVEL



Source: World Bank – World Development Indicators Database, 2014.

Governments and the corporate sector are subject to greater scrutiny and higher societal expectations regarding their contribution to the Post-2015 Development Agenda and the SDGs. There is a growing recognition of the importance of inclusive growth in reaching the SDGs and the critical relevance of the private sector's contribution with respect to it.⁴ As a result, countries and companies are readdressing their economic, social, environmental, and growth policies and strategies. At the most basic level, this means that they must find ways to increase productivity in the use of resources – in order to strengthen their competitive position. In the longer run, companies' success depends on the health of the local, national, and global ecosystems. Therefore, the implementation of corporate strategies should be supported by (1) robust corporate governance and (2) good governance based on transparency, integrity, and accountability. These are critical preconditions for long-term shareholder value maximization that offers both business benefits to corporations and positive contributions to the SDGs; see Box 1. Sustainable Development Goals.

⁴ Recently, a lot has been written on the role of the private sector in supporting the Post-2015 Agenda, the SDGs, and related issues. See for example: United Nations Global Compact (2014), UNGC, GRI, and WBCSD (2014), and UKAID, The Partnering Initiative (2014).

BOX 1. SUSTAINABLE DEVELOPMENT GOALS

GOAL 1.	End poverty in all its forms everywhere
GOAL 2.	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
GOAL 3.	Ensure healthy lives and promote well-being for all at all ages
GOAL 4.	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
GOAL 5.	Achieve gender equality and empower all women and girls
GOAL 6.	Ensure availability and sustainable management of water and sanitation for all
GOAL 7.	Ensure access to affordable, reliable, sustainable and modern energy for all
GOAL 8.	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
GOAL 9.	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
GOAL 10.	Reduce inequality within and among countries
GOAL 11.	Make cities and human settlements inclusive, safe, resilient and sustainable
GOAL 12.	Ensure sustainable consumption and production patterns
GOAL 13.	Take urgent action to combat climate change and its impacts*
GOAL 14.	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
GOAL 15.	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
GOAL 16.	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
GOAL 17.	Strengthen the means of implementation and revitalize the global partnership for sustainable development

1.1 CHALLENGES OF THE PRIVATE SECTOR ENGAGEMENT

As the private sector is gaining a much bigger role and responsibility for inclusive economic development, governments have been exploring new ways of aligning private sector resources and know-how with national priorities for innovative cross-sectorial value co-creation. International experiences indicate that there are different market-based approaches related to it. Markets are unparalleled vehicles for the private sector to engage with the SDGs, by providing affordable and quality goods and services, improving resource allocation efficiency, and creating jobs and shared prosperity. The three main areas of business contribution to the SDGs are growth, institutions, and policies (see Figure 3). The private sector is also well positioned to contribute to the four main components of Financing for Development (see Figure 4). For example, through Foreign Direct Investment (FDI) the private sector is not only bringing financial resources but also critical know-how.

FIGURE 3: AREAS AND LEVELS OF BUSINESS CONTRIBUTION TO THE SDGS

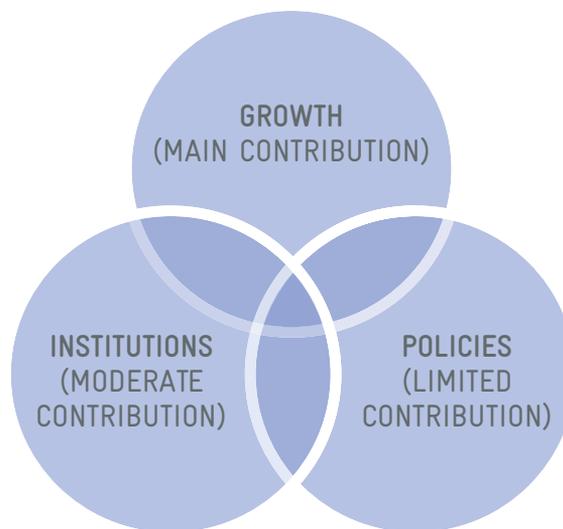
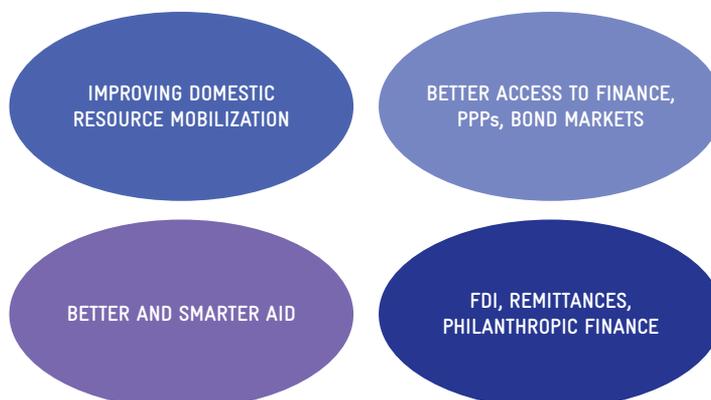


FIGURE 4. CRITICAL COMPONENTS OF FFD



Supportive Frame for Development Cooperation

The first challenge is philanthropy as primary modality to engage. In many cases, the private sector wants to contribute substantively and sustainably to the Post-2015 Development Agenda and the SDGs, but struggles with the challenge of how to do so. Many responses from the corporate sector to engage with the MDGs have not been effective, some of which have been rooted in a philanthropic approach, for example donations to local charities, NGOs, and interest groups. These activities have not been anchored into the corporate core business and strategy and thus have undermined the positive impact and sustainability of the efforts. In this case, the major contribution has been in terms of money and not in terms of managerial skills, efficient use of resources, distribution networks, etc. With many years of philanthropic engagement, companies have been gaining a lot of practical experience and now it is time to move more strategically beyond philanthropic donations and to integrate the SDGs into their corporate strategies and managerial practices.

The second challenge consists in outdated frameworks and models. Narrowly defined management frameworks, models, and tools and lack of internal capacity have prevented businesses from harnessing their full potential to address broader social and environmental needs and in the process improve their competitive position. Companies need to face and deal with the fact that many of the traditional business and partnership models are outdated, ineffective, and insufficient. Mixed experiences with MDGs reinforce the fact that the opportunities have been there but many of them have been overlooked. Businesses, by utilizing their core competences and executing upon their competitive advantages, not through philanthropic and charitable donations, are the most powerful force to address some of the key components of the SDGs. Furthermore, the relatively recent global financial crisis that has led to increased social imbalances and tensions, reconfirmed the fact that companies with sound corporate governance practices are best positioned to make a major contribution to inclusive growth.

The third challenge is the implementation difficulties with “Aggregated Frameworks”. There are many “off the shelf” candidate frameworks, such as Corporate Social Responsibility (CSR),⁵ Creating Shared Value (CSV),⁶ the Base of the Pyramid (BoP),⁷ Strategic Collective Action (SCA),⁸ etc., which can be used by companies to address social and environmental issues. Most of these frameworks with potential relevance for corporate engagement with the SDGs are too general. They tend to oversimplify the complexity of the engagement and the impact of the SDGs on corporate productivity and competitive position. Where the frameworks are too general their guidance will also be too general, which creates serious risks due to a lack of flexibility for contextualization and localization. Furthermore, for most frameworks there are no single, commonly accepted definitions. Disconnected debates on the advantages and disadvantages of various frameworks and insisting on simplified, highly aggregated, and universally accepted definitions are adding to the confusion on how to implement them in practice, see Box 2. And, of course, there is no single framework that can exclusively guide companies in their engagement with the SDGs. For more complex issues, whatever framework or tool is chosen to be at the core of a specific implementation, other frameworks and tools must complement it.

⁵ See for example: Friedman Milton (1970), and Rangan Kash, Chase Lisa A, and Sohel Karim (2012).

⁶ See for example: Porter Michael E. and Cramer Mark R. (2011), and Crane Andrew, Palazzo Guido, Spence Laura J., and Matten Dirk (2014), Christiansen Niels (2014a), and Christiansen Niels (2014b).

⁷ See for example: Rangan V., Chu M., Petkoski D. (2011), Petkoski, D., Kasturi, R. V. & Laufer, W. (2008), and Karnani Aneel (2007).

⁸ See for example: Petkoski, D., Warren D. & Laufer, W. (2010) and Goldberg, R. A., Petkoski, D., Herman, K. (2009).

BOX 2. TWO EXAMPLES OF IMPLEMENTATION DIFFICULTIES WITH “AGGREGATED FRAMEWORKS”

1. DIFFERENT SHADES OF CSR

The case of CSR can be used to illustrate the implementation difficulties of exclusively relying on a single “aggregated framework”. Although the concept of CSR has been developing since the early 1970’s, there is no single, commonly accepted definition of CSR.⁹ The confusion with terminology has been expanded by attempts to get clarification with yet another definition. The term CSR is sometimes mistakenly equated with either corporate philanthropy or simply compliance with law. The various dimensions of corporate and other stakeholders’ responsibility are closely interrelated and any attempt to come up with a universally accepted CSR definition will just add to the confusion. Various labels are used, such as Strategic Philanthropy, Corporate Citizenship, Corporate Sustainability and Responsibility, Strategic CSR, CSV, CSR, etc. In practice, the boundaries between these frameworks can be blurred. For example, it is practically impossible to totally separate Strategic Philanthropy from CSR. Many academics and practitioners alike have been using and referring to CSR without clearly defining what they actually mean by CSR. As an illustration of this, see the most recent debate on the relevance of CSR.¹⁰

The lack of clarity has undermined efforts to develop a more holistic approach for designing and implementing CSR initiatives that involve a broader engagement of the most relevant stakeholders, such as the various governmental agencies, the corporate sector, both private and state owned companies, NGOs, media, donors and cooperation agencies, and multilateral development organizations. The CSR debate has been primarily dominated by the private sector and NGOs, with a relatively limited role of the government and very little engagement from multilateral development organizations, donors, cooperation agencies, and foundations. Differences in the interpretation of CSR can influence the dialogue between governments, the private sector, and civil society. These differences have resulted in diverse implications for various parties regarding the expectations about the role of business in society, including legitimacy, obligations, and the impact of CSR standards. In order to more effectively utilize CSR as one of the tools that can support corporate engagement with the SDGs, it is necessary to better capture the insights from other stakeholders. From a practitioner’s perspective, a useful approach would be to go beyond insisting on a general CSR definition and to focus on the fundamentals – how a CSR framework can help in addressing specific aspects of the SDGs, needs, challenges, and opportunities and how to bring on board the most relevant stakeholders. This will allow for a higher degree of flexibility to support the necessity for localization and contextualization.

2. CREATING SHARED VALUE (CSV) CONTROVERSY

Another interesting example to illustrate the implementation difficulties with exclusively relying on a single “aggregated framework” is the relatively recently introduced concept of CSV.¹¹ After the initial excitement and examples of successful implementations there have been numerous criticisms of the way the CSV concept was structured and promoted; for example, (1) the aim to “supersede CSR with CSV” and (2) the assumption that companies are compliant with law and regulations.¹² This example further underlines the need to better understand the advantages and disadvantages of CSV within a specific context before the actual implementation.

⁹ Many would agree that CSR suggests that corporations should assume responsibilities towards society beyond merely maximizing short-term shareholder value. Companies should not only take into consideration short-term shareholder interests but also consider the interests of a broader group of stakeholders and society at large, in a longer run. CSR generally refers to a collection of policies and practices linked to stakeholder relationships, values, compliance with legal requirements, community services, and the environment and the commitment of business to contribute to sustainable development.

¹⁰ For a very systematic criticism of the CSV approach, see Crane Andrew, Palazzo Guido, Spence Laura J., and Matten Dirk (2014).

¹¹ *CSV definition: Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.* See Porter Michael E. and Cramer Mark R. (2011).

¹² For a very systematic criticism of the CSV approach, see Crane Andrew, Palazzo Guido, Spence Laura J., and Matten Dirk (2014).

One pragmatic and very effective way to address the lack of clarity with respect to CSR, CSV, BoP, SCA, and related frameworks' definition is to go beyond insisting on a general definition and to focus on how various approaches can help address specific needs, challenges, and opportunities related to the SDGs. What really matters is not an additional academic definition; for example, so far, there are over one hundred CSR definitions. From a practitioner's perspective, a useful approach would be to utilize various frameworks and tools to address and find solutions for real life economic, social, and environmental problems captured by the SDGs, to bring on board the most relevant stakeholders, and to meet the needs and expectations of different constituencies on the ground.

The fourth challenge is the implementation difficulties with the “new buzzwords” innovation and partnership. Very often the meanings of innovation and partnership are too narrowly defined, leading to oversimplifications and an underestimation of the complexity of effective implementation in practice. For example, there is an increasing need to extend the meaning of innovation beyond technology, processes, products, and services and to include innovation in business models, supply and distribution channels, inclusive markets, partnerships, etc. Similarly, partnerships should also be approached beyond the traditional models of public-private partnerships. For example, there is an urgent need for innovative partnerships with non-traditional partners, such as the private sector, cooperation, development, and donor agencies, foundations, and NGOs, see Box 3.

BOX 3. COOPERATION WITH DONOR AGENCIES AND GOVERNMENTS: FIRMENICH IN HAITI

Firmenich is working with the Swiss Government and the Swiss Development Agency in Haiti on the sourcing of vetiver. All this has helped Firmenich strengthen its core competences to redefine the meaning of business contribution to development. The cooperation with the Swiss government is not exclusively limited to a single project. As the international community is engaging more and more with the private sector to redefine development aid, Firmenich is involved in the consultations between the Swiss Government and the UN Global Compact regarding the SDGs. This global political process might seem far away from responsible sourcing but it is not. For example, the UN Global Compact has defined the principles around sustainable agriculture and they directly relate to responsible sourcing.¹³

1.2 MULTI-FRAMEWORK APPROACH

It is more an exception than a rule that a single, freestanding framework or tool can provide useful guidance on how to deal with the SDGs and related targets. One of the objectives of this paper is to address this constraint by moving away from a single framework, tool, or model to a more comprehensive approach – the Sustainable Development Goals Methodology (SDGsM).

In this context, a single framework can be seen as one component of a more comprehensive approach. A multi-framework approach can (1) provide managers with more holistic guidance than any single framework and (2) allow for more effective contextualization and localization on the ground.

In grafting the SDGsM several **key** considerations have been utilized, see Box 4.

¹³ For more information see: Petkoski, D., 2015.

BOX 4. KEY CONSIDERATIONS

The grafting of the SDGsM took into consideration the need to:

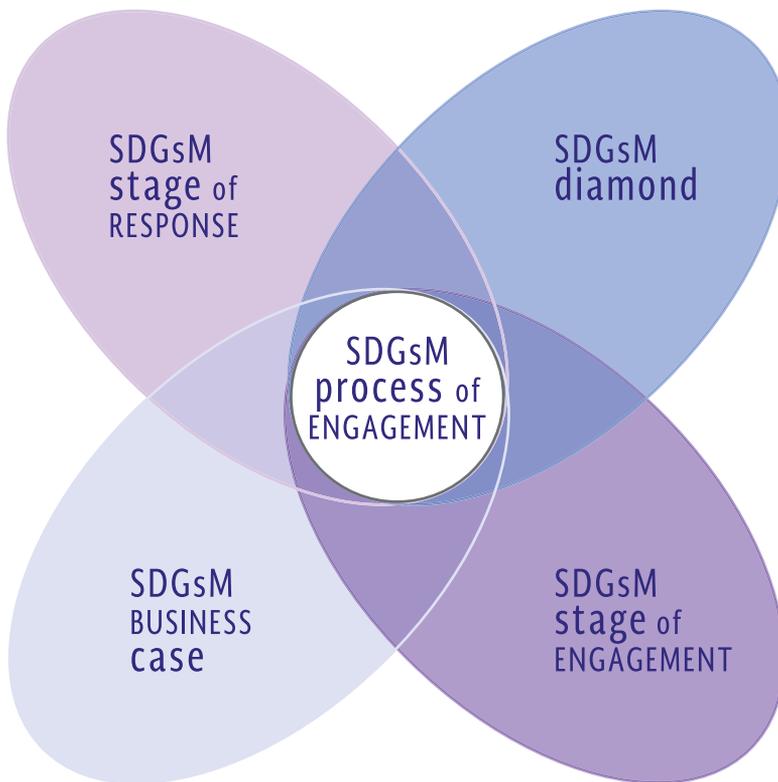
- ▶ Review alternative approaches for business engagement in the Post-2015 Development Agenda and their strengths and limitations from the implementation perspective,
- ▶ Go beyond:
 - ▶ corporate-centric approaches and old management and partnership models,
 - ▶ optimizing short-term financial performance at the expense of long-term competitiveness,
 - ▶ the traditional “political role of a company”, including employing aggressive self-interest lobbying strategy,
 - ▶ the current debate on generic frameworks, such as CSR, CSV, SCA, or BoP and focus on a new methodology that provides for a more holistic, multi-disciplinary, multi-stakeholder, and systematic approach,
- ▶ Appropriately utilize the “power” of various frameworks by focusing on a multi-framework approach,
- ▶ Allow for localization and contextualization within specific SDGs and related targets,
- ▶ Put emphasis on the implementation aspects of the methodology,
- ▶ Go beyond simplistic and naïve expectations for primarily win-win solutions and acknowledge
 - ▶ the tension between social and environmental goals vs. economic goals, and
 - ▶ the need for complex and time sensitive tradeoffs, sometimes leading to less-efficient and less-profitable solutions,
- ▶ Allow the other stakeholders to more productively utilize their resources through innovative partnerships, and
- ▶ Build on cutting edge academic and practitioners’ work and knowledge and lessons learned from the private sector engagement in the MDGs.

2. SDGSM BUILDING BLOCKS

The SDGs Methodology consists of five building blocks:

1. SDGSM DIAMOND
2. SDGSM BUSINESS CASE
3. SDGSM STAGE OF RESPONSE TO PRESSURES
4. SDGSM STAGE OF ENGAGEMENT
5. SDGSM PROCESS OF ENGAGEMENT

FIGURE 5. SDGSM AS A SYSTEM



The effectiveness of the SDGSM implementation and its impact depends on the way the five building blocks of the system function as a whole. (See Section 3. SDGSM as a System)

2.1 The SDGSM Diamond

The SDGs Methodology Diamond can be an effective framework to address the complexity of engaging with the SDGs in a more systematic way. It can assist companies and other stakeholders in developing a shared,

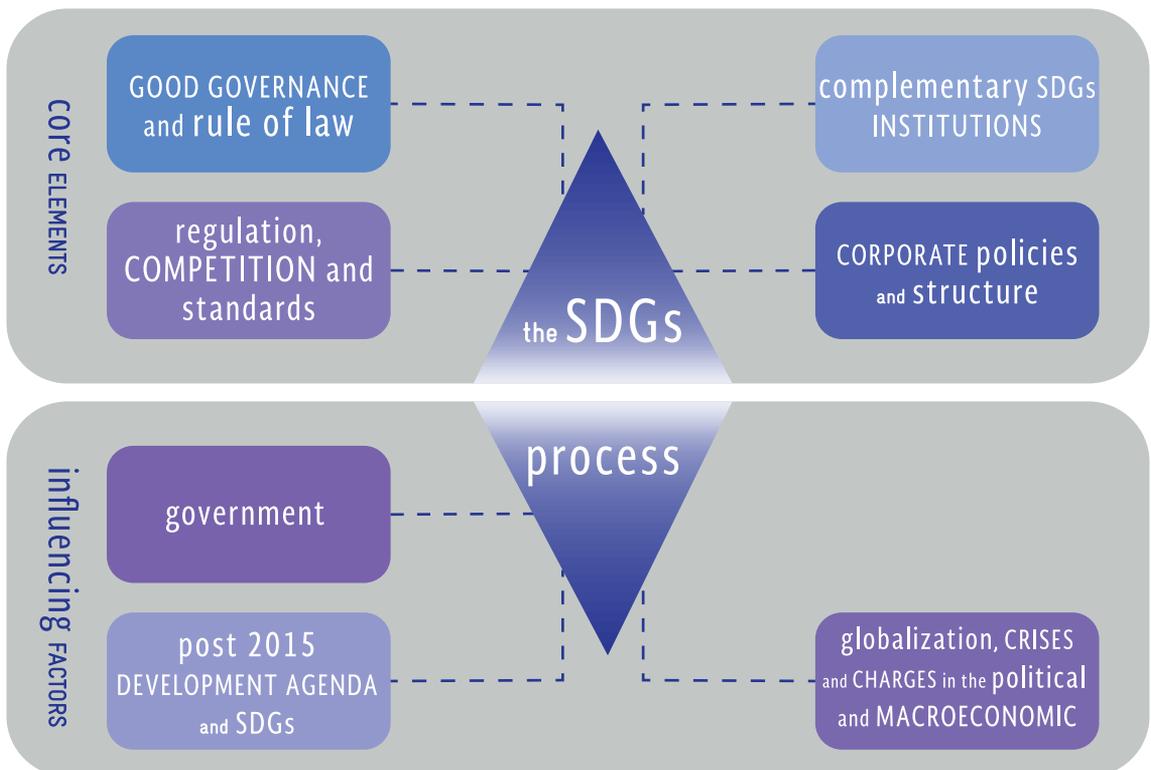
actionable understanding of the SDGs and related targets, and the specific activities that need to be taken into consideration for successful implementation on the ground. **The core elements of the SDGsM Diamond** are:

1. GOOD GOVERNANCE AND RULE OF LAW
2. REGULATION, COMPETITION, AND STANDARDS
3. COMPLEMENTARY SDGS INSTITUTIONS
4. CORPORATE POLICIES AND STRUCTURE

These four elements are primarily influenced by three main factors:

- A. GLOBALIZATION, CRISES, AND CHANGES IN THE POLITICAL AND MACROECONOMIC ENVIRONMENT
- B. POST-2015 DEVELOPMENT AGENDA AND THE SDGS
- C. GOVERNMENT

FIGURE 6. THE SDGsM DIAMOND



The four core elements of the SDGsM Diamond work as a system, and complement each other, thus shaping the internal and external environment that affects the behavior of corporations, the way they address and assess the SDGs, and their SDGs strategies. The functions performed by individual elements and the way they interact with each other vary across SDGs and their targets, industries, among countries, and even within a country.

Core Elements of the Sdgsm Diamond

► 1. Good Governance and Rule of Law

It is important to acknowledge the fact that companies are becoming relevant players in the wider governance of societies, including governance at the global level. Sustainable competitiveness assumes that in addition to sound corporate governance, companies also engage in shaping the external business ecosystem for higher transparency and accountability. Many of the frameworks that can be used by the SDGsM, including CSR, CSV, SCA, and BoP, presume that companies comply with the law and ethical standards. In the real world many companies do not comply. The government, through “responsive” regulations, should make sure that companies do not engage in exploitative, unfair, or deceptive practices in which companies benefit at the expense of the society and the environment.¹⁴ Making sure that companies comply with legal and ethical standards is essential. The SDGsM does not assume that good governance and sound corporate governance are given, see Box 5. Good governance and ethical considerations are critical preconditions for the SDGs engagement to be backed by authenticity and legitimacy. This can also help companies to more smoothly move from “role-based responsibility” to “value-based responsibility”.¹⁵

BOX 5. IOE CORPORATE GOVERNANCE PROGRAM FOR THE WESTERN BALKANS

In March 2015, the Bureau for Employers' Activities (ACT/EMP) of the International Labour Organisation (ILO), as part of “Promotion of Social Dialogue” project - funded by EU, introduced a capacity building program for employers' organizations in the Former Yugoslav Republic of Macedonia. The main objective of the program is to strengthen corporate governance practices of the employers' organizations so that they can provide better services to their members. This program will also help the organizations and their member companies to be better prepared to engage with the SDGs. For more information contact: Senior Specialist, Employers' Activities, ILO Decent Work Technical Support Team for Central and Eastern Europe. <http://www.ilo.org/budapest/lang--en/index.htm>

The rule of law encompasses all legal and judiciary institutions and transcends “laws in the books”; it focuses more on the application of the law and the performance of the judiciary/legal institutions. Enforcement of the law is at least of equal importance as the extensiveness of the law. Good laws cannot be substituted for the absence of effective legal institutions. The reliability of legal and judicial institutions affects a business' confidence and private sector readiness to engage in the Post-2015 Development Agenda and the SDGs.

► 2. Regulation, Competition, and Standards

Regulation, competition, and standards work as a system, and complement each other to shape the behavior of corporations and their SDGs strategies.¹⁶ The way they operate, their interconnection with the rule of law, and functions performed by individual elements vary among countries.

¹⁴ For example, for many years the World Bank has been supporting governments around the world to improve accountability and transparency. Now, sound governance considerations are an integral part of the World Bank lending activities – “mainstreaming good governance in lending operations”.

¹⁵ In these cases, managers need a value-based framework, which, for example, can be supported by the Green Pact approach, see: Petkoski, D., Warren D. & Laufer, W. (2010).

¹⁶ For example, open and competitive markets are a powerful prerequisite for sound SDGs implementation initiatives. Free entry and broader choices for citizens will improve the position of the consumers to impact a company's behavior. Proper regulation and standards can also help to responsively address social and environmental issue. All these can make the business case for corporate engagement with the SDGs even more appealing.

In the context of the impact regulation and standards have on the execution of the SDGs, one of the key challenges is to determine how the state should manage the process of withdrawal from direct engagement in economic activities, and develop a new regulatory role that ensures that markets operate in the interest of society as a whole and companies strategically engage in the SDGs related activities.

Competition¹⁷ influences the soundness of corporate engagement with the SDGs as it is part of the system of checks and balances. Competition, for example, is critical for creating choices for citizens, new entry to the industry, and new opportunities and incentives for corporations to improve productivity and adopt best practices. Competition and trade policies reduce rent-seeking behavior. Together with policies that encourage foreign direct investment, competition and trade policies force insiders to improve corporate performance and take into consideration the interests of stakeholders. In this way, competition can help channel initiatives in socially and environmentally useful directions.

▶ 3. Complementary SDGs Institutions

There is a whole range of complementary SDGs institutions that have an important impact on the way and the scope to which companies address various SDGs and their targets.¹⁸ Bodies with an official mandate, accountability, leadership, and those that have a prominent or formal role in government are of critical importance when implementing relevant policies. Governments should also support the creation of new market institutions to fulfill an enabling role in supporting and complementing the existing SDGs institutions. For example, the government should support a political system that provides opportunities for all segments of society to influence government policies and practices. The list of complementary SDGs institutions is a long one and their individual relevance vary across specific SDGs and related targets, industries, countries, and the characteristics of specific SDGs issues that need to be addressed (see Figure 7).

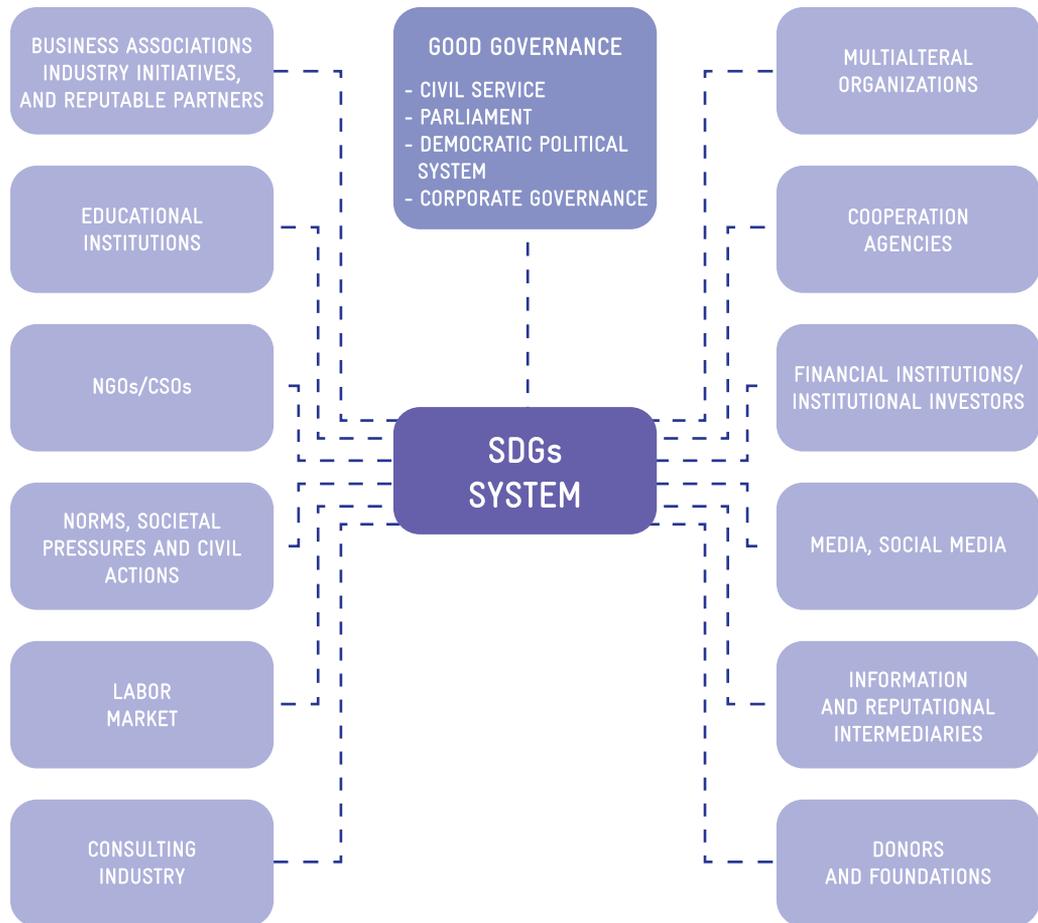
▶ 4. Corporate Policies and Structure

When engaging with the SDGs many of the traditional management assumptions, including the role of government and public policy, need to be revisited and analyzed in a broader context, in terms of scope, depth, and time dimension of engagement. This engagement is about an innovative holistic approach enlightened and guided by business priorities that are informed by public policy. This is not about oversimplified blueprints for “strategic planning” and outdated and rigid business policies, organizational structures, models, and tools. The SDGsM provides a holistic approach and at the same time identifies specific, practical steps of engagement and directs managers to step beyond the apparently available opportunities for the SDGs engagement. The key is to align public policy assumptions and goals with business policy priorities that are supported by a sound strategy and organizational structure.

¹⁷ See the previous footnote.

¹⁸ For example, good governance and the quality of corporate governance are critical in guiding the decision-making processes at the corporate level and the way business engage with the SDGs.

FIGURE 7. COMPLEMENTARY SDGS INSTITUTIONS



Influencing Factors in the Sdgsm

► a. Globalization, Crises, and Changes in the Political and Macroeconomic Environment

Globalization through global trade, finance, and supply chains has established a new level of interconnection and interdependence among countries, development institutions, and companies.¹⁹ Macroeconomic stability is critical for private sector investment and trade in order to promote more equitable growth and sustainable development. The most recent financial crisis and global recession have led to fundamental changes in the macro-economic environment, access to finance and have reinforced the importance of good governance, transparency, and accountability.²⁰

¹⁹ In this context, there is a need to better understand the SDGs issues along the supply chains. For example, the way that supply chains are managed also influences the value co-creation opportunities, pollution and waste management, as well as accessibility, delivery, and quality of goods and services to local populations. The analysis is further complicated by the fact that supply chains more and more expand across national boundaries.

²⁰ For example, unemployment and job losses even in the most developed countries reinforce the need for more creative approaches to job creation, especially for young people.

▶ b. Post-2015 Development Agenda and the SDGs

With the mixed results in achieving the MDGs, there has been growing pressure on governments to ensure more effective and efficient delivery of basic services, and contribute to healthy ecosystems, civic participation, sustainable development, social equity, transparency, accountability, access to information, good governance, etc. Similarly, companies have been under increasing scrutiny regarding their impact on social and environmental issues. The Post-2015 Development Agenda and the SDGs debate has been creating a momentum for governments and private sector to readdress their approaches to inclusive growth and shared prosperity.

▶ c. Government

Some governments lack transparency and accountability, they are unable to deliver basic services and/or unwilling to regulate, as well as deal with “aggressive lobbying for less regulations and tax avoidance” by the private sector. Through responsive laws and regulations that address system-level/macroeconomic problems, governments need to support innovative and effective ways of aligning private sector goals, resources, and know-how in order to more effectively address national development goals of inclusive growth and shared prosperity, captured by the SDGs and Post-2015 priorities.

The SDGsM takes under consideration the fact that governments are key players in shaping the business ecosystem that fundamentally affects corporate behaviors and performance, as well as the modality of multi-stakeholders’ engagement. In addition to contributing to good governance, governments should create conditions for the private sector to play a more prominent role in supporting national sustainable development strategies. The aim is to minimize discrepancies between national priorities and the main focus of companies’ social and environmental initiatives related to the SDGs. In many countries, in formulating national priorities, including the MDGs, little attention has been given to the important contribution the private sector can make through its core business activities.²¹

The discrepancy between national and corporate SDGs priorities can be caused by various factors, including a lack of

- ▶ **A holistic and systematic in-depth analysis at the country level of the SDGs, from private sector perspective, and how the SDGs can be aligned with corporate objectives;**
- ▶ **Understanding the importance of multi-stakeholders responsibility and the need for more effective Post-2015 National Strategies, and**
- ▶ **A more systematic mapping of various engagement mechanisms and partnerships.**

Through its impact on the rule of law, regulation, competition, standards, complementary SDGs institutions, corporate governance, and internal corporate structures and policies, governments can influence the way companies engage with the SDGs. In this regard, government involvement in this area is equally important in both developing and developed countries.

²¹ Several countries, such as India and Mauritius, already introduced a national CSR strategy in an effort to more holistically engage with the private sector and reduce the gap between national and corporate priorities.

2.2 SDGsM Business Case

Additional clarity in corporate engagement with the SDGs and better utilization of the first four blocks of the SDGs Methodology can be gained by reflecting on a broader range of arguments that support the business case for the private sector engagement with the SDGs. These arguments can be classified in six broader categories:

- I. GOVERNMENT RELATIONS AND POLITICAL CAPITAL
- II. OBTAINING A SOCIAL LICENSE TO OPERATE AND COOPERATION WITH LOCAL COMMUNITIES
- III. GAINING A COMPETITIVE ADVANTAGE AND NEW BUSINESS OPPORTUNITIES
- IV. ATTRACTING AND RETAINING QUALITY INVESTORS AND BUSINESS PARTNERS
- V. BRAND AND LOYALTY
- VI. IMPROVED INTERNAL PROCESSES AND EFFICIENCIES

For more specific details see Box 6.

BOX 6. SIX BROADER CATEGORIES OF THE BUSINESS CASE

I. GOVERNMENT RELATIONS AND POLITICAL CAPITAL

- ▶ Government support
- ▶ Building political capital
- ▶ Reducing regulatory oversight by working closely with regulatory agencies to meet or exceed guidelines

II. OBTAINING A SOCIAL LICENSE TO OPERATE AND COOPERATION WITH LOCAL COMMUNITIES

- ▶ Obtaining a social license to operate
- ▶ Cooperation with local communities
- ▶ Building strong community relationships with organizations and agencies that can provide technical expertise
- ▶ Risk Management: Avoiding crisis due to social and environmental misconduct

III. GAINING A COMPETITIVE ADVANTAGE AND NEW BUSINESS OPPORTUNITIES

- ▶ Gaining a competitive advantage
- ▶ Gaining sustainable competitiveness
- ▶ Innovation and creating new business opportunities

IV. ATTRACTING AND RETAINING QUALITY INVESTORS AND BUSINESS PARTNERS

- ▶ Attracting and retaining quality investors
- ▶ Attracting and retaining quality business partners

V. BRAND AND LOYALTY

- ▶ Re-legitimize business: Building a strong corporate reputation, image, trust, and legitimacy
- ▶ Strengthen brand positioning: Enhancing and protecting brands
- ▶ Seeking win-win outcomes through synergistic value creation
- ▶ Increased sales and consumer loyalty

VI. IMPROVED INTERNAL PROCESSES AND EFFICIENCIES

- ▶ More efficient operations
- ▶ Reducing operating costs
- ▶ Improved financial performance
- ▶ Increased ability to attract and retain quality employees

The main arguments for the business case for private sector engagement with the SDGs can help companies assess some of the business benefits from engaging with a particular SDG and its related targets, guide them to analyze the SDGs and identify opportunities for higher impact in the four stages of corporate engagement (see 2.4. SDGsM Stages of Engagement). However, it is important to keep in mind that the “aggregated/traditional” business case approach should be seen more as a general guideline, as it is not necessarily specific enough to justify the engagement with a specific SDG or related targets. The relevance of the arguments²² varies across different SDGs, SDGs stages of engagement, countries, industries, companies, strategic collective action initiatives, etc. See Appendix 1: A Business Case for Engaging with Sustainable Development Goal 2.

Finally, the business case should be analyzed “beyond the factory walls”, taking under consideration the interest of the key corporate partners and stakeholders. This can bring additional clarity in what are the “win-win” vs. “win-lost and lost-win” situations, help deal with diverse interests and the time dimension of the changing priorities of various partners and stakeholders when engaging in strategic collective action initiatives, and justify company engagement in “non win-win” situations.

2.3 SDGsM Stages of Response to Pressures

Increasingly, the private sector is subject to greater scrutiny and higher societal expectations regarding its contribution to the SDGs. With more aggressive government, media, social media, and civil society oversights there is a greater likelihood of misconduct discovery and increased risk and cost for companies and top executives of misconduct. Companies react in many different ways to external pressures. Based on the experience with private sector engagement with the MDGs, corporate reaction to numerous high-level corporate scandals, and increased external pressures to responsibly deal with social and environmental issues it is useful to categorize corporate responses to demands to engage with the SDGs in five stages:

- ▶ **1. Stage of Ignorance**
(SDGs are not our problem or our responsibility)
- ▶ **2. Stage of Following the Law**
(We do what law requires and this is taking care of the SDGs)
- ▶ **3. Stage of Operations**
(We make sure that our daily operations have a positive impact on the SDGs)
- ▶ **4. Stage of Core Business/Corporate Strategy**
(SDGs strategy is an integral part of our core business and corporate strategy)
- ▶ **5. Stage of Strategic Collective Action**
(We engage in Strategic Collective Action Initiatives to influence the ecosystem in support of the SDGs)

²² Costing and financial benefits of business engagement in SDGs requires too many assumptions and extensive elaboration and are not the objective of this paper.

2.4 SDGsM Stages of Engagement

Companies can engage with the SDGs in many different ways. To bring more operational clarity in the private sector engagement with the SDGs it is also useful to conceptualize the engagement in four stages:

- ▶ **1. Philanthropic approach, for example through donations to local charities, NGOs, and interest groups,**
- ▶ **2. Projects outside or within corporate core competences**
- ▶ **3. Integral part of corporate core competences and strategy**
- ▶ **4. Strategic Collective Action**

These stages are not mutually exclusive and can be considered as part of a continuum of possible engagements. For example, some projects can be purely philanthropic or part of the corporate core business. Similarly, engagement in the last two stages does not exclude philanthropic activities or delivery of individual, special purpose projects. The most advanced companies will primarily analyze and engage with the SDGs in order to get additional insights that will help reassess their corporate strategy for the Post-2015 world and develop a “SDGs strategy”.²³

There is an obvious overlap between the five stages of corporate response to the SDGs external pressures and the four stages of private sector engagement with the SDGs. Better understanding of a possible pattern of reaction to external pressure can provide useful insights to senior executives when deciding on a possible engagement with SDGs.

In no way is the SDGsM a replacement for a corporate strategy. Rather it can provide critical insights and guidelines on how to better adjust the corporate strategy in the Post-2015 world. To avoid commandments without content, companies and their partners and stakeholders need more holistic and at the same time practical approaches. The SDGs strategy is not separate from the corporate strategy; in fact it is an important component of the corporate strategy. The SDGsM is specifically designed to provide critical new insights and relevant and practical guidance. This is work in progress and the SDGsM will constantly be updated based on the experience and lessons learned while testing the main ideas in practice – a kind of open source approach.

²³ This primarily refers to more advanced companies that engage with the SDGs through the last two stages of engagement: Corporate Core Competences and Strategy and Strategic Collective Action. This engagement is an integral part of their core business. Other companies will start with philanthropic and project-based activities.

2.5 A SDGsM: Process of Engagement

The grafting and the implementation of the SDGs Methodology can be carried out through seven steps, see Box 7.

BOX 7: THE PROCESS OF SDGS METHODOLOGY IMPLEMENTATION	
1.	ARTICULATE THE BIG PICTURE
2.	SDGS SEGMENTATION AND STAKEHOLDERS MAPPING
3.	ENGAGEMENT AT THE CORPORATE LEVEL
4.	STRATEGIC COLLECTIVE ACTION INITIATIVES
5.	IMPLEMENTATION
6.	CAPACITY DEVELOPMENT AND KNOWLEDGE AND INNOVATION EXCHANGE
7.	MEASURING IMPACT AND REPORTING

2.5.1 Articulate the Big Picture

With the shift in complexity from MDGs to SDGs –from 8 MDGs to 17 SDGs and 169 targets – companies have found themselves far less prepared to know how to engage with the SDGs. They need guidelines, and new thinking to thoughtfully analyze and prioritize the SDGs and related targets, keeping in mind the priorities and expectations from the main stakeholders, particularly governments and NGOs. A deeper understanding of the big picture, supported by stakeholders consultations and internal capacity development, can help companies to identify sweet and blind spots hidden in the complexity of the SDGs, engage outside the boundary condition of “**win-win**” cases and deal with far more challenging “win-loss and loss-win” cases, better see and understand new opportunities with the SDGs, and select those, which are most closely related to their vision and core business.

Not all the SDGs and their targets can be reached through “win-win” solutions that automatically improve a company’s immediate financial return. In fact, in many situations, companies will be forced to deal with more challenging “**non-win-win**” cases. Companies need sound guidance to better assess situations when tensions are created between strengthening competitive advantage and achieving certain SDGs targets. The “non-win-win” cases should be analyzed in a broader context that allows companies to explore possibilities for innovative partnerships and SCA initiatives, including access to complementary philanthropic and donors’ contributions. In other words, an in-depth understanding of the big picture can also help companies step beyond the apparently available opportunities for the SDGs engagement and explore the potential for “win-

win” solutions that are not immediately visible and find out how to create conditions to materialize these solutions in practice.

At the core of this step is a full appreciation of the importance to align public policy objectives and assumptions with business policy priorities. The whole Post-2015 consultation process and the selection of the SDGs have been primarily influenced by **public policy priorities**. However, it is unrealistic to assume that public policy objectives and assumptions can be easily incorporated into business policy perspectives and that “unfunded mandates” can be assigned to companies.

Sound and informed companies’ **business policies**, a clear mission, and operating practices can guide companies to search for innovative ways of engagement that enhance corporate competitiveness, while simultaneously addressing the SDGs. A careful analysis of the big picture can thus help companies align public policy assumption with their business policy priorities.

To facilitate and better utilize the Big Picture concept the analysis can be performed at five levels, see Box 8.

BOX 8. BIG PICTURE: FIVE LEVELS OF ANALYSIS

- ▶ GLOBAL: AROUND THE MDGS, THE POST-2015 DEVELOPMENT AGENDA, AND SDGS;
- ▶ NATIONAL AND SUBNATIONAL: UTILIZING NATIONAL AND SUBNATIONAL SUSTAINABLE DEVELOPMENT AND POST-2015 PRIORITIES;
- ▶ GEOGRAPHICAL LOCATION, CITIES, ECONOMIC ZONES, CLUSTERS, ETC.²⁴
- ▶ SUPPLY CHAIN;²⁵ AND
- ▶ SMES ENGAGEMENT²⁶

2.5.2 SDGs Segmentation and Stakeholders Mapping

This step addresses the needs for localization, contextualization, and segmentation of the SDGs. Depending on the specific engagement these activities can be performed at the global, national, subnational, city, economic zones, clusters, supply chain, and SMEs, as well as specific SDGs level. This step builds on the analysis performed in the previous step – the Big Picture.

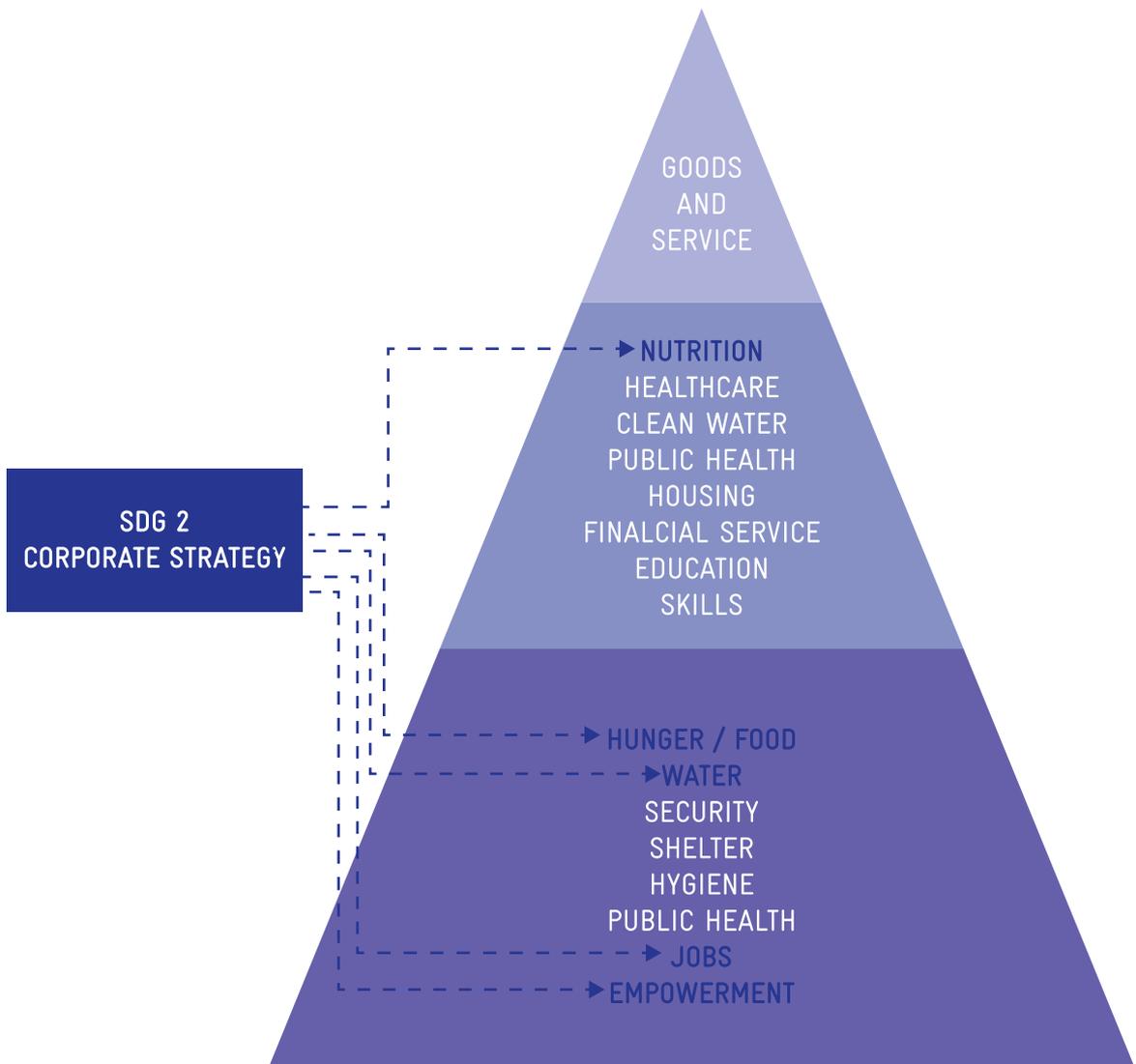
²⁴ The focus is on developing a strong business ecosystem at a specific location, including improving the institutional framework and transparency; an effective legal system; reliable and responsible local suppliers; functioning infrastructure; access to local talent; etc.

²⁵ Working closely with members of the supply chain to improve the quality and quantity of the products, reduce the cost, minimize the role of middlemen, increase the reliability and sustainability of inputs, production, and distribution in a sustainable manner, comply with human rights and employee rights, improve social and environmental conditions, etc.

²⁶ Due to the holistic approach of the SDGs Methodology, the SMEs engagement in SDGs will be primarily analyzed within the context of clusters and/or supply chains of bigger companies. In this way, SMEs can benefit from collective engagement, get easier access to needed resources, and have more sustainable and higher impact.

For SDGs that are more directly related to low-income people, the analysis can be further supported by the **BoP Segmentation Framework**.²⁷ This framework can provide relevant insights regarding the market segmentation beyond income. It takes under consideration the specific needs of both the population and low-income people. They are not seen exclusively as consumers but also co-producers and clients. Inclusive growth and shared prosperity cannot be built on the premise that low-income people should be primarily approached as consumers. See Figure 8 for an illustration of this kind of segmentation in the case of SDG 2.

FIGURE 8. SDG 2: SEGMENTATION ACROSS NEEDS AND INCOME



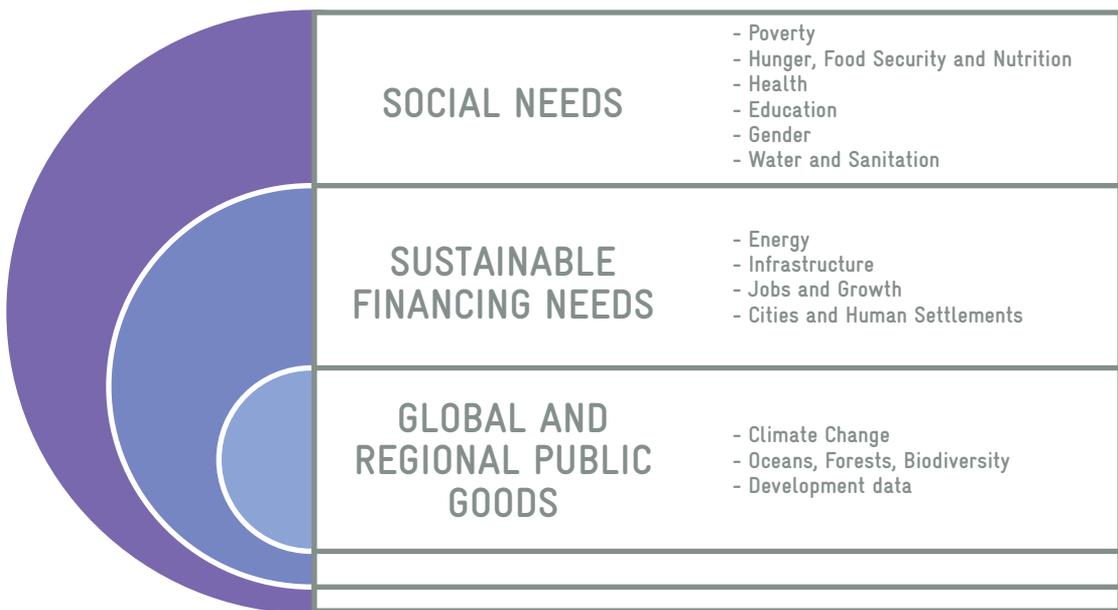
²⁷ See: Rangan, V., Chu, M., Petkoski D. (2011).

Keeping in mind the complexity that arises from the fact that companies need to analyze 17 **SDGs** and **169 targets** it is also useful to categorize the SDGs into four broader categories:²⁸

- ▶ **1. The Poverty Apex: Prosperity and Equity**
- ▶ **2. Human Needs and Capacity: Education, Women’s Empowerment and Gender Equity; Health**
- ▶ **3. The Resource Triad: Food and Agriculture; Water and Sanitation; Energy and Climate**
- ▶ **4. Enabling Environment: Peace and Stability; Infrastructure and Technology; Good Governance and Human Rights**

For an alternative SDGs segmentation from a financing perspective see Figure 9

FIGURE 9. AN ALTERNATIVE WAY OF GROUPING THE SDGS



Source: The World Bank (2014)

²⁸ See United Nations Global Compact (2014).

At the initial stage, these two classifications can bring the necessary clarity to preliminarily identify the specific SDGs and targets that can be potentially aligned with corporate vision, core competences, and goals. This can also help companies decide which goals should be addressed at the company level and which ones through SCA initiatives. The decision making process can be informed by getting additional insight by utilizing the “segmentation” of the SDGs business case, see section 2. 2. SDGsM Business Case.

This includes mapping the relevant SDGs and the ongoing, relevant sustainable development initiatives in the location where a company operates. **Stakeholders mapping** should be performed along three dimensions:

- ▶ **Segmentation of specific SDGs, related targets, and issues to be addressed,**
- ▶ **Ongoing initiatives, and**
- ▶ **Analysis of core competences, incentives, interests, and available resources of each relevant stakeholder.**

The mapping creates an opportunity to review corporate and stakeholders’ existing activities and programs and to more systematically assess possibilities for innovative partnerships and SCA initiatives. This can also help assess the efficiency of the current SDGs related activities, decision-making processes, and organizational structure and how they affect the outcomes of these activities and programs and bring more clarity regarding the possible stages of engagement (see section 2.4. SDGsM Stages of Engagement). Finally, the SDGs Segmentation and Stakeholders Mapping can help to better select those “generic” frameworks and tools that can be more productively utilized as part of the multi-framework approach.

2.5.3 Engagement at the Corporate Level

The engagement at corporate level includes activities that a company is undertaking by itself. Depending on the company and the requirements for “localization and contextualization” and the specific SDGs that need to be addressed, there are a number of issues that should to be taken under consideration, including:

- ▶ **Compliance with regulations and hard and soft law standards;**
- ▶ **Moving from philanthropy to corporate strategy;**
- ▶ **Moving from project based to core business engagement;**
- ▶ **Going beyond over focus on “win-win” projects and by more systematically analyzing the “non win-win” situations to identify and include a broader range of the SDGs targets into the management decision making process;**
- ▶ **Upgrading and leveraging production processes and reconceiving new products and markets;**
- ▶ **Leveraging and readdressing sustainability and productivity along the supply and value chains;**
- ▶ **Engaging in SCA initiatives, including search for industry-wide solutions, etc.**

All this means that a company incorporates critical dimension of SDGs into its corporate strategy. As mentioned, the SDGs strategy is not separate from the corporate strategy; in fact it is an important component of the corporate strategy. The SDGs strategy should be implemented across all corporate activities, be it in operations, recruitment, procurement, marketing, sale, community service, communication, etc.²⁹ In this way companies can improve their competitive position and reputation; attract talents; improve access to capital and international financial markets; increase innovation and productivity; better serve existing markets, create, open, and access new ones; develop innovative products and deliver new services that include social or environmental dimensions; and create a higher return on investment and impact. For a more structured process and specific details see Step 5. Implementation.

2.5.4 Strategic Collective Action Initiatives

The SDGsM addresses priority corporate and broader development needs captured by SDGs, based on corporate and other stakeholders' core competences, going beyond donations and philanthropy.³⁰ By focusing on stakeholders' core competences and responsibilities,³¹ companies can more effectively contribute to sustainable development and public goods that affect their business ecosystem. In this way, the engagement with SDGs becomes an investment that aims to strengthen companies' competitive positions rather than to engage in activities that are simply regarded as costs. Companies' relative advantages in society, compared to other development actors, lie in their core competences. Strategic Collective Action initiatives can create a space for the other stakeholders to more fully utilize their respective core competences and collectively, with the private sector, co-create new value.

Many of the SDGs initiatives should neither be seen as stand-alone activities that companies or any other actors adopt nor should they be ad hoc. The SDGs engagement is about a company or any other organization working in an inclusive way, taking into account the other stakeholders' core competences, concerns, and needs. By emphasizing the holistic aspect of the corporate engagement in the SDGs, the SDGsM provides new insights and creates opportunities for new value co-creation on the ground. This makes it easier to establish and facilitate a shared understanding and mission between a company and its partners and clients.

Once the SDGs engagement is analyzed in a more holistic way, in terms of (a) the scope of involvement of various stakeholders, including their core competences and short and long term interest, etc.,³² and (b) contextualization and localization, industry context, geographical location, etc. The next step is to better understand and build consensus on the role that the relevant stakeholders will play in the Strategic Collective Action initiatives. The main features of Strategic Collective Action engagement include:

²⁹ For more details in the context of CSV see: Niels Christiansen (2014a and 2014b).

³⁰ As mentioned, philanthropy can also contribute to a positive impact, but it has only a limited ability to achieve sustainable impact and scale.

³¹ This can be supported by the insights gained from Step 2: SDGs Segmentation and Stakeholder Mapping.

³² This includes a better understanding of and building consensus on the role of all relevant stakeholders.

- ▶ **Develop a shared understanding of the SDGs main challenges and opportunities,**
- ▶ **Develop a deeper understanding of what matters to diverse stakeholders and facilitate the process of entering into strategic dialogues,**
- ▶ **Marshal critical resources and obtain timely value co-creation decisions leading to possible “win win” and acceptable “non win-win” outcomes,**
- ▶ **Focus on SDGs collective action initiatives that require changes in the way various stakeholders engage with each other. This is about a transformative collaboration that affects both the internal and external ways of engagement of each stakeholder,**
- ▶ **Dynamic way of engagement that allows for a more productive utilization of core competences, motivation, and self-interest of each stakeholder at a given point of time,**
- ▶ **Explore productive ways of SMEs engagement with SDGs individually, supported by business associations, through clusters and/or as an integral part of the supply chain of bigger companies, and**
- ▶ **Bring together nontraditional partners, such as development organizations, cooperation agencies, donors, foundations, etc. The nontraditional partners are not only part of the value co-creation process but their involvement provides additional insights and opportunities for innovation.**

2.5.5 Implementation

Several important elements of the implementation were already addressed in Step 3: Engagement at Corporate Level. For a more substantive engagement with the SDGs, the implementation process can be conceptualized as “leading and managing change”³³ and can be described more specifically by the following components:

1. LEADERSHIP, LEADERSHIP TEAM, AND TONE FROM THE TOP
2. VISION AND STRATEGY
3. COMMUNICATING VISION AND STRATEGY
4. BROADER INTERNAL SUPPORT AND COALITION
5. BALANCING SHORT- VS. LONG- TERM INITIATIVES
6. ORGANIZATIONAL STRUCTURE, SYSTEMS, AND POLICIES
7. TRANSFORMING THE ORGANIZATIONAL CULTURE

▶ **1. Leadership, Leadership Team, and Tone from the Top.** It is important to make a clear distinction between leadership and management. Substantive engagement with the SDGs requires upfront support from the top leader and excellent management teams responsible for day-to-day execution. The tone from the top is important but at the same time it is critical for leadership to emerge across the entire organization.

▶ **2. Vision and Strategy.** In order for the Post-2015 Development Agenda and the SDGs to be addressed through corporate strategy and core business they need to be clearly connected to a company’s vision and strategy.

▶ **3. Communicating Vision and Strategy.** Clearly communicating the connection between the SDGs and the company’s vision, strategy and core business is one of the critical preconditions for the “buy-in” across the

³³ This step builds on extensive literature on managing change and science and art of delivery. See for example: J.P. Kotter (1966) and McKinsey & Company (2013a and 2013b).

organization. The communication is not only about messages coming from the top but also from the middle management and through peer-to-peer discussions.

▶ **4. Broader Internal Support and Coalition.** Building broader internal support and coalition will help to more easily:

- ▶ Overcome internal resistance and obstacles,
- ▶ Change systems or structures that undermine the efforts to more sustainably and substantially
- ▶ engage with selected SDGs, and
- ▶ Encourage experimentation, risk taking, testing nontraditional ideas, activities, and actions that

can strengthen a company's competitive position through the SDGs engagement.

▶ **5. Balancing Short- vs. Long-Term Initiatives.** The SDGs engagement is a longer-term process and it may take time before more substantive results are achieved. This is why it is so important to plan in advance for visible short-term improvements in performance and not to just hope for “short-term wins”. It is also essential to visibly recognize and reward those who made the wins possible. This will increase the confidence and the incentives for staying focused on long-term initiatives and to be on track with SDGs engagement.

▶ **6. Organizational Structure, Systems, and Policies.** As mentioned, the SDGs strategy should be implemented across all corporate activities, be it in operations, recruitment, procurement, marketing, sale, community service, communication, etc.³⁴ The Post-2015 Development Agenda and the increased pressure on companies to engage with the SDGs provide the senior executives with additional credibility to change critical systems, structures, and policies that don't fit together and don't fit the effort to reposition the company to successfully compete in the Post-2015 world. This is an opportunity to more forcefully (1) reinvigorate the core business with new business models, products, services, partnerships, projects, themes, and change agents and (2) hire, promote, and develop people who can implement the SDGs strategy.

▶ **7. Transforming the Organizational Culture.** The Post-2015 reality will push many companies to seriously readdress their corporate culture. Developing “new behaviors” is an extremely complex process as behaviors are rooted in social norms and shared values across the organization.³⁵ This is an opportunity for the top executives to use various dimensions of the SDGs to push for creating better performance through customers- and productivity-oriented behavior, expanding markets, based on high social and environmental standards, and better leadership and more effective management. The objective is to reach the stage of “this is the way we do things around here” and create strong connections between new behaviors towards the SDGs and corporate success.³⁶

2.5.6 CAPACITY DEVELOPMENT AND KNOWLEDGE AND INNOVATION EXCHANGE

As mentioned, there is a serious lack of capacity and capabilities at the corporate and other stakeholder level to deal with the complexity of SDGs and the challenge of implementing SDGs related strategies.

The first five steps of the SDGsM Process of Engagement can also help to:

³⁴ For more details see: Niels Christiansen (2014b).

³⁵ Different business units may have different attitudes regarding culture and the need to engage with the SDGs. For example, financial people and engineers can find the topic of culture too soft for their taste – so they often ignore culture.

³⁶ As the SDGsM primarily deals with complex social and sustainable development issues, for many companies the implementation will start with pilot projects, which will be then scaled up in a sustainable manner. For more advanced companies, addressing the SDGs will be an integral part of their core business.

- ▶ More systematically identify capacity gaps at an individual company level and from a multi-stakeholder and Strategic Collective Action perspective,
- ▶ More systematically capture the learnings and best practices as critical elements in a knowledge and innovation exchange,
- ▶ Design and implement action oriented executive capacity development programs that will support the efforts of the private sector, governments, cooperation agencies, and the other key stakeholders to address some of the most important Post-2015 and SDGs challenges and opportunities, and
- ▶ Recommend specific initiatives for knowledge and innovation exchange, and to increase public awareness of the role the private sector can play in the Post-2015 Agenda.

2.5.7 Measuring Impact and Reporting

Measuring impact³⁷ requires to properly capture the economic and social dimensions from both the business and societal perspective. As these two dimensions have quite different dynamics, it is very important to understand the time dimension of the impact. Some elements of the SDGs can be aligned with short-term corporate objectives and others with a long-term business strategy. This will require performing careful tradeoffs along the time dimension of implementation. The effectiveness of the measures and what constitutes success also depend on various stakeholders' perspectives and expectations, which can be extremely difficult to capture properly.³⁸ In this context it is also important to capture the direct and indirect impact.

BOX 9: COMPLEXITY AND CRITICAL TRADEOFFS

- ▶ THE COMPLEXITY CHALLENGES AND ROBUSTNESS AND ACCURACY OF THE EXISTING MEASURES,
- ▶ LACK AND LIMITATIONS OF USER-FRIENDLY TOOLS AND THE COSTS OF IMPLEMENTATION FOR MEASURING IMPACT AND REPORTING,
- ▶ LINKS TO CORPORATE GOALS AND KEY PERFORMANCE INDICATORS (KPIs),
- ▶ STAKEHOLDERS EXPECTATIONS VS. REALITY OF BUSINESS MOTIVATIONS AND NEEDS,
- ▶ INDEPENDENCE OF ASSESSMENT,
- ▶ GLOBAL REPORTING INITIATIVE (GRI) VS. OTHER TOOLS, ETC.

Neglecting the indirect impact can lead to a very narrow, and in fact inaccurate understanding of the actual contribution a company has on meeting the SDGs. One can even argue that in many cases the substantive contribution to the SDGs will come from the private sector's "indirect impact". Box 9 summarizes the complexity and critical tradeoffs that need to be addressed in the context of SDGs' measuring impact and reporting.

³⁷ What is usually missing from many analyses is the fact that corporate impact can be classified in two categories, as direct and indirect impact. The private sector indirect impact comes through its contribution to growth, institutions, and policies. The direct impact comes through:

- The incomes and jobs it generates
- Products and services
- The opportunities it provides for increasing incomes through its marketing and purchasing arrangements, employment and training policies
- Its contribution to local communities through CSR, philanthropy, and the provision of social services and infrastructure, etc.

³⁸ For example, see the joint Unilever and Oxfam International report on the Unilever impact in Indonesia.

3. SDGs METHODOLOGY AS A SYSTEM

Based on Figure 5. SDGsM as a System, Figure 10 provides a more detailed visual representation of the central features of the SDGs Methodology. Each block is disaggregated into more fine-grained variables. The SDGsM Process of Engagement variables represent the core of the methodology, with variables of the other four blocks: the SDGsM Diamond, the SDGsM Business Case, the SDGsM Stages of Response to Pressures, and the SDGsM Stages of Engagement, represented as either critical contributors to or context and additional guidelines for the SDGsM Process of Engagement.

▶ **The SDGs Diamond** is an effective framework to address the complexity of the ecosystem, which covers four Core Elements: Good Governance and Rule of Law; Regulation, Competition, and Standards; Complementary SDGs Institutions; and Corporate Policies and Structure; and three main influencing factors: Globalization, Crises, and Changes in the Political and Macroeconomic Environment; Post-2015 Development Agenda and SDGs; and Government.

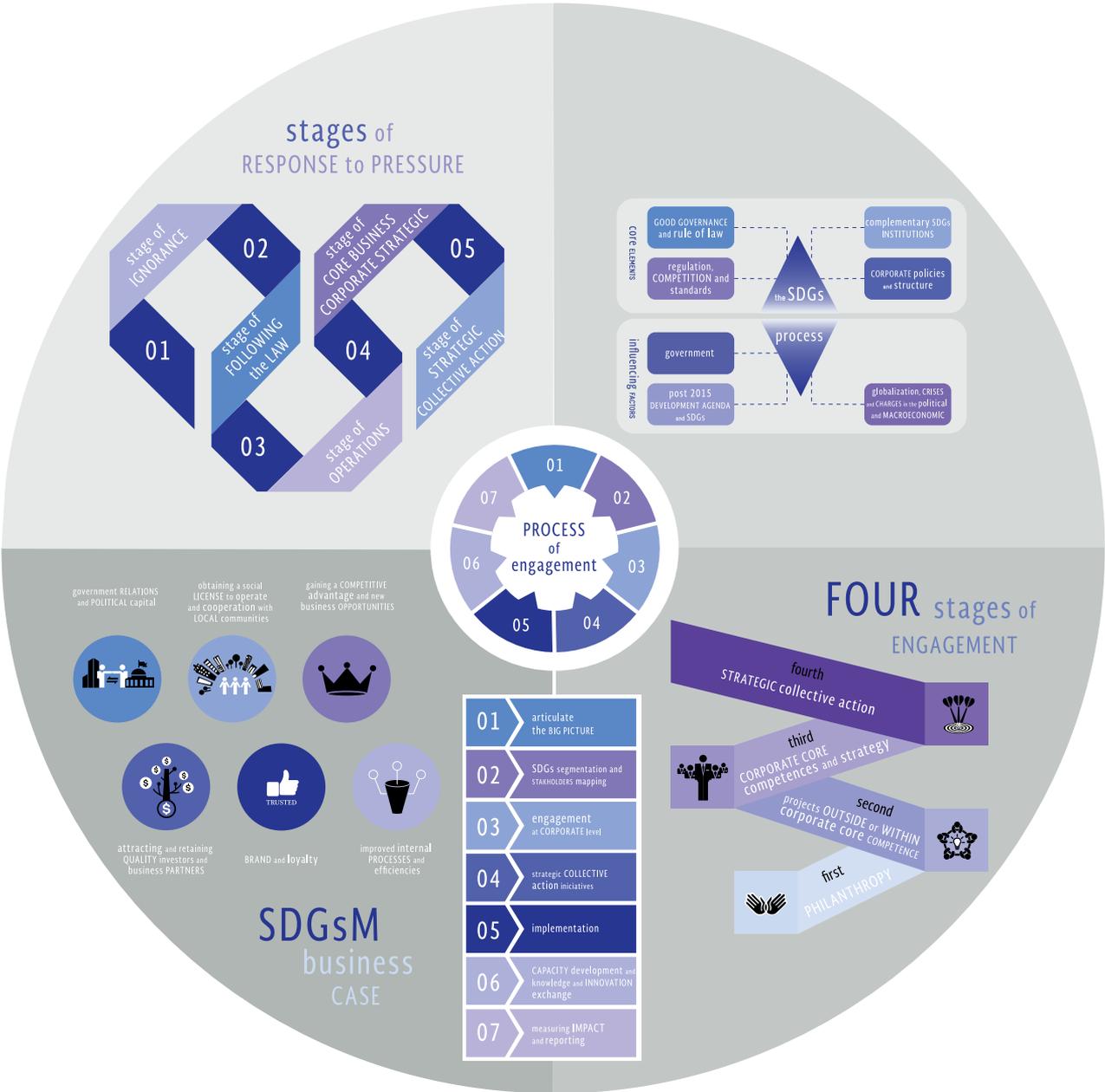
▶ **The SDGs Business Case** block provides a range of arguments that support the business case for the private sector engagement with the SDGs. These arguments are classified in six broader categories: Government relations and political capital; Obtaining a social license to operate and cooperation with local communities; Gaining a competitive advantage and new business opportunities; Attracting and retaining quality investors and business partners; Brand and loyalty; and Improved internal processes and efficiencies.

▶ **The SDGsM Stages of Response to Pressures** block introduces five stages: Stage of Ignorance; Stage of Following the Law; Stage of Operations; Stage of Core Business/Corporate Strategy; and Stage of Strategic Collective Action.

▶ **The SDGsM Stages of Engagement** block provides additional clarity by introducing four possible stages: Philanthropic approach; Projects outside or within corporate core competences; Integral part of corporate core competences and strategy; and Strategic Collective Action.

▶ **The SDGs Process of Engagement** is a highly interactive, nonlinear, and adaptive process. By utilizing this process and through multi-stakeholder engagement senior executives are in a position to develop adaptive implementation strategies that allow for mid-course corrections, experimentation, learning, and scaling up what works. Flexibility and adaptability are very important features of the process of engagement as many important elements will be better defined and new insights gained during the implementation. With considerable simplification the process can be represented as a cycle. Similar representation, also with considerable simplification, can be used for the Implementation, which is the fifth step in the Process of Engagement. The seven “sub-steps” of the Implementation step: Leadership, Leadership Team, and Tone from the Top; Vision and Strategy; Communicating Vision and Strategy; Broader Internal Support and

FIGURE 10 . THE SDGs METHODOLOGY AS A SYSTEM



Coalition; Balancing Short- vs. Long- Term Initiatives; Organizational Structure, Systems, and Policies; and Transforming the Organizational Culture can also be represented as a “reinforcement circle”.

As indicated, the five SDGsM blocks operate as one system. The first four blocks complement each other and provide critical insights and guidelines on how to more substantially and systematically shape the overall process of corporate engagement with the SDGs. The effectiveness of the SDGsM implementation and its impact depends on the way the five building blocks of the system function as a whole. What matters is the cumulative effect of all five blocks taken together. The functions performed by individual blocks and the way they interact with each other vary across SDGs and their targets, industries, among countries, and within a country. The main challenge is to provide consistency in the analysis and to get critical, additional insights from the first four blocks in order to inform the SDGsM Process of Engagement, so that a positive and lasting impact is effectively achieved.

3.1 A Company Specific Approach and Competitive Advantage

As mentioned, there is no “one size fits all” model for a company’s SDGs based strategy. Any approach needs to be context-specific and to take under consideration a company’s particular circumstances, its vision and mission, culture, and strategy; size, ownership and corporate governance structure, including the role of the board of directors; the industry; location; and the unique characteristics of the business ecosystem in which the company operates. Still, holistic and general principles could be devised to inform and guide companies in their engagement with the SDGs.

The SDGsM should be seen as a “practitioner’s approach” that can help to deal with the complexity of SDGs engagement. The aim of this paper is not to provide an over-structure methodology, but rather to come up with a more flexible and action-guiding methodology that provides executives and managers with assistance in utilizing various frameworks and tools. At the initial step, the methodology can assist executives in deconstructing the SDGs and the ways of engagement into more manageable pieces, and to develop a sequence of engagements that is flexible enough to allow for experimentation, necessary fine-tuning, and learning-by-doing in the process of implementation. The SDGsM provides a structure that allows companies to thoughtfully construct their own approach to SDGs engagement. It is up to the companies to make sure that SDGsM is worth more than the sum of the individual frameworks and tools.

The overall construct behind the SDGsM is not dependent on a company’s specific circumstances. However, the actual implementation, including the appropriate selection of various frameworks and tools, will be guided by a company’s unique circumstances and the characteristics of the business ecosystem. The multi-framework, multi-disciplinary, multi-stakeholder, and systematic approach aims to capture a good section of endless ways of possible corporate SDGs engagements and provide practical guidelines regarding the process, tools, stages, and mode of engagements.

The SDGsM takes a far more holistic approach than more traditional approaches that refer to corporate engagement in social and environmental issues such as “cost” to a company. The methodology is designed around the premise that addressing the SDGs is part of a corporate strategy aimed at improving and sustaining competitive advantage³⁹. Of course, sustainable competitiveness by its very nature assumes that a company

ⁱ As mentioned, one important premise is that corporate engagement in the SDGs is not philanthropy but rather a part of a corporate strategy aimed at improving and sustaining competitive advantage. It also recognizes the importance and potential positive impact of donations, grants, and philanthropy, if properly coordinated and implemented.

also shapes the external business ecosystem and thereby creates value for society. Without this value co-creation a company can't preserve its competitive position for a long time.

Can executives rely upon SDGsM to engage with the SDGs? Does the methodology provide sufficient guidance in the variety of cases likely to confront executives when engaging with the SDGs? The answers to these and similar questions very much depend on the selected SDGs, specific circumstances, the company's core competences, and the ecosystem in which the company operates. The SDGsM is not context-dependent and does not result in a specific stand-alone framework. The methodology can be used regardless of the context and can help executives develop context-specific guidelines. It is the executives' task to come up with company and context specific guidelines. It can help senior executives to execute upon the company's competitive advantage in search of opportunities presented by the SDGs. In the process, addressing the SDGs can create additional insights and opportunities to strengthen the corporate competitive advantage.

3.2 Utilization of the SDGsM

The SDGsM provides enough flexibility to fine-tune the design and the implementation of a corporate's SDGs related strategies to specific circumstances and the needs of the relevant stakeholders. If properly grafted and implemented SDGsM can:

- ▶ **Allow companies to more systematically assess the efficiency of the internal processes, organizational structures, and the business ecosystem and the way they affect the outcomes of the SDGs related activities;**
- ▶ **Offer a complementary approach for companies to strengthen their competitive position;**
- ▶ **Provide a base to map the main SDGs related initiatives taking under consideration the role of governments, the private sector, and other relevant stakeholders, including multilateral development organizations, cooperation agencies, donors, foundations, and NGOs and better utilize the resources and implementation capabilities of the key stakeholders and the potential power of strategic collective action for value co-creation; and**
- ▶ **Be used to more systematically identify capacity gaps and recommend specific initiatives for capacity development and knowledge and innovation exchange.**

As mentioned, in no way is the SDGsM a replacement for corporate strategy but can rather provide critical insights and guidelines on how to better adjust the strategy for the Post-2015 reality. Companies and their stakeholders need more holistic and at the same time practical approaches. The SDGsM offers possibilities as it is specifically designed to provide relevant and practical guidance. This is work in progress and the SDGsM will be constantly updated based on the experience and lessons learned through testing the main ideas in practice – a kind of open source approach.

3.3 Mini Case Studies

Several practical example and cases are used to illustrate how the SDGsM, rather than a framework alone, can better equip senior executives to engage with the SDGs as part of their corporate strategy. (See Appendix 1 and 2)

4. CONSULTATION PROCESS AND LOOKING AHEAD

The grafting of the SDGsM has been based on:

- ▶ **The development community's lessons learned from implementation and best practices of effective corporate engagement in addressing social and environmental issues, including the MDGs;**
- ▶ **Rich academic management literature on this subject;**
- ▶ **Interviews with various stakeholders (primarily from the private sector), donor agencies, multilateral development banks (such as the World Bank) and international development organizations (such as IOE); and**
- ▶ **The recommendations from the international conference "Living a New Global Partnership – The Post-2015 Development Agenda and Private Sector Engagement", 27-28 April 2015, Mexico City.**

Relatively recently, the private sector has gained recognition as a key actor in the development cooperation industry as companies have started to design sound instruments, strategies, and methodologies to engage in international development. This process has not been necessarily easy and in many cases companies have been pressured and motivated to make innovative institutional and partnership arrangements in order to adapt new social responsibility approaches.

As the Post-2015 Development Agenda, SDGs, and the Financing for Development (FfD) negotiations gain momentum, numerous opportunities have been created for the private sector to engage in the ongoing discussions, both in substance and by bringing ideas on how to fulfill the new commitments. The FfD and SDGs documents will set the stage for action; once the documents are approved, an in-depth analysis should be conducted by the private sector to identify areas of engagement and cooperation. In this respect, the SDGs Methodology can provide a good starting point to inform and guide the design and implementation process.

After a long process of consultations and grafting the Post-2015 Development Agenda, stakeholders around the world have had some kind of exposure to the SDGs. However, a more focused and structured strategy to disseminate information on the SDGs and how to engage with them is needed. As mentioned, the SDGsM is drawn from practitioners/professional and research experiences - the business cases featured in Appendix 1 and 2 describe examples of how to use the methodology for particular SDGs. As part of the dissemination process, additional case studies and pilot projects are needed to illustrate the implementability of the SDGs methodology and how to utilize it in engaging with specific SDGs in light of given circumstances on the ground.

The comprehensive approach of the SDGs Methodology allows for engaging with different stakeholders, including academia. Business schools have contributed to educate professionals that work for and advocate the private sector's involvement in development. They have also conducted in-depth research and produced the vast majority of literature on understanding the role of the private sector. Particularly, business schools can engage with companies to develop case studies based on SDGsM implementation in practice and help to

disseminate the learnings and best practices with other stakeholders, including small and medium enterprises, civil society, and development organizations.

In international cooperation, governmental development agencies are the major public institutions that engage with the private sector. This collaboration goes beyond public-private partnerships; it involves innovative approaches to better respond to complex global challenges. In this regard, agencies from developed countries have already gained robust experiences, whereas agencies from middle-income countries have an evolving relationship with the private sector. In both cases, the use of the SDGs Methodology can inform and facilitate the Post-2015 implementation process.

The fine-tuning and the implementation of the Post-2015 Development Agenda provide an excellent opportunity to test, utilize, and adjust the SDGs Methodology to specific needs. It complements other approaches and can assist companies and other key stakeholders by engaging them with SDGs beyond traditional schemes and partnerships.

APPENDIX 1: A BUSINESS CASE FOR ENGAGING WITH SUSTAINABLE DEVELOPMENT GOAL 2

Background: The Complexity of the Business Case

The complexity of describing the business case for engagement with the SDGs, even with those that are more “focused and business friendly”, can be illustrated through SDG 2, see Box 10.

BOX 10. SDG 2 AND TARGETS

SDG 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

2.a Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries

2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round

2.c Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility, end hunger, achieve food security and improved nutrition and promote sustainable agriculture

2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons

2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

2.5 By 2020, maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and ensure access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed upon

Some of the key elements that illustrate this complexity include:

▶ In many countries, governments should play a much more instrumental role in supporting businesses to more actively engage in contributing to the SDG 2. For example, in the case of the Democratic Republic of Congo, the leadership role and direct engagement of the Prime Minister and his office have been instrumental in putting agriculture and agribusiness at the top of country's development agenda and supporting the continuing progress in the grafting and implementing the Agro Business Parks Initiative.ⁱⁱ These steps have considerably strengthened the business case for companies to consider doing business in the Agro Business parks, thus more substantially contributing to the SDG2.

▶ Engaging in the SDG 2 is primarily a collaborative process that builds on relationships between business, government, and development partners and is heavily impacted by many influencer stakeholders. Strategic Collective Action initiatives are promising vehicles for addressing complex problems such as malnutrition through innovative partnerships. A good example is the Business Alliance for the Global Alliance for Improved Nutrition (GAIN).ⁱⁱⁱ

▶ Some components of the SDG 2 can be aligned with short-term corporate objectives and others with long-term business strategies. Balancing the engagement requires careful tradeoffs along the time dimension of implementation in order to add value in advancing solutions to help meet the SDG 2.

▶ Measuring impact of complex and holistic goals, such as SDG 2, requires properly capturing the economic and social dimensions from both the business and society perspective. The effectiveness of the measures and what constitutes success also depend on the stakeholders' perspectives and expectations, which can be extremely difficult to capture properly and which also influence the business case.

▶ Companies can provide additional support to SDG 2 by engaging with various multilateral organizations and development agencies, whose policies and recommendations directly or indirectly influence the business case. One example are the UN Global Compact Food and Agriculture Business Principles (FABPs). Companies can also make major contributions by engaging business associations, for example, the WBCSD Vision 2050, and Action 2020. Although not explicitly framed in the SDGs language, these initiatives are supportive of the SDG 2. Several companies are actively involved in these initiatives with agro, water, and ecosystem services, and other work streams with direct relevance to achieving food security and improved nutrition, and promoting sustainable agriculture. There are many other initiatives and programs supportive of sustainable agriculture like Feed the Future with USAID.^{iv} Capturing and measuring the impact of this kind of initiatives and the way they impact the business case can be extremely challenging.

ⁱⁱ For more details see: Goldberg Ray, Knoop Carin-Isabel, and Petkoski Djordjija (2013).

ⁱⁱⁱ For more details see: Goldberg Ray and Herman Kerry (2008). Goldberg, R. A., Petkoski, D., Herman, K. (2009).

^{iv} For more details see: <http://www.feedthefuture.gov/model/usaaid-and-pepsico> (This initiative supports Goal #2 around food security)

▶ Companies can also engage in initiatives that are focused on the critical importance of advancing academic research applied to achieving food security and improved nutrition, and promoting sustainable agriculture. It may take decades to fully appreciate the real impact of these kinds of engagements on the SDG 2. Making a business case for corporate engagement with these kinds of initiatives is quite a complex task.

▶ Many of the activities that companies do as an integral part of their core business and which are supportive of the SDG 2 are not necessarily explicitly framed within this goal. This creates additional challenges on “documenting” the corporate contribution to the SDG 2.

▶ Progress in SDG 2 is also helping achieving SDG 1. (*End poverty in all its forms everywhere*). At the same time progress in SDG 6 (*Ensure availability and sustainable management of water and sanitation for all*) and Goal 7 (*Ensure access to affordable, reliable, sustainable and modern energy for all*) can have major impact on SDG 2. It is extremely challenging to properly capture this complex net of interconnections and interdependences and make a business case based just on one SDG; and this is exactly what is happening in practice. Progressive companies will not justify their engagement base on a business case related to one or two SDGs, but will rather take under consideration their vision, business policy and corporate strategy.

Business Case for Engaging in SDG 2

▶ I. GOVERNMENT RELATIONS AND POLITICAL CAPITAL

This set of arguments can be analyzed from three perspectives.

▶ **Government support:** Responsible engagement in SDG 2 can bring strong support from governments as ending hunger, achieving food security and improving nutrition, and promoting sustainable agriculture are high on their priority agenda. As mentioned, in the case of the Democratic Republic of Congo, the leadership role and direct engagement of the Prime Minister and his office has been instrumental in creating the Agro Business Parks.^v Companies have been benefiting a lot from this kind of government support that is coming through the provision of initial financial capital and physical infrastructure, addressing the issue of land ownership, direct support of smallholder farmers and local communities, etc. This considerably reduces the uncertainty and risk of the private sector engagement.

▶ **Building political capital:** Responsible and sustainable engagement with communities and local smallholder farmers in particular, who in many emerging economies are the majority of the population, helps companies not only improve the relationship with the current government but also avoid corruption pressures^{vi} and “being captured by the government”. In addition, companies build broad based political capital and thus reduce potential risks brought on by changes in the government.

▶ **Reducing regulatory oversight by working closely with regulatory agencies to meet or exceed guidelines.** A better understanding of the reality on the ground also helps companies to support progressive institutional changes, including laws and regulations.^{vii}

^v For more details see: Goldberg Ray, Knoop Carin-Isabel, and Petkoski Djordjija (2013).

^{vi} Even the biggest and most sophisticated companies can miss efforts to proactively deal with corruption. For an illustration see: Hearly, P. & Petkoski, D. (2012).

^{vii} For the importance of institutions see: Sen, A. (1993)

▶ II. OBTAINING A SOCIAL LICENSE TO OPERATE AND COOPERATION WITH LOCAL COMMUNITIES

This includes several dimensions:

- ▶ ***Obtaining a social license to operate***^{viii} both from broader society as well as local communities. In the case of the SDG 2 it is particularly important to build relationships and get support from local and very often smallholder farmers.
- ▶ ***Cooperation with local communities*** that can be approached as producers, consumers and clients, helps build trust and social cohesion.^{ix} In the context of the SDG 2 it is important to put an emphasis on job creation and integrating local producers into supply chains of bigger companies.
- ▶ ***Building strong community relationships with organizations and agencies that can provide technical expertise.*** Engaging local NGOs^x and small businesses can be very beneficial for the company, as presence on the ground and local partnerships are critical in recognizing and utilizing new opportunities and getting local support.
- ▶ ***Risk Management: Avoiding crisis due to social and environmental misconduct.*** Understanding local circumstances, values and tradition are critical ingredients in reducing risk due to “cultural difference”.^{xii} Furthermore, engaging with low-income people, particularly with local communities and smallholder farmers, not only as consumers but also producers, reduces the risk of social and environmental misconduct^{xii}. Securing safe working conditions and fair salaries and prices are also very important in reducing risk.^{xiii}

▶ III. GAINING COMPETITIVE ADVANTAGE AND NEW BUSINESS OPPORTUNITIES

This can be analyzed along three dimensions:

- ▶ ***Gaining a competitive advantage*** over competitors with limited experience in engaging in frontier markets, particularly with low-income consumers and producers. Furthermore, Business-to-Business (B2B) companies can better position themselves for value co-creating opportunities with their partners.^{xiv}
- ▶ ***Sustainable competitiveness***, through longer-term business engagement with low-income consumers and producers, such as smallholder farmers.^{xv}

^{viii} For more information on stakeholder engagement see: Donaldson and Dunfee, T. (2000) and R. Edward Freeman (2007).

^{ix} For more details about this important segmentation see: V. Rangan, M. Chu, D. Petkoski (2011) and Petkoski, D., Kasturi, R. V. & Laufer, W. (2008).

^x For an example of a productive engagement with a local NGO see: Petkoski D. (2014).

^{xi} See for example: Donaldson, Thomas (1996).

^{xii} For additional insights see: Aneel Karnani (2007).

^{xiii} See for example: Spar Debora L. (2002).

^{xiv} For example, responsible vanilla sourcing program in Uganda has helped Firmenich to further strengthen its relationship with business partners/clients including big retailers.

^{xv} For example, the responsible and less risky sourcing program in Uganda has allowed Firmenich access to high quality vanilla and thus winning over its competitors.

▶ ***Innovation and creating new business opportunities*** often do not come exclusively from innovations in technology but also through innovative partnerships^{xvi} and engagements with low-income consumers, producers, and smallholder farmers.^{xvii}

▶ IV. Attracting and retaining quality investors and business partners

This can be achieved in two ways:

▶ ***Attracting and retaining quality investors***: As many investors are becoming more demanding of sound social and business practices, as a way of managing risk, responsible sourcing is just one example of corporate benefits from addressing the SDG 2.

▶ ***Attracting and retaining quality business partners***: As mentioned, this is particularly relevant in addressing complex problems such as dealing with malnutrition,^{xviii} as well as for B2B companies that can take a leadership role in the industry by being proactive at an early stage of engagement in the SDG 2.^{xix}

▶ V. Brand and Loyalty

There are several benefits of enhanced brands and loyalty.

▶ ***Re-legitimize business***: Building a strong corporate reputation, image, trust, and legitimacy; and strengthening brand positioning: Enhancing and protecting brands, can be supported through engaging with the SDG 2 as it touches upon important issues such as ending hunger, achieving food security and improving nutrition, and promoting sustainable agriculture.

▶ ***Seeking win-win outcomes through synergistic value creation*** can be supported through innovative engagements with local communities including smallholder farmers.

▶ ***Increased sales and consumer loyalty*** can be strengthened through responsible sourcing, fair wages for low-income producers, and fair prices for their products and provisioning of basic social services,^{xx} often through innovative partnerships.

▶ VI. Improved internal processes and efficiencies

This can be analyzed along four dimensions:

▶ ***More efficient operations*** through improved efficiency along the supply chain.

▶ ***Reducing operating costs*** that are supported by highly motivated and satisfied employees and suppliers.

▶ ***Improved financial performance*** can be achieved through efficiencies in operations and satisfied employees, suppliers and consumers.

▶ ***Increased ability to attract and retain quality employees***, through elaborate social and environmental strategies. This can result in important benefits for the companies.

^{xvi} Strategic Collective Action is a useful framework for multi-stakeholder engagement. See: Petkoski, D., Warren D. & Laufer, W. (2010).

^{xvii} For an example of innovations coming from engagements with local consumers in India see: Petkoski D. (2014).

^{xviii} For more details see: Goldberg Ray and Herman Kerry (2008) and Goldberg Ray, Knoop Carin-Isabel, and Petkoski Djordjija (2009).

^{xix} For an example see: Petkoski D. (2015).

^{xx} Idem.

APPENDIX 2: THE SDGS METHODOLOGY IN PRACTICE, SDG 2

A Mini Case Study:

Firmenich and Danida in Uganda: Sustainable Vanilla Sourcing through an Innovative Partnershipⁱ

This mini case study aims to illustrate some of the main features of the SDGsM when applied to corporate engagement with issues related to SDG 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

A SDGs Methodology: The Process of Engagement

▶ 1. ARTICULATING THE BIG PICTURE

▶ *a. Global:* around the MDGs, the Post-2015 Development Agenda, and SDGs;

Firmenich's engagement in Uganda was "informed" by a number of issues related to MDG 1: Eradicate extreme poverty and hunger; MDG 3. Promote gender equality and empower women; MDG 6. Combat HIV/AIDS, malaria and other diseases; MDG 7. Ensure environmental sustainability; and MDG 8. Develop a global partnership for development.^{lix} These issues are now directly related to the SDG 2.

▶ *b. National and Subnational:* utilizing national and subnational sustainable development and Post-2015 priorities;

Firmenich, in collaboration with Danida, the Danish Development Agency, was well informed about Uganda's national development priorities, including agricultural strategy. Danida has already been working with the government of Uganda for several decades.

▶ *c. Geographical location, cities, economic zones, clusters, etc.;*

The focus of engagement was on those locations in Uganda where vanilla is produced and where part of Firmenich's supply chain is located.

▶ *d. Supply Chain;*

Firmenich's main focus has been on building a sustainable and responsible vanilla supply chain as part of its core business.

▶ *e. SMEs Engagement;*

One of the key success factors of the Uganda program has been a very productive cooperation with the local private company Uvan.

ⁱ At the time when Firmenich launched its program in Uganda there was no mention of the "new MDGs", the SDGs.

▶ 2. SDGS SEGMENTATION AND STAKEHOLDERS MAPPING

Stakeholders mapping should be performed along two dimensions:

▶ 2.1 *Segmentation of specific SDGs and issues to be addressed;*

The “segmentation” was driven by those economic, social, and environmental issues that were of critical importance to the overall success of Firmenich’s vanilla program in Uganda. Many of these social and environmental issues are related to the SDG 2. Therefore, a continuing success of the Uganda project will have strongly contribute to SDG 2 (as well as several other related SDGs) in Uganda.

▶ 2.2 *Analysis of core competences, interest, and available resources of each stakeholder*

Among the first steps that Firmenich took were to identify the key stakeholders, including Danida, Uvan, the government, smallholder vanilla producers, and local communities, and to develop and implement an innovative strategy for engagement.

▶ 3. ENGAGEMENT AT THE CORPORATE LEVEL

The program in Uganda has focused on activities at the company’s corporate level as well as those delivered in partnership with the key stakeholders. (See below Step 4. Strategic Collective Action Initiatives). Depending on the company, and in the context of “localization and contextualization”, there are a number of issues that need to be taken under consideration, including,

▶ a. *Compliance with regulations, hard and soft law, and standards;*

Firmenich’s core business and competences are based on Firmenich’s Fundamentals,ⁱⁱ and they help to make sure that there is compliance with regulations, hard and soft law and standards.

▶ b. *Moving from philanthropy to corporate strategy;*

The partnership with Danida also helped Firmenich better define those activities^{lx} that were not directly related to vanilla production. These activities were more of a philanthropic character compared to the other activities that were part of Firmenich’s core business, such as direct support of and sourcing from smallholder vanilla farmers.

▶ c. *Moving from project based to core business engagement;*

The overall program was part of Firmenich’s core business although some activities, such as HIV/AIDs and malaria prevention, were based on specific projects. In other words, although the main focus has been on Stage 3 and 4 of the SDGs Stages of Engagement, Firmenich has also been active in Stage 1 and 2.

▶ d. *Going beyond an overfocus on “win-win” projects and more systematically analyzing the “non win-win” situations to identify and include a broader range of the SDGs targets into the decision making process;*

Not all activities immediately resulted in win-win opportunities for Firmenich and its partners. For example, Uvan, the local business partner, was not fully convinced that the services provided to local communities that

ⁱⁱ Such as provision of social services, including combating HIV/AIDS and malaria, to local communities.

were not engaged in vanilla production, would lead to immediate financial rewards. The local business partner was also concerned about the “free ride” benefits through the provision of these services for its competitors.

- ▶ *e. Upgrading and leveraging production processes and reconceiving new products and markets;*

The very engagement in Uganda was driven by Firmenich’s need to reduce the risk of relying too heavily on vanilla sourcing from Madagascar and to open new, alternative supplies from another country.

- ▶ *f. Leveraging and readdressing sustainability and productivity along the supply and value chains;*

This resulted in developing, testing, and implementing a new supply chain strategy leading to sustainable and responsible sourcing of high quality vanilla.

- ▶ *g. Engagement in Strategic Collective Action initiatives, including a search for industry wide solutions, etc.*

Firmenich employed an innovative partnership strategy with Danida and Uvan. This is an example of a successful partnership between a private company and development/aid agency.

▶ 4. STRATEGIC COLLECTIVE ACTION INITIATIVES

The main features of SCA engagement include:

- ▶ *a. Focus on SDGs’ collective action that requires changes in the way various stakeholders engage with each other. This is about transformative collaboration that affects both the internal and external ways of engagement with each stakeholder.*

This was a transformative collaboration that affected both the internal and external ways of Firmenich’s engagement with Danida, Uvan, local farmers and communities - the key stakeholders.

- ▶ *b. Dynamic way of engagement that allows for more productive utilization of core competences, motivation, and self-interest of each stakeholder at a given point of time.*

The well-grafted and implemented partnership has resulted in very tangible benefits for all those involved in the SCA initiative; for more details see below: 7. Measuring Impact and Reporting. Bringing together nontraditional partners to be part of the value co-creation process and their involvement has provided Firmenich with additional insights and opportunities for innovation. This helped Firmenich to:

- ▶ Develop a shared understanding of the MDGs’ main challenges and opportunities,
- ▶ Develop a deeper understanding of what matters to diverse stakeholders and facilitate the process of entering into strategic dialogues,
Marshal critical resources and obtain timely value co-creation decisions leading to possible “win win” and acceptable “non win-win” outcomes,

▶ 5. IMPLEMENTATION

The following seven steps can describe the implementation of the project in Uganda:

▶ **5.1 Leadership, Leadership Team, and Tone from the Top.** The initiative received upfront support from Firmenich's top executives. The Tone from the Top helped to quickly develop a sense of urgency and to quickly move forward with the program. It also secured a strong presence on the ground and Firmenich's ownership of the implementation. The project was not outsourced to others.

▶ **5.2 Vision and Strategy.** The "Firmenich Fundamentals", the utilization of its core competences, and clearly defined corporate strategy have been critical for the overall success of the initiative.

▶ **5.3 Communicating Vision and Strategy.** The connection between the initiative and Firmenich's vision, strategy and core business was clearly communicated across the company and its partners and clients.

▶ **5.4 Broader Internal Support and Coalition.** Clear communication helped to secure a "buy-in" across the company. This also encouraged experimentation, risk taking, and testing nontraditional ideas and actions.

▶ **5.5 Balancing Short- vs. Long-Term Initiatives.** The "Firmenich Fundamentals" have provided critical guidelines in balancing short- vs. long-term activities. The top executives have also made sure to adequately recognize and reward those who made the project possible.

▶ **5.6 Organizational Structure, Systems, and Policies.** The implementation of the program in Uganda had a broader impact on Firmenich's organizational structure, systems, and policies. For example, it included the reorganization of the Vanilla Department, making the department better positioned to deal with similar initiatives globally.

▶ **5.7 Transforming the Organizational Culture.** The program in Uganda further reinforced an already strong corporate culture based on the "Firmenich Fundamentals".

▶ 6. CAPACITY DEVELOPMENT AND KNOWLEDGE AND INNOVATION EXCHANGE

The implementation of the program in Uganda has supported internal learning and capacity development across Firmenich. All relevant departments, including those responsible for activities outside the Africa region, had opportunities to benefit from the lessons learned in Uganda.

In designing and implementing the vanilla program in Uganda, Firmenich took full advantage of its experience and lessons learned while engaging local consumers and NGOs in Indiaⁱⁱⁱ. The experience from Uganda was captured by a case study that has helped, which was disseminated internally and externally. Furthermore, the lessons learned were shared with Firmenich's key partners and clients at a Firmenich event in Agro Food Park, Aarhus, Denmark, on August 21, 2014.

▶ 7. MEASURING IMPACT AND REPORTING

Firmenich did not develop separate measures to assess the impact on any of the MDGs. However, Firmenich was fully aware that measuring the impact of this kind of complex and holistic program requires properly

capturing the economic and social dimensions from both the business and society perspective and perspectives and expectations from the stakeholders. Firmenich has assessed the impact on the company as well as on the key stakeholders: Local Farmers and Community; Danida; Uvan; NGOs; and the Government of Uganda.ⁱⁱⁱ Firmenich has managed to reduce the risk of relying too heavily on vanilla sourcing from Madagascar. Uvan expanded its vanilla business by engaging farmers in a more holistic way. Danida supported a commercially oriented partnership between global and local businesses in order to help mitigate some of the risks inherent in the pursuit of new business opportunities in developing countries. From the local farmers' perspective, the program was very successful as approximately 4,400 farmers improved their vanilla and alternative crops production.^{iv} The extension services, provision of seeds to farmers, and close monitoring of the production led to consistent delivery of premium quality beans. At the same time, the project has improved the livelihood of the local community by addressing priority health, gender, environment, and financial issues.^v The main results were regularly reported in Firmenich's Annual Sustainability Report.

ⁱⁱⁱ For a more detailed description of the partnership between Firmenich and Danida in Uganda see: Petkoski D. (2015). Below is the abstract of the case study:

It's been over seven years since a strategic partnership was established between Firmenich, a leader in the flavour and fragrance industry and one of the world's largest buyers of sustainable vanilla; DANIDA, the development arm of the Danish Government; and Uvan Ltd., Uganda's local vanilla processor. This partnership, rooted in the core competences of each partner, aimed to create a sustainable supply of Ugandan vanilla. The partners believed there was a great opportunity in Uganda to establish and secure long-term and high-quality vanilla production, and in turn create a better business for everyone involved. Firmenich was trying to reduce the risk of relying too heavily on vanilla imports from Madagascar. Uvan wanted to expand its vanilla business by engaging farmers in a more holistic way. DANIDA saw an opportunity to support commercially oriented partnerships between global and local businesses in order to mitigate some of the risks inherent in the pursuit of new business opportunities in developing countries. While the initiative has clear commercial objectives, it also has strong social and environmental goals. Moving forward, each partner has been considering how to best utilize the main learnings from this initiative to further improve its core competences and business model, strengthen its reputation, and share the experience with other business and development actors. The partners have been exploring how to develop innovative models for strategic partnerships between donor agencies, global, and local businesses with support from NGOs. These models can also provide an important contribution to the ongoing global debate on the Post-2015 Development Agenda and Sustainable Development Goals. The forthcoming event in AgroFoodPark, Aarhus, Denmark is an opportunity for the partners to compare notes and agree on the next steps.

When I set out to lead Firmenich, my vision was to keep our unique spirit of creativity and innovation alive, while operating according to the highest standards of governance and ethics. The project in Uganda is just one example of the implementation of this vision in practice. The innovative partnership initiative has been about sustainable vanilla production and bringing shared prosperity on the ground through sustainable business models. We wanted communities to be positively impacted, we wanted to grow business and we wanted to meet the demand of global consumers. It has also been a real discovery of Uganda and its potential.

Patrick Firmenich, CEO, Aarhus, September 2014.

^{iv} Firmenich's Fundamentals:

CLIENTS: We fragrance and flavor our clients' products for our mutual success.

PEOPLE: People are the heart of our Company. They are recognized for their passion, talent and integrity.

CREATIVITY: Creativity is our essence.

SUSTAINABILITY: Our sense of individual and collective responsibility ensures our long-term success.

^v 6,500 anti-malarial bed net have been distributed. 3,549 farmers benefited from HIV prevention, counseling and care through 24 specially designed workshops. \$199,000 has been cumulatively saved by a total of 4,880 members of the VSLAs. 70% of VSLA members are female; this effort has contributed significantly to the financial empowerment of women in the communities.

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While at the World Bank, he managed over 340 global projects and was the founding member of the team that led the World Bank privatization and corporate restructuring programs in Eastern Europe, Former Soviet Union, Africa, and China. Petkoski led the design and delivery of, and lectured at nearly 30 executive development programs. He launched and led the Business Lead Collective Action against Corruption international consortium of organizations and companies and Middle East and Northern Africa and Africa Responsible Business Networks.

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