Private Sector Promotion (SMEDSEP) Program

Strategic Corporate Social Responsibility Initiatives for Large Firms

Improving the Competitiveness of Micro, Small, and Medium Enterprises
April 2011

commissioned by

Federal Ministry
for Economic Cooperation
and Development

DEPARTMENT OF
TRADE & INDUSTRY
PHILIPPINES

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Commissioned by
Private Sector Cooperation
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH
on behalf of the
German Federal Ministry for Economic Cooperation
and Development (BMZ)

Publisher
Private Sector Promotion Program
PSP SMEDSEP
smedsep.ph

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Acronyms

A2F	Access to Finance
A2M	Access to Markets
ASEAN	Association of Southeast Asian Nations
BIEE	Business and Investment Enabling Environment
BMO	Business Membership Organization
BOP	Bottom of the Pyramid
BOW	Business on Wheels
BSO	Business Support Organizations
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
DAHON	Dangal at Hanapbuhay para sa Nayon
DTI	Department of Trade and Industry
EBESE	ECOP's Big Enterprise-Small Enterprise
ECOP	Employers Confederation of the Philippines
FINEX	Financial Executives Institute of the Philippines
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
IT	Information Technology
JFC	Jollibee Foods Corporation
JIT	Just In Time
KPSB	*Kabuhayan Para sa Barangay*
LCF	League of Corporate Foundations
MAO	Municipal Agricultural Office
MBC	Makati Business Club
MDG	Millennium Development Goals
MDP	Micro Distributorship Program
MNC	Multinational Corporation
MOVE	Matching Opportunities, Ventures and Exchanges
MSME	Micro, Small, and Medium Enterprises
MTPDP	Medium-Term Philippine Development Plan
MWC	Manila Water Company
NGO	Non-Government Organization
NLDC	National Livelihood Development Corporation
NSMED	National Small and Medium Enterprises Development
P&E	Productivity and Efficiency
PBSP	Philippine Business for Social Progress
PCCI	Philippine Chamber of Commerce and Industry
R&D	Research and Development
RA	Republic Act
SME	Small and Medium Enterprises
SMED	Small and Medium Enterprises Development
TPSB	*Tubig Para Sa Barangay*
UNIDO	United Nations Industrial Development Organization

STRATEGIC CORPORATE SOCIAL RESPONSIBILITY INITIATIVES FOR LARGE FIRMS: IMPROVING THE COMPETITIVENESS OF MICRO, SMALL AND MEDIUM ENTERPRISES

Executive Summary

Corporate Social Responsibility (CSR) can improve the competitiveness of Micro, Small and Medium Enterprises (MSMEs). Society's expectations for private companies to manage their societal and environmental impacts and to be involved in addressing public concerns have increased over the years. Through their CSR initiatives and their core business activities, private companies attempt to meet these societal expectations, highlighting their importance as development actors. More companies are encouraged to adopt CSR initiatives for MSME development.

Through Strategic CSR initiatives that focus on societal and business benefits, some large firms partnered with community groups as well as with micro and small enterprises in the procurement of raw materials, production of goods for exports, distribution of products, and other aspects of their value chain. The government recognizes that encouraging the private sector to contribute to MSME development is an important policy direction. However, companies have a wide range of CSR initiatives to consider. For example, education, livelihood and health are well-publicized national needs that management and shareholders of firms can respond to. Although companies may deal with smaller enterprises, for instance, in their supply chains, there is no strong motivation to undertake CSR initiatives in this direction. The national government can, therefore, inform and engage firms towards assisting MSMEs—as is the case in microfinancing. The Philippines has "Go Negosyo" focusing on small-scale entrepreneurship and Thailand has the Office of Small and Medium Enterprise Development (OSMED).

In the Philippines, many large firms are leading CSR practitioners but only a few are engaged in Strategic CSR. The main type of CSR among companies, and also among business support organizations (BSOs) and government agencies, is corporate philanthropy focusing on the areas of education, health and livelihood programs. Many large local firms practice CSR initiatives. However, family firms undertake corporate philanthropy because it is a simple unilateral transaction (of cash) and it requires fewer resources (i.e., manpower, time and money). In the Philippines, because of the strong religious culture, charity is the preferred option of firms in conducting CSR.

Value chain relationships that go beyond the traditional buyer-seller contracts are potential platforms for MSME development. Market pressure for environmentally and socially sound business practices and the CSR consciousness of firm managers primarily emanate from export-oriented firms that face demanding and sophisticated customers. The latter have influenced the implementation of MSME development initiatives in the value chain. To mitigate the risks in working with MSMEs as suppliers and business partners, some large firms educate MSMEs about their business standards and assist them in meeting these standards. To contribute to local development, large firms integrate MSMEs in their supply chain as their suppliers and distributors.

To optimize the contributions of large companies to MSME development, there is a need to create a conducive policy and business environment for large firm involvement in MSME development initiatives. Government agencies and BSOs are critical players in the design and implementation of support programs for increasing the participation and capacity of large firms in implementing MSME development initiatives.

1. Introduction

Project Background

The Asian Institute of Management – Ramon V. del Rosario, Sr. Center for Corporate Social Responsibility (RVR Center) carried out an exploratory study that was commissioned by **the Private Sector Cooperation Unit of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH** on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) on the question of how to harness the resources of large companies to develop MSMEs.

The study involved literature review, documentary research, and interviews with key stakeholders from business support organizations, MSMEs and government agencies. Forty organizations across the private and public sectors, and civil society participated in the interviews. The study analyzed qualitative data gathered in the course of the research and consolidated the data into this report and into the accompanying annexes. These research outputs are expected to assist government and business to develop the capability to undertake strategic CSR in the Philippines.

Research Objectives

The study had the following key research objectives:

- To identify the key strategies to increase the participation of large firms to improve the competitiveness of MSMEs;
- To generate recommendations to encourage large firms to increase their Strategic CSR initiatives towards MSME development; and
- To generate inputs for the design, implementation, and evaluation of Strategic CSR programs in MSME development of large firms.

Organization of the Reports

This volume is the main report and it summarizes and highlights the significant findings of the research. The Annexes contain the supporting input documents.

- Section 1 provides an overview of the project and presents its objectives.
- Section 2 contains a discussion of the concepts underlying CSR.
- Sections 3 and 4 cover Strategic CSR as a concept and within the development.
- Section 5 threads the previous section together with the application of Strategic CSR in MSME development.
- Section 6 expounds on the Philippine scenario and enumerates the challenges in promoting Strategic CSR as a tool for MSME development in the country.
- Section 7 is a proposed operational framework on how to design, implement and evaluate initiatives in the field.
- Section 8 is a discussion on the state of Strategic CSR and a series of examples.
- Sections 9 and 10 offers recommendations for promoting Strategic CSR among large firms and MSMEs in the Philippines.

2. Corporate Social Responsibility

Concepts and Definitions of Corporate Social Responsibility

A response to government deficits. A growing number of societies and institutions practice CSR because governments by themselves cannot handle the social challenges that include rising poverty, widening income gap inequalities amid economic growth, weak education and health systems, and even global climate change. The government's inability to provide public goods due to strained financial and administrative capacities has prompted the private sector to address major economic, social and environmental issues. The government and civil society must harness the capabilities of the business sector in order to address many constraints and growing societal concerns. Both market failure and government's inability to efficiently provide public goods undermine the long term competitiveness and sustainability of societies and businesses, hence, the emergence of CSR.

A way of doing business. In general terms, CSR is used to "refer to a mode of business engagement and value creation, allowing to meet and even exceed legal, ethical, and public societal expectations and acting in a manner that respects the legitimate goals and demands of all stakeholders."[1]

CSR comprises the economic, legal, moral, and philanthropic responsibilities of the firm.[2] Part of a firm's social responsibility is to remain profitable, to generate and sustain employment, and to create products and services that address the wants and needs of society. These initiatives represent necessary but not sufficient conditions to build Strategic CSR. A firm that helps communities but does not pay taxes does not have the spirit of Strategic CSR.

The moral obligation of firms entails doing what is right particularly for the society that hosts its business operations. Operations of firms have both positive and negative impacts on societies. An example of a positive impact is employment generation that in turn enhances economic development. An example of a negative impact is waste generation that damages the environment. The CSR paradigm advocates that companies need to manage these impacts carefully to protect and promote the welfare of society.

CSR consists of company actions that improve the general well-being of the company's internal and external stakeholders, including company shareholders, employees, customers, suppliers, and the public in general.[3] In practicing CSR, companies are encouraged to develop and implement business practices guided by the triple bottom line of economic, social and environmental considerations.

The philanthropic responsibility of firms is often associated with CSR and may involve occasional and continuous firm involvement in social areas, such as basic education. These manifestations of the philanthropic responsibility of firms represent only the tip of the proverbial iceberg that represents the complex concept of CSR.

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[1] As cited in Jamali, Dima. (2007) "The Case for Strategic Corporate Social Responsibility in Developing Countries", Center for Business Ethics at Bentley College, USA: Blackwell Publishing

[2] Carroll, Archie B. (1979) "A Three-Dimensional Conceptual Model of Corporate Performance," Academy of Management Review 4, no. 4: 497-505

[3] Alfonso, Felipe B. and Neelankavil, James P. (February 2009), "CSR and Collaborative Partnerships," AIM Journal of Asian Management, Special Issue on Corporate Social Responsibility: 5-19.

While business focuses on making profits, CSR can encompass the "beyond profit-making" role of business in society.[4] This role implies "going beyond economic and legal requirements" and having a "concern for the broader social system".[5] Companies pursue multiple goals aligned with the interests of both their shareholders and stakeholders when they practice CSR. This means that in the pursuit of the profit agenda, companies also offer quality products to their consumers, improve the welfare of their workers, deal with their suppliers fairly, develop their host communities, and help ensure environmental sustainability.

If managed effectively, CSR initiatives could contribute significantly to the continuous competitiveness of the Philippines and the companies operating in them.

Justifications for CSR

There are four arguments used by the proponents of CSR to support their case, namely moral obligation, sustainability, license to operate, and reputation.[6]

- The *moral obligation* argument posits that companies have a responsibility to be good citizens and to "do the right thing".[7] It involves ethical considerations and respect for people, communities, and the natural environment.[8]

- The *sustainability* argument focuses on environmental and community stewardship, and can be based activities that meet present needs without compromising the ability of future generations to meet their needs.[9]

- The *license to operate* argument recognizes that a company needs permission and support, whether formal or informal, from the government, the community, and other stakeholders to do business.[10]

- The *reputation* argument contends that CSR will enhance the company's image, boost employee morale, raise the company's stock value, and strengthen the company brand.[11]

Porter and Kramer posit that the weakness of the four arguments is an undue "focus on the tension between business and society rather than on their interdependence".[12] The result is a "hodgepodge of uncoordinated CSR and other philanthropic activities disconnected from the company's strategy that neither make any meaningful social impact nor strengthen the firm's long-term competitiveness".[13]

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[4] Carroll, Archie B. (1979), "A Three-Dimensional Conceptual Model of Corporate Performance," Academy of Management Review 4, no. 4: 497-505.

[5] Ibid.

[6] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] Ibid.

[11] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

[12] Ibid.

[13] Ibid.

Three Types of CSR

Similarly, Lantos identified three types of CSR: ethical, altruistic, and strategic.[14]

Ethical CSR is morally required and is beyond the company's fulfilment of its economic and legal obligations, going to the company's responsibility to avoid harm or social injuries even in cases where the firm does not benefit directly.[15] As such, actions are taken not merely because they are required by law or profitable, but because they are right.[16]

Altruistic CSR can also be described as humanitarian/philanthropic CSR. It "involves genuine optional caring, irrespective of whether the firm will reap financial benefits or not".[17] Altruistic CSR, as indicated in the previous discussion on philanthropy, is prevalent in the Philippines and in Muslim countries as well as in India. For example, the Birla Group in India is noted for its "altruistic" inclination to build temples in rural communities that cannot afford it. For this report, the term is considered equivalent to corporate philanthropy and will not be covered.

Strategic CSR is "strategic philanthropy aimed at achieving strategic business goals while also promoting social welfare".[18] Strategic philanthropy is aligned with profit motives and spending on CSR activities is expected, in the long run, to yield financial returns. The company therefore identifies activities and actions that will benefit it and the society.

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[14] Jamali, Dima. (2007). "The Case for Strategic Corporate Social Responsibility in Developing Countries". Center for Business Ethics at Bentley College.USA: Blackwell Publishing

[15] Ibid.

[16] Ibid.

[17] Ibid.

[18] Ibid.

3. Beyond the Philanthropy or Traditional CSR

Differentiating Strategic CSR

Beyond the philanthropy as traditional. Porter and Kramer discuss Strategic CSR from a North American perspective where corporate philanthropy prevails—especially through the foundations of large firms. The authors take issue with corporate philanthropy in developing their concept of Strategic CSR. Strategic CSR is easily differentiated from the altruistic/philanthropic form of CSR because the latter's activities typically focus on specific projects with a definite time frame/set deadline. Moreover, philanthropic CSR is often not clearly connected to social goals and business objectives.[19] Strategic CSR is related to, but different from traditional CSR. Traditional CSR holds on to the underlying assumption that doing good is tied to a social need and not to a problem directly related to a firm's core business. It also assumes that its actors and activities will benefit firms in the long run without necessarily providing metrics or post-project analysis.[20]

Since traditional CSR does not link the firm's CSR activities with its core competencies and profit objectives, it is doubtful that the firm can sustain such CSR activities since many CSR projects result in increasing costs. For instance, company shareholders in the Body Shop, a cosmetics company in the United Kingdom, associated the costs incurred in CSR projects with diminishing returns on their investments.[21] The company's founder, Anita Riddick, was later forced to bring in management that was willing to put profit ahead of CSR.[22]

Alignment with firm's core business and capabilities. Strategic CSR goes beyond good corporate citizenship because it addresses social and economic goals and focuses on areas linked to the company's core business and capabilities. Moreover, it unlocks shared value and creates a win-win situation for companies by focusing CSR initiatives on societal problems that strongly affect the company's competitiveness.[23] Unlocking shared value often refers to the reconciliation of the company and community's goals and objectives to create a sustainable relationship, hence, the notion of interdependence rather than tension.

To conclude, Porter and Kramer suggest that increased focus on CSR programs that alleviate social and environmental problems could actually heighten the competitive advantage of these firms.[24]

Further Defining Strategic CSR

McElhany defines Strategic CSR as "a business strategy that is integrated with core business objectives and core competencies to create business value and positive social/environmental value, and is embedded in day-to-day culture and operations".[25]

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[19] Porter, Michael E. and Kramer, Mark R. (December 2002) "The Competitive Advantage of Corporate Philanthropy", Harvard Business: 58.

[20] Husted, Bryan W. and Allen, David B. (2007). "Strategic Corporate Social Responsibility and Value Creation among Large Firms: Lessons From the Spanish Experience", Long Range Planning 40: 598.

[21] Ibid.

[22] Ibid.

[23] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

[24] Ibid.

Porter and Kramer described "a context-focused philanthropic approach requiring companies to use their unique attributes to address social needs in the corporate context, thus promoting a convergence of interests between business and society and the reconciliation of social and economic goals".[26] Typically, the more linked a social issue is to a company's business, the greater the opportunity for leverage wherein the success of the company and the community is mutually reinforced.[27]

Porter and Kramer argue that through Strategic CSR, companies could maximize social impact and gain maximum profits.[28] They contend that strategic philanthropy "can be the most cost-effective way for a company to improve its competitive context-- the quality of the business environment in the location where they operate".[29] Boosting social and economic conditions in a developing country can create more productive locations for a company's operations as well as new markets for the company's products.

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25 McElhany, Ellie. (September 2007) "Strategic CSR", Sustainable Enterprise Quarterly 4 No. 1, Center for Sustainable Enterprise, UNC Kenan-Flagler Business School: 1.

26 Jamali, Dima. (2007). "The Case for Strategic Corporate Social Responsibility in Developing Countries". Center for Business Ethics at Bentley College.USA: Blackwell Publishing

27 Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review

28 Ibid.

29 Porter, Michael E. and Kramer, Mark R. (December 2002) "The Competitive Advantage of Corporate Philanthropy", Harvard Business: 58.

4. Strategic CSR in the Development Context

Interdependence of Company and Society

The concept of shared value. The advancement of CSR "requires a broad understanding of the interrelationship between a corporation and society while anchoring it in the strategies and activities of specific companies."[30]

Successful firms need the government's provision of public goods, a competent workforce, enabling regulatory mechanisms essential for productive business operations, and commitment to good governance. Similarly, a healthy society needs successful companies to provide opportunities for professional growth, jobs, wealth, and innovations that improve standards of living.

Sustainable development requires the mutual dependence of corporation and society, implying that both business decisions and social policies must follow the principles of shared value. Choices must benefit both. A benefit to one at the expense of the other will lead to a dangerous tension and undermine the long-term prosperity of both.[31]

Porter asserts that creating "shared value" through Strategic CSR initiatives requires companies to map out their "Inside-Out Linkages" and "Outside-In Linkages",[32] which show the interdependence of companies and society.

- *Inside-out linkages.* These linkages refer to the impacts of firms' activities on their external environment. The linkages encompass the impacts of all the companies' value-chain activities (i.e., inbound logistics, operations, outbound logistics, marketing and sales, after-sales services, procurement, technology development, human resource management, and firm infrastructure).[33] The original Value Chain of Porter is an internally oriented process of improving margins in each component. In their application of the original model to CSR, Porter and Kramer suggest changing the internal approach to include the impact of value chain activities beyond the company—for example, to what extent does the firm's logistics network degrade the environment?

- *Outside-in linkages.* The linkages refer to the impact of the external environment on the companies' competitiveness— for instance, the social conditions and influences affecting the firms' competitiveness, including aspects of their operating environment, quality and quantity of available business inputs, rules and incentives governing competition, size and sophistication of local demand, and availability of local supporting industries.

In mapping out inside-out linkages and outside-in linkages, companies can identify the points of intersection between themselves and society, choose which social issues to address, and create their own corporate social agenda.[34]

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[30] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review

[31] Ibid.

[32] Ibid.

[33] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review

[34] Ibid.

Companies contribute to the society and to the community by working toward a prosperous economy,[35] using their unique resources and know-how.[36] Efforts to find shared value in operating practices and the social dimensions of competition potentially foster economic and social development, and change the way companies and society view each other.[37] When a well-run business applies its vast resources, expertise, and management skills to problems that it understands, it can have a greater impact on social good than any institution or philanthropic organization.[38]

There are numerous stakeholders involved in this interdependence between company and society. Participants include large companies, MSMEs, government, trade and business associations, business support organizations, non-government organizations, international development partners, civil society groups (including community organizations), and vulnerable sectors of society.

The Appeal of Strategic CSR to Developing Countries

The drivers of CSR tend to be weak in developing countries because "serious macroeconomic constraints may divert company attention to issues of basic viability and securing shareholder returns".[39] As studies on CSR in developing countries remain scant, the "available evidence suggests a continued overwhelming concern with profitability and lower priority according to social responsibility in view of more pressing survival issues".[40] However, it is also held that as "the winds of change blow stronger in the context of developing countries, and as local companies face the harsh competitive dictates of the global marketplace, the reconciliation of societal concerns with bottom-line performance becomes even more compelling".[41]

Nevertheless, there are cases of Strategic CSR in developing countries, which may imply increasing recognition of how business and societal goals may be aligned successfully. In the Philippines, various local conglomerates such as the Ayala Corporation and the Lopez Group of Companies have begun to integrate CSR into their core business operations.

Established in 1834, Ayala Corporation is one of the oldest conglomerates in the Philippines. Since its inception, its founders were involved in various social development programs— as early as the 1860s with the construction of a school building for girls and then in 1961 with the formation of the Filipinas Foundation (the precursor of Ayala Foundation). In 2007, Ayala Corporation and its subsidiaries launched the "Ayala Social Initiatives," which channeled the company's CSR programs to focus on education, environment, and entrepreneurship[42], with some notable initiatives:[43]

- Manila Water Company through its "Tubig para sa Barangay" (Water for the Community) Project "found cost effective ways to provide safe water and sanitation services to an increasing number of poor

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[35] Ibid.

[36] Ibid.

[37] Ibid.

[38] Ibid.

[39] Jamali, Dima. (2007). "The Case for Strategic Corporate Social Responsibility in Developing Countries". Center for Business Ethics at Bentley College. USA: Blackwell Publishing

[40] Ibid.

[41] Ibid.

[42] Ayala Corporation Website. http://www.ayala.com.ph/CSR.php

[43] Ayala Corporation. (2008). "Sustainability Report." p.7 http://www.ayala.com.ph/CSR/AC%202008%20Sustainability%20Report.pdf

residents within its concession zone while creating employment opportunities by encouraging cooperatives and water services. By serving the residents, Manila Water doubled its billed water volume."

- Ayala Land incorporated green innovations into its Nuvali housing project, which included a "lower carbon footprint" (i.e. emphasis on water conservation, "pedestrianization" and cycling, energy efficiency and recycling). These changes have helped Nuvali in its commercial success and in lowering its cost of operations.

The Lopez Group of Companies established the Lopez Group Foundation in 2004 to act as the "coordinative hub" for the CSR programs of the Lopez Group of Companies. The Lopez Group is a diversified conglomerate involved in several industries including telecommunications, expressway infrastructure and petroleum pipelines. Each of these firms has its own CSR program, although there is an ongoing effort to integrate the different programs of individual firms in the Group. However, the decision to align CSR efforts with the United Nations Millennium Development Goals is a step towards Strategic CSR because it links corporate activities to national and even to global goals.

Even in a war-torn country like Lebanon, there are cases of Strategic CSR such as those by Microsoft and Tetra Pak.[44]

Microsoft helped create an electronic library in the children's science museum in Beirut, sponsored a smart bus that goes around in rural areas to provide training in information technology (IT), and donated software to numerous NGOs and charitable organizations, thereby "raising IT literacy and nurturing potential future customers, thus helping improve the firm's long-term business prospects".[45] Microsoft was thus able to leverage its unique assets to address problems related to its field of expertise at a minimal cost.[46]

Meanwhile, Tetra Pak improved local milk production and provided training to local farmers.[47] As a result, Tetra Pak's supply chain became more sustainable.[48]

The abovementioned cases result in "win-win outcomes across the board".[49] The reconciliation of "self-interest with the larger common good offers particular promise in the context of developing a country, in view of the scarcity of resources and the less than favorable contextual conditions". Thus, firms that link their philanthropic activities more closely with their corporate plans and targets, and tap strong opportunities create more significant value for society and themselves.[50]

[44] Jamali, Dima. (2007). "The Case for Strategic Corporate Social Responsibility in Developing Countries". Center for Business Ethics at Bentley College. USA: Blackwell Publishing

[45] Ibid.

[46] Ibid.

[47] Jamali, Dima. (2007). "The Case for Strategic Corporate Social Responsibility in Developing Countries". Center for Business Ethics at Bentley College. USA: Blackwell Publishing

[48] Ibid.

[49] Ibid.

[50] Ibid.

5. The MSME Avenue for Strategic CSR

Rationale for Improving the Competitiveness of MSMEs. Companies should improve the competitiveness of MSMEs to (1) meet the requirements of today's global economy; (2) improve the capacities of MSMEs to meet the needs of large firms; and in turn (3) ensure sustainability and competitiveness of large firms.

- *To meet the requirements of today's global economy.* The global economy emphasizes the importance of responsible business practices among global firms and their suppliers, including MSMEs that form part of the supply/value chain. There are risks for enterprises that do not adhere to socially responsible ways of doing business, including practices related to managing environmental impacts, compliance with labor standards, and the like. Global firms are beginning to encourage, if not, to mandate the adoption of responsible business practices among their suppliers especially in developing economies. There are benefits in terms of increased access to business opportunities offered by global firms. There are also costs especially on the part of MSMEs that still lack the resources needed to meet the new market standards for doing business.

- *To improve capacities of MSMEs to meet the needs of large firms.* In the Philippines, MSMEs have problems meeting the quality, quantity and reliability standards of large firms. These problems are due to the constraints faced by MSMEs in improving their competitiveness: weak access to capital, technology, markets, and cheaper inputs; inadequate infrastructure; regulatory barriers; governance gaps (unpredictable implementation of laws); and burdensome taxation. Many micro enterprises have gone informal to escape the excessive regulations of the labor market because they are unable to comply with basic labor standards and minimum wage requirements.

- *To ensure corporate sustainability and competitiveness of large firms.* Global competition is pushing companies to go beyond their boundaries in search of solutions to their business problems. Thus, large firms nowadays outsource certain activities that can be more efficiently produced by other smaller firms. MSMEs are potential solution providers to large firms. Philippine firms believe that improving the competitiveness of MSMEs would improve the competitiveness of large firms. Interviews suggest that CSR initiatives in MSMEs are still modest and building initiatives probably needs an advocacy to increase involvement. For example, in the fast food industry, there are many small enterprises that supply raw materials or local ingredients. Another example is infrastructure development such as an expressway or road network where most private firms hire small local firms as part of developing the social license to operate in the communities that straddle the route. Large firms can gain strategic and competitive advantage if they develop and strengthen their upstream and downstream business linkages with local MSMEs.

Strategic CSR, MSMEs and Development

It is expected that Strategic CSR will be undertaken more often as more companies participate towards the accomplishment of national and international development goals, such as the MDGs, as a way to benefit society and themselves. There is a growing pressure to go beyond direct company interests and simple compliance.

There is also a growing acceptance that a strategic approach to CSR may provide mechanisms in support of MDGs, especially for curbing poverty, particularly in developing countries.[51]

Firms can support development objectives by spreading economic opportunities through a variety of small enterprise development, training and business linkage initiatives. The business linkage initiatives between large and small enterprises can be supported through three spheres of corporate influence, namely, core business activity, social investment and philanthropy, and public policy for small enterprises.[52]

Strengthening linkages between large and small firms may prove crucial especially in a developing country where an MSME-driven economic development strategy makes sense in the face of scarce resources and the need for job creation. MSMEs outnumber large firms and are relatively more labor intensive. This development strategy is linked to the large potential for contribution of MSMEs to the development of a vibrant economy and the reduction of poverty.

The United Nations Industrial Development Organization (UNIDO) estimates that globally more than 90 percent of businesses are classified as small and medium enterprises, translating to 50 to 60 percent of employment. Dallago notes that a modern and thriving small and medium enterprise sector helps in transforming the economy in fostering innovation and facilitating adaptation of the economic system to new realities.[53] Moreover, MSMEs have innovative, competitive, entrepreneurial, and job creation capabilities.[54]

Economic Benefits of Large Firms from MSMEs

Potential benefits. Linkages can result in mutually beneficial technology transfer and increased capacity to comply with international business standards on the part of MSMEs, thus creating more competitive, productive, and quality-driven business sectors in many countries. The linkages further improve local skills, create market growth opportunities, and reduce procurement and other input costs for large firms.

MSMEs perform a variety of crucial roles especially across the value chains of large companies. For example, they could be suppliers of raw materials or distributors of finished products. Some companies subcontract even the actual manufacturing of their products to MSMEs, for instance, in the garment and footwear industries. Cheaper wages are an incentive for MNCs, such as Nike, Gap, and Banana Republic, to subcontract the assembly of garments and shoes to MSMEs in Asia and South America. In the Philippines, Gap acquired the services of a local garments factory to assemble its products, the materials for which are provided by the main company. Thus, a CSR-driven MNC can transfer its CSR values and methodology to the MSMEs that form part of its supply chain.

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[51] Nelson, Jane. (2006) "Building Linkages for Competitive and Responsible Entrepreneurship." United Nations Industrial Development Organization and John F. Kennedy School of Government, Harvard University, http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Building_linkages_for_competitive_and_responsible_entrepreneurship.pdf

[52] Ibid.

[53] Dallago, Bruno, "Transitional Economies. The Importance of Small and Medium Enterprises", UN Chronicle. No. 4 (2003): 18.

[54] Acs, Zoltan J. (2006). State of Literature on Small and Medium Enterprises in Low Income Countries, in Entrepreneurship in Low- and Moderate-Income Communities, Federal Reserve Bank of Kansas City.

In the document entitled "Partnerships for Small Enterprise Development", Deloitte presents clear-cut arguments on why firms should support small and medium enterprises.[55] Corporate sector engagement with small enterprises can lead to reduced costs, increased market access, greater security over raw materials, improved quality of supply, compliance with environmental regulations, compliance with government regulations, closer relationship with governments, branding benefits, a more vibrant and diverse local economy, and the practice of CSR in the SME sector.[56]

The document also directly recognizes support for small and medium enterprises as a clear CSR option for firms.[57] It points out the opportunity for partnerships between firms and small and medium enterprises. Initially, there may be substantial investment requirements as the corporation bridges the capability gaps of small and medium enterprises. However, as the capabilities of small and medium enterprises improve and the partnership matures, the corporation is expected to reap more rewards in the form of "cheaper, better, more secure and environmentally compliant inputs, and easier-to-access and more stable markets".[58] Deloitte notes the convergence of the company's supply chain and distribution agendas and CSR objectives in supporting the small and medium enterprise agenda.[59]

For large companies, the benefits of linking with MSMEs also include improved productivity, more opportunities for jointly pursuing corporate responsibility and profitability, enhanced reputation and local "license to operate", and improved integration in new overseas markets.

In the Philippines, Globe Telecom tapped the strengths of its corporate business units to help MSMEs as it provides solutions to become competitive in the local and international market through various telecommunication and IT technology products. Globe then established a separate business unit to deal with small and medium enterprises, attesting to the importance of this market segment to the company's profitability and sustainability.

In another situation, Zhou and Xin suggest there is significant interdependence between MNCs and local firms, particularly in the services sector because MNCs require substantial local expertise and channels to market their technology. Furthermore, interdependence of both is profitable because by working with local firms, MNCs have greater incentive to promote, share, and modify their technology to address the needs of local markets (which may be different from those of their home countries).[60]

In the 1990s, in Zhongguancun, a district in Beijing, MNCs in the IT sector hired local firms to reach the Chinese markets and to comply with government regulations. Innovation among the small firms was paralyzed as MNCs dominated technological development with their superior technological infrastructure and managerial skills. The partnership had an element of meeting complementary needs: The MNCs faced a large but fragmented market

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[55] Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Available at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

[56] Ibid.

[57] Ibid.

[58] Ibid.

[59] Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Available at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

[60] Yu Zhou and Tong Xin. (2003). "An Innovative Region in China: Interaction Between Multinational Corporations and Local Firms in a High-Tech Cluster in Beijing," Economic Geography.

where local “know-how”—connections and communications skills, was critical to success. At the same time, Zhongguancun was faced with high migration rates and needed to boost employment, and MNCs were attracted to low cost labor. These complementary needs evolved into other linkages and initiatives as the relationship grew over time.

In the partnership between the MNCs and the Chinese MSMEs, two levels were identified: MNCs are at the high end of product development, while MSMEs were at the low end of product development, marketing, services, and system integration. Linkages were made through partnerships and through contracting of services. Chinese MSMEs became the key agents in delivering technology to Chinese consumers and organizations, providing network installation, software development, and consulting services to make the network operational for users.

According to Nelson, the opportunities provided by the linkages between large companies and MSMEs may include “procurement, agricultural growers schemes, manufacturing subcontracting, outsourcing non-core functions and services, distribution and retail, franchising and leasing, and sales of financial services, information communications technologies, and other productive inputs and tools”.[61]

The relationship between MNCs and MSMEs varies from region to region. In Singapore and Beijing, there were even occasions of “reverse transfers” as the MSMEs themselves provided innovations and adapted local expertise and know-how to larger firms.[62]

A Case Study on Nestlé’s Milk District in Moga

A good example is Nestlé’s Milk District in Moga, India, as presented by Porter and Kramer.[63] In 1982, Nestlé received permission from the Indian Government to establish a dairy entity in Moga, India. The area had high poverty incidence, no transportation and electricity, and no medical care.

Meanwhile, Nestlé’s value chain spanned the globe – from its companies in Switzerland to farmer communities in various countries. This value chain depended on the development of a diversified base of milk suppliers, including farmer communities.

Nestlé’s strategic initiatives in developing farmer communities transformed its competitive context in ways that created tremendous shared value for the company and the farmers in the region. Nestlé put up refrigerated dairies and collection points for each town (with trucks collecting the milk), and introduced experts in nutrition, veterinary, and agronomy. The company trained the farmers to improve the diet of the cows in order to provide quality milk. With financing and technical assistance, the farmers were able to construct better irrigation facilities and reap an abundant harvest.

When Nestlé opened its milk factory, there were only 180 local farmers who supplied milk. After several years, there were already 75,000 farmers in the region, with points of collection twice a day in more than 650 villages. Production increased by 50 times and the death rate of cows declined by 75 percent. As production increased, farmers’ income increased. Competing firms also emerged, and an industry cluster developed. Nestlé thus succeeded in developing and strengthening its value chain, and at the same time, improved farmers’ lives.

[61] Nelson, Jane (2006). “Building Linkages for Competitive and Responsible Entrepreneurship”.

[62] Porter, Michael E. And Kramer, Mark R. (2006), “Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, Harvard Business Review

[63] Ibid.

Large Firms and MSME Linkages

Deloitte identifies a number of ways wherein firms may support MSMEs, namely support through the value chain (e.g. establishment of supportive supplier relationships), through engagement with MSMEs for distribution, and support to MSMEs that in the short term may not be directly related to the corporation's core business.[64]

More often, large firms contributed to the development of MSMEs through their forward and backward linkages with suppliers and distributors. The backward linkages of large firms comprise the procurement of goods and services needed in production. On the other hand, the forward linkages of large firms comprise activities such as the distribution of products, after-sales services for consumers, and managing waste generated during the production process.

The motivation of large firms to build and strengthen their backward and forward linkages with MSMEs may depend on the MSMEs' capability to meet the business expectations and standards of large companies in terms of product quality, reliability in delivering goods and services, and other business considerations.

Notwithstanding the dominance of business reasons for addressing problems in their value chains through CSR and other business initiatives, large firms are able to facilitate economic and social development and environmental sustainability of the societies where they operate. To a large extent greater degree, large firms see the significant roles of their value-chain activities in expanding economic opportunities for the poor and the communities where they operate through employment generation, livelihood creation, and human resource development training activities.

[64] Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Accessed at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

6. MSME Development in the Philippines

Contribution to GDP. Notwithstanding their limitations, MSMEs play an important role in economic development by providing jobs that help reduce countryside poverty.[65] MSMEs also serve as breeding grounds for product development and provide goods and services that are not readily available from large companies. The Department of Trade and Industry (DTI) of the Philippines estimates that MSMEs contribute 32 percent to the gross domestic product (GDP) of the country. Compared to Singapore (34.7 percent), Thailand (38.9 percent), Malaysia (47.3 percent) and Indonesia (57 percent), the contribution of MSMEs in the Philippines is one of the lowest among the members of the Association of Southeast Asian Nations (ASEAN). In China, MSMEs contribute as much as 60 percent to GDP.[66]

Profile of MSMEs. MSMEs constitute about 99.7 percent of total business establishments in the country, of which 91.3 percent are classified as micro enterprises or those with nine employees or less.[67] Combined employment generation of MSMEs accounts for nearly 69.4 percent of the total employment, broken down as follows: micro (37.6 percent), small (24.9 percent), and medium (7 percent). On the other hand, large enterprises account for only 0.3 percent of the total number of business establishments, and generate 30.6 percent of total employment.

As defined by law, MSMEs are business activities or enterprises engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation. According to the DTI[68], MSMEs may be classified according to the number of people they employ: micro (1 to 9 employees), small (10 to 99 employees), and medium (100 to 199 employees). MSMEs may also be categorized according to asset size: micro (not more than PhP3,000,000), small (PhP3,000,001 to PhP15,000,000), and medium (PhP15,000,001 to PhP100,000,000). The asset-based definition is the official classification used since it is easily comparable to other countries. This, however, poses a predicament in the Philippines because majority of the MSMEs do not fully declare their real assets.

MSMEs are involved in almost every kind of business activity. The top three MSME industries are wholesale and retail trade, manufacturing, and hotel and restaurants.[69] More than half of MSMEs are into wholesale and retail trade (50.1 percent) which generates 37.4 percent of total employment. About 14.9 percent of MSMEs are involved in the manufacturing sector, which accounts 19.2 percent of employment. On the other hand, MSMEs do not abound in the industries like mining and quarrying, electricity, gas, water, and construction as these industries require huge capitalization.

Issues and Challenges

Problems confronting MSMEs in the Philippines include the limited access to financing, low productivity, low level of investment in research and development (R&D), few marketing and promotion strategies, and competition

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[65] Sawali, Rosemarie R., Improving Access of MSMEs to Financing, Policy Advisory No. 2008-06, Congressional Planning and Budget Department, House of Representatives, 2008.

[66] Ibid.

[67] Ibid.

[68] Department of Trade and Industry Website. Accessed at http://www.dti.gov.ph/dti/index.php?p=532

[69] Sawali, Rosemarie R. (2008). "Improving Access of MSMEs to Financing". Policy Advisory No. 2008-06, Congressional Planning and Budget Department, House of Representatives.

from bigger players.[70] The Small and Medium Enterprises Development (SMED) Plan notes the following constraints: outmoded, less productive methods of operations, inefficient use of appropriate technology, limited ability to gain economies of scale, insufficient management and professional know-how, insufficient and inaccessible financial sources, unappreciated and inadequate professional services, and insufficient access to information.

Problems experienced by MSMEs may differ across sectors and enterprise sizes. A low level of investment in R&D, for instance, may not be the major problem of MSMEs engaged in wholesale trade and hotels and restaurant businesses as it is in the manufacturing sector. Nevertheless, there are also common problems like limited access to financing because it affects all aspects of a business.[71] The level of investment in R&D, the quality of manufacturing processes including the kind of machineries and equipment used, and the level of marketing strategies employed are all influenced by the availability of capital to the company. Other factors which may contribute to the failure of MSME are nonsupportive government regulations, policies and market conditions, as well as political factors. These could explain why many micro enterprises belong to the informal sector.

Development Plan and Strategies

The SMED Plan for 2004-2010 envisioned the development of globally competitive MSMEs that "acquired distinctive competencies from harnessing efficient technologies and establishing strategic relationships with partners, market forces, suppliers (even competitor producers)".[72]

The SMED Plan for 2004-2010, the Medium-Term Philippine Development Plan (MTPDP) for 2004-2010, and various laws identified the key strategies on MSME development. One strategy is "to enhance the operations of individual MSMEs by providing access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets".[73] Other vital strategies focus on the importance of assisting and strengthening growth industries that are active in international markets.

Based on the MTPDP, the national government has committed to strengthen three million MSMEs by providing credit, technology, and marketing support. Interventions aim to improve access to information on business opportunities, availability of raw materials, sources of funds, and latest technologies and product design.

The MTPDP identified the amendment of Republic Act (RA) 6977 or the Magna Carta for Small and Medium Enterprises as one of the key legislative measures in support of small and medium enterprise development. On May 23, 2008, the Congress of the Philippines enacted RA 9501 to further strengthen MSME development programs. RA 9501 specifies a number of strategies to improve the competitiveness of MSMEs in the country. These strategies include promoting linkages between large and small enterprises, and making the private sector a partner in the task of MSME development through the participation of private voluntary organizations, viable industry associations, and cooperatives.[74]

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[70] Ibid.

[71] Ibid.

[72] Department of Trade and Industry Website. Accessed at http://www.dti.gov.ph/dti/index.php?p=51

[73] Ibid.

[74] SME Toolkit Philippines. "Guide to the Magna Carta for Micro, Small and Medium Enterprises (RA 6977, as amended by RA8289, and further amended by 9501)".
http://philippines.smetoolkit.org/philippine/en/file/content/6887/en/magnacartaformicrosmallandmediumenterprises.pdf

7. Operational Framework for CSR Initiatives

As noted earlier, Porter and Kramer described how a company can look at its own value chain "to chart all the social consequences of its activities", thus creating "an inventory of problems and opportunities – mostly operational issues – that need to be investigated, prioritized and addressed".[75] A company should carefully choose from this menu one or a few social initiatives that will have the greatest shared value: benefit for both society and its own competitiveness.[76] As such, "inside-out" linkages should be examined.[77] Using their *diamond framework*, Porter and Kramer pointed to the need to analyze the company's competitive context and look at the "outside-in" linkages that "affect its ability to improve productivity and execute strategy".[78]

The following considerations are important in designing and implementing Strategic CSR initiatives:

- Deciding whether MSMEs are beneficiaries or implementers of CSR initiatives;
- Setting the boundaries of Strategic CSR to differentiate it from the company's core business;
- Setting the firm's long term CSR plan (including initiatives on MSME development);
- Addressing the issue of stakeholder suspicion (i.e., Why should MSMEs believe in large companies? Do large companies have the mandate to promote CSR?); and
- Addressing the issue of lack of social preparation of large firms and MSMEs.

Unfortunately, some engagements between the large firms and community-based partnerships often gravitate to livelihood programs. These are common in areas where NGOs have well-developed approaches that are relatively easy to duplicate. Both the large and small firms are then saved the time and effort and money to undertake more substantial activities such as jointly (as partners) exploring community-based potential business opportunities.

In designing a Strategic CSR program, it may be noted that there is no "one-size-fits-all approach" because industries and companies are different. Also, each company would have a different operating environment that it needs to consider. Moreover, it is important to assess the strengths and weaknesses of industries and companies. CSR initiatives must be aligned with corporate goals and core values as large firms make an effort to look for the linkages with MSMEs that can contribute to the business bottomline.

The value chain needs to be evaluated for opportunities to work with communities and MSMEs. The company's resources and competencies likewise need to be assessed in order to identify what business solutions the company can offer to develop MSMEs. Another need is to appraise the business value of the initiatives as well as the societal benefits ("win-win formula").

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[75] Porter, Michael E. and Kramer, Mark R. (2006), "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

[76] Ibid.

[77] Ibid.

[78] Ibid.

In the Philippines, a public-private partnership program implemented by the German Development Service and Philippine Business for Social Progress (PBSP) is geared towards "communities and marginalized groups in income-generating activities that are related to companies' core businesses."[79] SCOPE, the public- private partnership program of the former DED, now GIZ, aims to improve the business environment by enhancing the reliability of supplier communities, and also helps communities to become embedded in the supply chain of companies. SCOPE's approach is to: 1) identify problems along the company's value chain, 2) find a community that can help the company address the problem, and 3) find a reliable partner (NGO, people's association, or cooperative) at the grassroots level.

[79] Philippine Business for Social Progress. "SCOPE"
http://www.pbsp.org.ph/index.php?option=com_content&view=category&layout=blog&id=60&Itemid=155

8. CSR In The Philippines: Restraints And Reinforcements

Compared to other Asian countries like Laos and Vietnam, CSR is generally more accepted by Philippine companies.[80] Some domestic Philippine companies practice CSR such as Ayala Group, Lopez Group of Companies, and Aboitiz Group of Companies. There are also MNCs operating in the country that are strong advocates of CSR, such as Coca-Cola, Nestlé and Unilever. However, the general understanding of CSR among Philippine companies is that firms give money to the poor, support foundations, provide scholarships, disaster relief, and outreach activities.

Looking at the trends of CSR practice, philanthropic CSR activities still dominate. A majority of PBSP members are focused on philanthropic, one-time activities and grant giving. However, it is important to assert that the value of philanthropic CSR initiatives remains. This is understandable given the fact that in the context of a developing country such initiatives remain valid and legitimate because the government lacks the resources to provide for much needed public goods.

Over 90 percent of the members of the League of Corporate Foundations (LCF) have initiatives in education. The priority issues of LCF members are environment, enterprise development, health, arts and culture. One-time events prevail -- for instance, family day, sports fest, annual team-building activities, medical missions. MSME development initiatives are not prevalent among many firms practicing CSR. MSME development initiatives are regarded as something new and not widespread even among those firms who have long been practicing CSR.

Several motivations for companies to undertake CSR initiatives include improving their reputation; doing good for society; supporting national development priorities; improving relationship with stakeholders; and addressing problems affecting the company's supply chain.

Corporate foundations created a trend in the 1990s for grant giving purposes and for community outreach. Some companies also opted to create internal company structures for implementing CSR initiatives. The new trend in the evolving CSR philosophy favors the integration of CSR activities within the company rather than outsourcing these to corporate foundations. At the same time, business associations have formed committees, units or programs to promote CSR. For example, LCF has five committees handling issues related to education, environment, enterprise development, health, and arts & culture.

Companies are Seeing the Value of Strategic CSR

Strategic CSR activities and projects that generate benefits not only for the society are growing. Philanthropic activities are still important but may be subject to cyclical review based on funds availability. The financial crisis has prompted companies to think about how they could make their CSR initiatives more sustainable. Corporate sustainability concerns also drive the uptake of Strategic CSR among firms. Companies are getting more interested in doing triple-bottomline reporting. There is a growing interest in the Global Reporting Initiative (GRI) framework for reporting on and communicating CSR activities.

[80] Interview with Jana Franke, Consultant for the Public-Private Partnership Program (SCOPE) of the German Development Service

Business associations like PBSP that focus on corporate citizenship, CSR, sustainability and related concepts are beginning to move towards making CSR practice more strategic. The policy and practices within PBSP will shift in the next five years as it focuses on generating and providing business solutions to poverty and other social issues.

CSR practitioners are seeing the value of Strategic CSR, but it is not yet a dominant practice. Strategic CSR is regarded as a desired framework in order to achieve long term sustainability. Strategic CSR initiatives generate benefits not only for the community but also for the company. Its alignment with business-related goals, corporate competencies and resources makes it more appealing to companies. Strategic CSR initiatives are more sustainable compared to one-time activities such as disaster relief operations and other forms of philanthropic CSR. Encouraging companies to focus on business-related initiatives that help people earn more money is a more desirable direction in practicing CSR.[81]

To improve the understanding of Strategic CSR, there is a need to define what it is. There is a need to define the boundaries of Strategic CSR and to distinguish it from purely business, profit-oriented initiatives. For example, integrating MSMEs into the supply chain of large companies could not be simply called Strategic CSR. As some of the examples indicate, there must be an additional element to these supply chain linkages before it can be considered Strategic CSR.

Some companies and business associations (like PBSP) underscore the importance of harnessing the unique competencies and resources of private firms in addressing social issues. The PBSP Board has adopted a decision to focus the organization's CSR advocacies and programs to providing and generating business solutions for poverty and other societal issues. Consequently, the Philippine Chamber of Commerce and Industry (PCCI) also emphasizes the importance of providing and generating business solutions to key societal problems.

Views and Inputs on Strategic CSR Initiatives on MSME Development

Strategic CSR initiatives on MSME development are in the inception stage. Companies perceive that the linkage is not a high-impact intervention compared to addressing poverty, education, health and environmental issues.

CSR based on the goals of economic development is acceptable because it appears natural for companies to think about developing the market thereby enhancing profitability. Aside from this, firms are beginning to understand that CSR initiatives on MSME development would address the stakeholders' need to implement social programs as well as to ensure corporate sustainability. It is important to note that wealth creation is a function of entrepreneurship, which creates greater opportunities for employment. Therefore, MSME development is a legitimate CSR issue especially if initiatives related to it stimulate economic activities in communities and contribute to the core business of firms. However, Strategic CSR demands that the value chain linkages extend beyond the ordinary buyer-seller relationship.

In promoting MSME development, there is an advantage in framing existing and future interventions in terms of CSR. CSR is a good vehicle to advocate and promote certain programs addressing societal issues as it provides large companies with a guideline and a roadmap that in turn makes the needed interventions clearer and generates the motivation to provide higher quality interventions. In enhancing the linkages, framing the business initiatives to develop suppliers in terms of CSR would encourage companies to think more in terms of partnership with MSMEs and to go beyond the traditional contractual (buyer-seller/seller-buyer) relationships.

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[81] Interview with Jana Franke, Consultant for the Public-Private Partnership Program (SCOPE) of the German Development Service

Large firms can facilitate the development of MSMEs through the development of their supply/value chains. Large firms can promote the competitiveness of MSMEs by setting business standards and by providing trainings to MSMEs as their business partners. In the Philippines, such initiatives are limited and small in scale. For instance, at the 2009 CSR Expo organized by LCF, large companies hesitated to showcase their projects because these initiatives were still in the early stages of implementation.

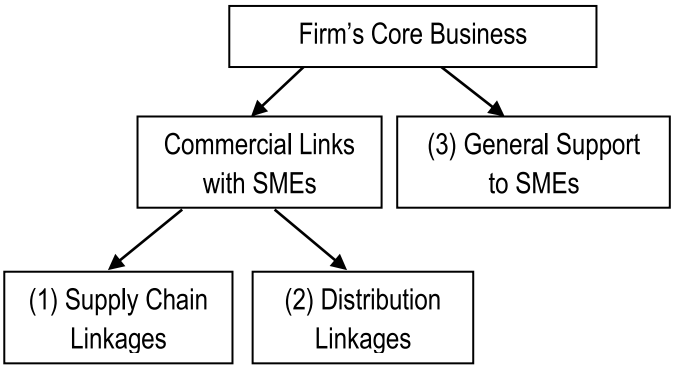
Companies that are implementing MSME development initiatives among its small and medium scale suppliers are Toyota, Ayala, Shell, Petron and other big players. However, there are also smaller companies that utilize linkages such as Binalot that works with communities in the sourcing of banana leaves for its eco-friendly packaging material used in its growing number of fast-food chains.

To ensure that new small businesses improve their sustainability through indirect linkage with the firms, some companies are shifting their focus from supplier participation as direct livelihood-generating programs to integrating entrepreneurship training and development programs with their supply chain. Training, for example, will improve MSME productivity and operations, human resource, and accounting practices. These initiatives suggest "added-value" in linking large firms to MSMEs.

Three Approaches Linking Large Firms and MSMEs

Following Deolittle's (2004) approach in linking large firms and MSMEs, CSR programs of companies in the Philippines can be classified as follows:

Figure 1: Three Approaches linking Large Firms and MSMEs



Source: Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Accessed at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

Model 1: Supply Chain Linkages. This refers to the more traditional "buyer-supplier" relationship of large companies and MSMEs, but with potential towards Strategic CSR. For large companies, the partnership may reduce costs, increase local supply, minimize the effects on the environment, improve quality control, reduce supply vulnerability, compliance with government requirements, brand benefits and the possibility that the SME sector may offer innovation.[82] Examples of Model 1 linkages are as follows:

- Siemens Philippines mandates its contractors and suppliers to adhere to its code of conduct; for example, not paying bribes in any of their transactions. The Siemens Global Policy for its suppliers covers legal compliance, prohibition of corruption and bribery, respect for basic rights of employees, prohibition of child labor, health and safety of employees (control hazards, provide health and safety training to employees, set-up occupational health and safety management system), environmental protection (comply with international standards regarding environmental protection, minimize environmental footprint, set-up environment management system), and supply chain (non-discrimination of supplier selection, promote to its suppliers the compliance to this COC).[83]

- Jollibee Foods Corporation (JFC) works with rural tomato and onion farmers in Bukidnon to become suppliers for the company. Under the Bridging Farmers to the JFC Supply Chain, it partners with Catholic Relief Services and National Livelihood Development Corporation. The program aims to "link small farmers to the supply chain of institutional buyers like JFC." The target output is "to enable small farmers in Luzon and Mindanao increase their incomes through agro-enterprise development." The specific objective is to develop "clusters of small farmers implementing agro-enterprise principles resulting in market linkages with institutional buyers; and cluster of farmers engaging in value-adding activities to increase competitiveness."[84]

Model 2: Distribution Linkages. Large companies partner with MSMEs in tapping potential market opportunities for its products. In turn, MSMEs benefit through income earned from selling the company's products. Benefits include increased access to markets, lower distribution costs, and more vibrant and diverse linkages. These are illustrated below:

- SMART and GLOBE Telecom (telecommunications providers) launched their respective products that cater to the poorer communities through the retail distribution of cellphone credits where individuals can become distributors. These telecommunication companies offered retailer-SIM packs that enable any individual that has a cellphone to distribute cellphone credits to anyone in the Philippines.

- Nestlé: The Micro-Distributorship Program (MDP) "provides able-bodied graduates the opportunity to become small-scale entrepreneurs by selling Nestlé products to sari-sari stores. Under the program, these fledgling entrepreneurs personally distribute and sell Nestlé products to small stores in densely populated areas that cannot be covered by existing Nestlé distributors." Aside from this, there are two more programs implemented by Nestlé that follow the same concept—Ice Cream and Nestlé Professional. "In Ice Cream, the program provides livelihood to commissioned street vendors who ply the streets of residential subdivisions and other high-traffic public areas to sell a range of Nestlé Ice Cream products categorized as

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[82] Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Accessed at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

[83] Siemens. "Code of Conduct for Siemens Suppliers." http://www.siemens.com/sustainability/pool/compliance/compliance-program/coc-english.pdf

[84] Jollibee Foundation. "Housing and Community Development" http://jollibeefoundation.org/index.php?option=com_content&task=view&id=19&Itemid=33

"impulse", the kind that consumers are known to crave for on a whim. In Nestlé Professional, livelihood comes through its Business on Wheels (BOW) Program, where members earn by selling Nestlé products to small carinderias."[85]

- Splash Corporation, through its Ang-Hortaleza Foundation, trains mothers on hair-styling to establish salons and gives discounts for Splash products; "stay-at-home" mothers earn incremental income for their families. The livelihood training programs aim to promote "self-reliance, productivity and local entrepreneurship." Capitalizing on their competency and resources as a cosmetics company, it sponsors training programs on basic cosmetology, basic reflexology and therapeutic massage, basic facial cleaning, basic hair relaxing, and salon management. Two months after graduation, the Foundation conducts the "Kamusta Na" program which evaluates the effectiveness of the livelihood program.[86]

Model 3: General Support to MSMEs. Large companies provide funding or livelihood programs to create enterprise development in communities where it operates. The benefits for companies include promoting a more vibrant and diverse local economy, improving community relationships, developing closer relationships with government, complying with government regulations, branding benefits and developing longer term links to the corporation's business.[87]

Examples of companies who provide general support are Planters Development Bank (Plantersbank), which established a Small and Medium Enterprise (SME) Business Park, and the Bank of the Philippine Islands that provides lending and capability-building initiatives for small and medium enterprises.

Launched in 2007, the Plantersbank SME Business Park "provides small and medium-sized exporters with the same investment incentives and tax perks enjoyed by foreign-owned, large corporate locators."[88] The park "offers ownership of industrial lots ranging from 1,000 square meters to 2 hectares, making it easier for SMEs to better plan construction and expansion of their manufacturing plant."[89] Special privileges for SMEs include "exemption on taxes and duties on importation of capital equipment, tax credits for locally sourced capital equipment, exemption on export tax and import fees, a four to eight year holiday on income taxes, and five percent income tax on gross income following the tax holiday."[90] Plantersbank chairman, Ambassador Jesus P. Tambunting, said that "The SME Industrial Park in Naga, Cebu is another pioneering initiative by Plantersbank to provide Filipino SMEs with a platform to consolidate operations, widen exporting potentials, and most importantly, benefit from the fiscal benefits extended to locators in an export processing zone area."[91]

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85 Nestlé Philippines. "A Creating Shared Value Report of Nestlé Philippines, Inc. 2009 Edition." http://www.nestle.com.ph/corpsite/pdf/CSV_full_report.pdf

86 Splash. "Ang-Hortaleza Foundation." http://www.splash.com.ph/anghortaleza.aspx

87 Deloitte. (15-16 January 2004) "Partnerships for Small Enterprise Development, Resource Document for the Workshop on Partnerships for Small Enterprise Development". United Nations Industrial Development Organization (New York, USA). Accessed at http://www.unido.org/fileadmin/media/documents/pdf/Services_Modules/csr_partnerships_UNIDO_UNDP.pdf

88 Planters Bank (May 2008). "SME Biz Park wins Asia-Pacific Development Award"
http://www.plantersbank.com.ph/2008/05/sme-biz-park-wins-asia-pacific-development-award/

89 Planters Bank (July 2007). "Plantersbank pioneers country's first SME industrial park"
http://www.plantersbank.com.ph/2007/07/plantersbank-pioneers-countrys-first-sme-industrial-park/

90 Ibid.

91 Planters Bank (July 2007). "Plantersbank pioneers country's first SME industrial park"
http://www.plantersbank.com.ph/2007/07/plantersbank-pioneers-countrys-first-sme-industrial-park/

The Bank of the Philippine Islands, on the other hand, provides loans SMEs in need for "acquisition or construction of commercial buildings (even schools and hospitals), factories or warehouses; purchase of equipment; and additional working capital."[92] Individuals can borrow up to PhP50,000,000 for a maximum term of ten years. With complete documents, loan processing takes only ten working days.[93]

Initiatives of BMOs in Promoting Large Company and MSME Linkages

Only a few business associations in the Philippines are extensively involved in efforts to foster the linkages between large firms and MSMEs although there are a number of initiatives that aim to build and strengthen MSMEs and to foster linkages between them. The PBSP, for example, has an Enterprise Development Program that aim to enhance the small and medium enterprises' access to credit and to encourage volunteers to contribute to small and medium enterprise development. The Employers Confederation of the Philippines (ECOP) has implemented the ECOP's Big Enterprise Small Enterprise (EBESE) Program that encourages large firms to improve the productivity and quality systems of their small and medium enterprise suppliers.

Membership and mandate play a role. For example, the Makati Business Club (MBC), whose members are primarily the large companies, has not been engaged in any MSME initiative so far. It believes that MSME development initiatives are better housed with the Philippine Chamber of Commerce and Industry (PCCI) since it has broader membership base. According to the former Executive Director of the MBC (now Secretary of Tourism): "I think its a new area for us because in the past, if its [a] small and medium enterprise concern, we tend to pass it on to PCCI."[94] In addition, he noted that: "You tell us how to do it and give us some models on how to do it. We could promote it but the practices should be more concrete. At this time, it's still policy-level. You identify what's happening out there. Pick up the models and from there you can infer [what] can be done in other industries."[95]

Some business organizations promote the linkages between large firms and MSMEs. For example, the MBC's *Anti-Corruption Initiatives* plan is to clean up the procurement systems and processes in the private sector. A corrupt procurement system in the private sector often victimizes small and medium enterprises who do not have the choice but to pay bribes to secure a business permit. This initiative is part of the thrust of MBC to promote corporate accountability. CSR programs, the MBC said, are useless unless the companies are clean. Doing CSR projects may only ignore or conceal corrupt practices of companies.

[92] Bank of the Philippine Islands. "Business Loans for Small and Medium Scale Enterprises." http://info.bpiexpressonline.com/bpiprod/prodserv.nsf/Real+Estate+Mortgage/REMBusinessLoans?OpenDocument

[93] Bank of the Philippine Islands. "Business Loans for Small and Medium Scale Enterprises." http://info.bpiexpressonline.com/bpiprod/prodserv.nsf/Real+Estate+Mortgage/REMBusinessLoans?OpenDocument

[94] Interview with Alberto Lim, Executive Director, Makati Business Club

[95] Interview with Alberto Lim, Executive Director, Makati Business Club

ECOP's Big Enterprise-Small Enterprise Productivity Improvement Program

EBESE is "a productivity improvement program where the supplier and buyer become partners in their quest to improve their competitiveness." The program entails two strategies for big and small enterprises—"Big Enterprises (BEs) are encouraged to partner with their suppliers so that both can achieve higher productivity and competitiveness [while] Small Enterprises (SEs) are assisted to improve their quality, cost and delivery to effectively respond to demands of customers and buyers."

It adopts a full-cycle approach for the program module beginning from advocacy (accepting change), implementation (applying the change), monitoring (sustaining the change) and all the way to continual improvement (the change becomes an organizational culture). It also employs action training or learning-by-doing, where the company's productivity team is mentored by a consultant. The duration of the actual implementation of the program is three months. The improvement will be applied in the following areas: 5S or Good Housekeeping, Plant Layout, and Production Process. The key result areas are: Increase Product / Service Quality, On Time Delivery of Goods/Services, Reduce Cost of Doing Business, Promote Employer-Employee Relationship Through the Joint-Problem Solving Approach, and Satisfied Customers.

The partners of the EBESE Productivity Improvement Program include government line agencies and business membership organizations. From 2005-2010, its network reached 225 small enterprises and 25 big enterprises in several industries (automotive, food, agro-industries, semi-conductor, printing and packaging, fashion accessories, furniture and décor). The geographical location of its network can be found in Pampanga, Bulacan, Metro Manila, Rizal, Laguna, Cavite, Batangas, Cebu, and Cagayan de Oro.

Source: Gatchalian, Dr. Miflora M. "Moving Up The Supply Chain: Lessons From ECOP Big Enterprise Small Enterprise (EBESE) Program." A presentation by Dr. Miflora M. Gatchalian. http://www.philexport.ph/gmm/jul10/EBESE%20Philexport%20July%2013%202010.ppt

Financial Executives of the Philippines (FINEX) is an association that initiated programs that aim to improve the governance and accounting systems of MSMEs. The Franchising Association of the Philippines is another entity that promotes the practice of CSR among MSMEs so that when large and small companies get together, both have a common understanding of CSR.

The EBESE Program focuses on quality and productivity carried out by large firms to benefit their suppliers based on the traditional buyer-seller relationship. It is expandable in content to include CSR programs and in membership to include MSMEs. It appears that most of the programs focus on upgrading the human resource (labor) component of MSMEs to corporate standards.The program also focuses on human resource development and industrial relations.

In conducting education and awareness programs, shared experiences on similar programs may result in generating ideas on how to practice CSR. One example could be educating companies that CSR entails going beyond philanthropic activities so that CSR can be practiced by different functional business units in supply chain and purchasing management.

In the promotion of MSME development, there is a need to identify champions from the business sector. In the Philippines, one example is the previously cited "Go Negosyo" initiative of RFM Corporation—jointly undertaken by the Philippine government but primarily lead by Jose Concepcion who has provided his personal time as well as assigned corporate resources to the task on nation-building through entrepreneurship among MSMEs.

Another way of providing assistance is through matchmaking/consulting services to large firms and MSMEs. Integrators and co-operators play an important role in promoting linkages between large companies and MSMEs.

Outsourcing contracts and providing assistance to become members of business associations can provide sustainable development and growth of MSMEs.

There are numerous local industry associations that are beginning to integrate and promote partnerships with MSMEs. For example, the Cebu Furniture Industry Association serves as matchmaker between its member companies and local MSMEs to provide a market for MSMEs and to establish a raw materials library.

In 2009, PCCI developed a supply chain program and sent 30 people to Japan to undergo trainors' training on how to institute responsible business practices in the supply chain. These "trainors" in turn linked with the MSMEs to implement responsible business practices in the supply chain. PCCI is encouraging its local chambers to develop the profiles of MSMEs' products and services so that buyers from abroad can use the central PCCI database to source products (like furniture). These business opportunities are then passed on to local chambers who can seek suppliers for products. PCCI has also established the MOVE (Matching Opportunities, Ventures, and Exchanges) committee to set up deals between large firms and small and medium enterprises.

Initiatives of Multilateral Agencies in Promoting MSME Linkages

The SCOPE program tapped the expertise of corporate foundations and non-government organizations in organizing the community. Companies may lack the expertise to properly engage with communities, and thus partnerships with NGOs and peoples' organizations are necessary.

Table 1: Some Examples of SCOPE Projects from 2004-2010

Project Description	Company Benefits	Community Benefit
Figaro Coffee Company led local communities in Luzon and the Visayas towards organic coffee growing, certified according to international standards.	- Sustainable supply of organic coffee	- Increased income - Application of sustainable agricultural practices
Cebu-based furniture exporter, **Dedon Manufacturing Inc.** outsourced its training and mobilization of world class weavers to the Don Bosco Technology Center (DBTC).	- Pool of well-trained work force	- Skills development - Good job opportunities after training
Davao-based **Javlon Microfinance, Inc.** developed and pilot-tested training modules in product development, financial management and marketing strategies, to strengthen and enhance the entrepreneurial capability of their female borrowers.	- Increased rates of repayment of loans - Access to new markets	- Business training gives women economic security and access to loans
Central Azucarera de La Carlota (CAC) helped their host community in La Carlota, Negros Occidental to establish and successfully run a Pasalubong Center.	- Improved waste management - Improved company image	- Increased income - Skills training
Iligan-based **Mabuhay Vinyl, Inc.** supported the host community in jump-starting a local waste management program.	- Reduction of lost work days through healthier work force - Protection of drinking water - Local production of fertilizer	- Income generated through waste management - Ecological consciousness created

Project Description	Company Benefits	Community Benefit
Iligan-based **MCCI Corporation** strengthened the organizational capacity of two communities living in the surroundings of their small-scale mining activities.	- Less drain of work force - Sustainable use of company's legal community payments	- Organization skills developed - Financial support is better planned and used
Del Monte Philippines encouraged local farmers and small-scale landowners to replant denuded land around their plantations in Bukidnon.	- Abaca plants prevent erosion around the nearby plantations - Alternative income opportunities lessen the economic dependence on Del Monte as employer.	- Additional or first income for farmers and land owners from denuded land.

Source: DED Philippines Website. "SCOPE Projects 2004-2010." http://philippinen.ded.de/en/programs/public-private-partnership-scope.html

In implementing Strategic CSR, it is important to draw upon the expertise and structure of large companies. The CSR initiatives of the company and its corporate foundation are not necessarily mutually exclusive. The corporate foundation usually focuses on philanthropic, welfare-oriented CSR programs, while the company's initiatives could focus on Strategic CSR programs aligned with their business goals. In implementing Strategic CSR programs, it would be advantageous to secure the buy-in and involvement of the chief executive officer (CEO).

In evaluating Strategic CSR, the indicators of program performance need to be specified. It is important to take note that there should be benefits for both the community or society and the company. Company benefits may include more reliable suppliers, diversified base of local suppliers, better ability to deal with price fluctuations of imported raw materials, improved business reputation, and relationship of trust with host communities.

Facilitating Factors

Based from the interviews and literature research, the adoption of MSME development initiatives as company's CSR programs is affected by facilitating and constraining factors. According to the research, the facilitating factors are as follows:

- Leadership. The CEO's buy-in is important. CEOs must be convinced that such program is an investment, not an expense.
- Address Supply Problems. Companies need to develop the pool of suppliers in order to ensure quality and continuous supply of raw materials.
- Corporate Culture. Companies with a long history of social development are consciously aware of the need to source locally and to engage with their communities.
- International Pressure. Globalization intertwines markets and consumers. The growing concern of consumers is for companies to implement responsible business practices as well as international codes of conduct, and companies must therefore become corporate citizens as they deal with their suppliers.

- Industry Characteristics. There is more pressure to develop MSME suppliers in export-oriented or high-tech industries compared to commodity-based industries. Commodity-based industries generally have a lower job requirement and a lower set of skills than export-oriented or high-tech industries. Relatively speaking, the former face more supply than they need among MSMEs.

- Profitability Considerations. Sourcing products locally may improve the bottomline. China has become the barometer for competitiveness, if not for quality. Interviews with MSMEs reveal that the larger ones indicate that their owner-managers feel the pressure of cheap imported Chinese products—from fellow MSMEs who are importer-traders. However, a few of the more knowledgeable firms note that Chinese labor is becoming expensive and local sourcing may offer profits as well as better control of supply and sources through geographic proximity.

- Fit between business objectives. Companies with a few suppliers may create opportunities for MSME development in the supply chain to minimize dependency and vulnerability.

Constraining Factors

Improving Strategic CSR in the Philippines requires the following steps:

First, Strategic CSR needs to be more clearly defined both in terms of its boundaries and it has to be distinguished from a purely business for profit initiative. Second, Strategic CSR needs to be more widely accepted through education and advocacy. As noted earlier, philanthropy has a strong religious foundation and is prevalent in the Philippines. In fact, one interview respondent stated that "philanthropy or charitable gift giving is 'real' CSR because I (a family firm owner-manager) do not expect anything in return." Presumably, his reward is in the hereafter. It may seem, for example, that education is a recipient of this philanthropy not only because it is a national need but also because it is "God's will—Christ loves children."

The government can play a more active role in promoting Strategic CSR by formulating specific policies related to the promotion and implementation of Strategic CSR. Moreover, apart from government, other stakeholders such as non-government organizations and business organizations can be involved through the fostering of strategic partnerships and by serving as the link between community and the company.

In addition, there are obstacles in the adoption of Strategic CSR by large firms and MSMEs. The appreciation by large firms of MSME development as a CSR initiative must be enhanced. As such, the potential business benefits must be communicated more clearly to enable large firms to see the initiative as a long-term investment and as a source of revenue instead of a cost. Some large firms have existing business relationships with MSMEs but these are not considered as part of CSR.

Business and industry associations must foster linkages between large firms and MSMEs. Both large firms and MSMEs must be made more aware of the potential benefits of linking with each other for their own advantage and for society as well.

Furthermore, MSME development initiatives may be new and not yet widespread even among those firms that have been practicing CSR. There are firms unwilling to spend for the development of local suppliers, and those that do not have the resources (e.g., financial resources) to implement Strategic CSR initiatives. There are also CSR managers who lack the knowledge and expertise to design and implement such initiatives. There remains a perception that CSR initiatives on MSME development are not high-impact interventions compared to traditional and direct interventions that address poverty, education, health, and environmental issues. Clearly, a large knowledge gap remains among firms, government entities, and business associations about CSR approaches that align business objectives and competencies with initiatives to address societal problems, especially those that strongly affect the profitability and competitiveness of firms.

Finally, the capacities of MSMEs to meet the needs of large firms must be developed. MSMEs in the Philippines generally lack the capacity to serve as suppliers for large firms.[96]

Table 2: Constraining Factors that Affect Large Company and MSME Linkages

Lack of capability and credibility of MSMEs	• Weak capability of local MSMEs as suppliers for large firms • Easier, cheaper to import than to source domestically (tariffs are now much lower): imported materials from China are cheaper compared to materials shipped from Bohol to Cebu • Cost considerations dominate in supply chain management • Many micro enterprises belong to the informal sector (not registered): companies do not like to work with partners with no track record and who cannot issue official receipts • Disincentives (taxes, tedious regulations) for those in the informal sector to join the formal sector • Unfortunately, the research indicates that linkages of large firms are more prevalent with the "larger", e.g. medium-size enterprises, than with micro or small enterprises. Advocacy is required to push large firms out of their comfort zone and to take the time and effort to establish links with MSMEs.
Lack of CSR motivation of companies	• Firms motivated by reputation gains would find MSME development less sexy compared to medical missions, providing scholarships, etc.
High cost of program implementation	• Unwillingness to spend for the development of local suppliers • Availability of financial and other resources for implementation
Stakeholder characteristics/salience	• MSMEs do not belong to any poverty grouping that would provide strong justifications for the firms to provide development interventions • MSMEs are not critical to the success or profitability of large firms
Prevailing research gaps on how to create and manage such programs	• Lack of knowledge of CSR managers to design/implement Strategic CSR initiatives • Such initiatives are perceived as something new

Case Studies on Strategic CSR Initiatives

Toyota. Toyota has a well-run supply/value chain along the lines of inside-out linkages of Porter and Kramer. However, their initiatives probably spring more from the *keiretsu* structure than from reading Porter and Kramer.

In 2005, Toyota Motor Philippines joined the ECOP's EBESE Program.[97] EBESE aimed to create a network of partnerships where large enterprises could mobilize their resources to help small and medium enterprises, based

[96] Leaño, Rhodora. Director, Bureau of Small and Medium Enterprise Development (BSMED), Department of Trade and Industry. Meeting on 1 February 2010.

[97] Aldaba, Rafaelita M., SMEs in the Philippine Manufacturing Industry and Globalization: Meeting the Development Challenges, Discussion Paper Series No. 2008-15 PIDS – May 2008.

on a "big brother-small brother" concept where the "big brother" possessed the resources that would help supply the needs of the "small brother" and subsequently aid in the latter's growth and development. It brought the larger enterprises closer to their suppliers – the small and medium enterprises.

Under EBESE, large, small and medium enterprises were classified based on the level of interaction among the MNCs (e.g. Toyota) and its suppliers (e.g. both large and small). The EBESE classification program is an opportunity for small enterprises to "upgrade" and an advocacy for large firms to intensify efforts to bring in smaller enterprises. In 2008, the Philippine automotive industry had 256 auto parts and components manufacturers. About 124 were classified as first-tier manufacturers that supply directly to domestic automotive assemblers and the 132 (composed of smaller enterprises) were classified as second- and third-tier subcontractors that supply to the first-tier manufacturers.[98]

Toyota Motor Philippines entered the EBESE with five other large enterprises belonging to the first tier and 13 smaller enterprises belonging to the second tier. In 2006, Toyota added two more large enterprises and 19 smaller enterprises. In 2007, one more large enterprise was added along with 19 smaller enterprises.

Toyota provided training to increase the productivity of the smaller enterprises and to help reduce or eliminate wastage. The first level taught know-how in basic tools central to good housekeeping, process flows, plant layout, and human values and productivity improvement. The next level taught the Just-In-Time (JIT) concept of eliminating and preventing anything that does not add value to the product in compliance with quality standards and requirements of customers. The Toyota Cluster was thereby able to strengthen its supplier value chain by promoting improvements in the suppliers' productivity, quality, efficiency, cost competitiveness, and waste reduction and elimination. For example, K&K Molding Inc., a manufacturer and assembler of plastic components for printer and automotive industries, was able to carry out some changes, such as re-layout and product chute installation for its bracket turn finishing process. With these improvements, travel time efficiency improved from 24 seconds/case to 4 seconds/case, an 86 percent improvement. Output per man-hour improved from 138 pieces to 166 pieces/hour, a 19 percent improvement. Also, 276 parts leftover per shift went down to zero.

In conclusion, the program successfully generated significant impact in terms of productivity improvements and revenue increases among its small and medium enterprise participants.

Jollibee. The largest Philippine fast food chain initiated a program entitled *Bridging Farmers* to link small farmers to the company's supply chain. [99] JFC partnered with the National Livelihood Development Corporation, and received support from other stakeholders including the mayor, the Municipal Agriculture Office and other related offices, as well as from private sector partners including microfinance institutions and non-government organizations.

The project's pilot year was in 2008–2009, involving six municipalities in the provinces of Nueva Ecija, Nueva Vizcaya, Bukidnon, and Zamboanga Sibugay. The program components included training to increase the farmers' productivity, to gain skills in enterprise management, and to improve their access to credit through the assistance of partner finance institutions.

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[98] Aldaba, Rafaelita M. March 2008. "A Call for Strategic Government –Industry Coordination: The Autobus is leaving… Can the Philippines Catch It." PIDS Policy Notes No. 2008-02. http:// dirp4.pids.gov.ph/ris/pn/pidspn0802.pdf

[99] Official Website of Jollibee Foods Corporation Available at http://www.jollibeefoundation.org/index.php?option=com_content&task=view&id=19&itemid=33; Jollibee Foundation Annual Report 2008, Harnessing Strengths; and Jollibee Foods Corporation Annual Report, Growing: by Adopting the Flavors of the World

The farmers studied concepts of supply, demand, and competition. The farmers learned about conducting a Market Chain Study for rice, onion, and vegetable products. To see the supply chain at work, farmers visited wholesale markets in Metro Manila and talked to the administrators about their various options. JFC's Purchasing and Supply Chain divisions met with the farmers who then learned about receiving and inspection process, steps in the accreditation of suppliers, and pricing and payment schemes.

Meanwhile, the national and local government offices allowed the farmers access to production and post-harvest technologies such as rain shelters, dryers and packaging to improve farm productivity, quality and shelf life of products.

As a result of the Bridging Farmers program, deliveries of onion, rice, and bell pepper from farmers' groups to JFC started in 2009, assuring the farmers of a stable market and better income. The program showed the following: 1) the successful alignment of corporate and social goals, with JFC being able to enhance its value/supply chain and at the same time (with the help of other stakeholders) managed to provide assistance to a vulnerable sector of society; 2) how a company upheld and used its core competencies in a CSR initiative; and 3) how a successful CSR initiative could involve multiple stakeholders working together.

By the end of April 2010, the farmers from San Jose, Nueva Ecija, through the Kalasag Producers Cooperative, had delivered a total of 95 metric tons to JFC's Commissary in Canlubang, with almost zero percent rejects. Aside from generating stable profit from their engagement with an institutional buyer like JFC, the Kalasag coop members also benefited from better credit terms from microfinance institutions and equipment support from the Department of Agriculture. The key success factor is the improvement of the reliability of the JFC suppliers undertaken by the partnership.

Deliveries of onions from Bukidnon farmers to the Cebu commissary are expected to commence in the second quarter of 2010 while those of salad tomatoes and bell pepper will commence by June 2010. A total of 3,000 farmers are expected to benefit from the three-year program.[100] The pilot run involving the JFC Supply Chain project, Jollibee Foundation together with its major project partners, JFC, Catholic Relief Services (CRS) and National Livelihood Development Corporation (NLDC), will expand to cover more farmers in new sites while still concentrating on selected products such as onion, bell pepper, salad tomatoes and rice to help communities in Bukidnon and Nueva Ecija while adding new partners in Quezon and Misamis Oriental.[101]

Manila Water. Manila Water's CSR programs represent building blocks towards the fulfilment of higher development objectives of Ayala Group's CSR; water, infrastructure, poverty alleviation, and environmental protection objectives of MTPDP 2004–2010; and environmental sustainability targets for access to safe drinking water and proper sanitation facilities under the MDGs.[102]

Manila Water's *Kabuhayan Para sa Barangay* (KPSB) or Livelihood for the Community assigned jobs to cooperatives and use them as suppliers and service providers for some of the company's requirements. Through KPSB, the company provides seed capital and training for backyard cooperatives to produce essential consumable items such as pipe nipples, bollards, and A-frames that are used by the company itself in its civil

[100] Jollibee Foundation. (undated) "Jollibee Foods Corporation Strengthens Partnerships with Onion Farmers as Suppliers", http://www.jollibeefoundation.org/index2.php?option=com_content&do_pdf=1&id=84

[101] Jollibee Foundation. (undated) "Jollibee Foods Corporation Strengthens Partnerships with Onion Farmers as Suppliers", http://www.jollibeefoundation.org/index2.php?option=com_content&do_pdf=1&id=84

[102] Manila Water. "Corporate Social Responsibility," http://www.manilawater.com/section.php?section_id=4&category_id=23; and Manila Water Sustainability Report

works projects. In its 2008 Annual Report, Manila Water reported that the KPSB contributed PhP24.7 million worth of jobs benefiting 800 families.

Manila Water's Vendor Program assists contracted enterprises and suppliers through the extension of financial assistance and the development of technical, business, and managerial skills of their people. The vendors become the company's partners in providing water and sewer services in the metropolis.

Manila Water's Vendor Program

Manila Water's Vendor Program aims "to provide contracting firms and suppliers not only growth and development in their business activities but financial assistance as well, for them to reach their ultimate potential of being world-class enterprises equipped with the highest levels of technical, business and managerial skills." Its objectives are:

- Develop good performing contractors as partners of Manila Water Company (MWC)
- Address immediate needs/requirements of the company
- Fast track project implementation
- Support economic progress through the development of small and medium enterprises

The company's vendors are classified into three types:

1. Corporate Suki contractors - The most trusted and accomplished among Manila Water's Accredited Vendors. At this stage, the chosen contractors are given first option in the bidding and negotiation of major ticket projects, have reached financial stability, have adopted quality standards as a habit, and have passed several technical standards.
2. Suki contractors - Hereunder, the contracted enterprises have passed the initiation stage with no adverse report on performance/workers' behavior, have earned an endorsement from the Business Area Management Core Team, and have maintained safety and quality standards at all times while working exclusively for MWC.

   This stage ensures further growth of contracted enterprises as they will undergo training programs on technical and non-technical standards, will acquire projects through negotiation, and will be provided with a loan package from Banco de Oro based on competitive market rates.

   While Manila Water continually supports them in their development, the company's expectations rise higher as well. Manila Water demands that Suki contractors at this stage conduct business with the highest level of integrity, comply with technical and customer standards, execute projects on time, and assist the company in meeting its business objectives.
3. Non-Suki contractors - The initiation stage for accredited contractors. At this stage small and medium contracted firms undertake a variety of small scale civil works such as leak repair, network improvements and water service connections.

Source: Manila Water. "Vendor's Program." http://www.manilawater.com/vendors.php

Manila Water's flagship program, "*Tubig Para sa Barangay*" (TPSB) or "Water For the Community" seeks to address the need for a regular, clean supply of water, and is designed for low-income communities, including informal settlers, and for areas where there is poor water quality arising from the proliferation of illegal water connections. Since it started in 1998 more than 1.5 million people have benefited from the program in terms of higher savings for families, reduction in water-borne diseases, and improvement in the community's overall sanitary conditions. Interestingly, the company did not use its own supply/vendor network but instead used local, community-based informal water vendors and trained them in sanitation and hygiene in order to improve the delivery of "quality" services to its customers.

Manila Water also carried out water and sanitation programs for public service institutions such as schools, hospitals, markets, city jails, and orphanages in the East Zone of Metro Manila. It likewise targeted community-based cooperatives to be the beneficiaries of its development and livelihood programs and made them part of its supply chain. To help protect the environment, the company embedded important environmental initiatives in every level of the water supply cycle to ensure sustainability and reliability of services to customers. The small vendors are the final component of the supply chain for Manila Water but they are the critical component because these vendors deal directly with end-users and are a source of information for the company. Manila Water is encouraging these informal vendors to register as micro enterprises in order to avail of benefits related to micro-enterprises. Manila Water now delivers 24-hour water supply as well as sewerage and sanitation services to more than five million customers in the East Zone of Metro Manila.

Manila Water not only highlights how the benefits of CSR can go beyond the value chain and to society at large, it also shows that CSR initiatives can contribute to a company's own sustainability. Manila Water's interventions strengthened its supply chain, raised people's incomes through job creation, and helped improve as well as protect the environment in which the company operates – all of which can positively affect Manila Water's own sustainability both in the present and in the future.

The cases of Toyota Motor Philippines, JFC and MWC can all be considered as cases where Strategic CSR was successfully applied. The cases illustrate the alignment of corporate and social objectives and the enhancement of the companies' own value/supply chains, focusing on their core competencies to help achieve development goals, and making CSR initiatives contribute to the companies' own sustainability.

Globe Telecom. There was a time when its CSR programs were philanthropic and not clearly linked to its core business. Now, Globe focuses on democratizing the access and distribution of technology to MSMEs as a specific market segment that has contributed substantially to its profitability while also contributing to national development. Globe's Filipino owners have a long tradition of philanthropy partly based on noblesse oblige. The company therefore readily translated its activities into the stated goal (in a past annual report) of creating value for both society and the company as part of good corporate citizenship and to sustain their presence (and image) in the public.

While Strategic CSR is important, philanthropic initiatives remain valuable for the company. Philanthropic initiatives, explains Jeffrey Tarayao, CSR Manager of Globe, are needed especially by people living below the poverty line who do not have the needed education, mindset and other capacities to take part in livelihood and other economic opportunity-enhancing initiatives. Scholarships, livelihood programs, health projects are still important. They can help the poor to move beyond the poverty line, to participate in the company's Strategic CSR programs and to harness opportunities from its products such as the Auto Load Max Sim.

Globe Auto Load Max Sim offers an opportunity to individuals and micro enterprises to earn incremental income by enabling anyone—from tricycle drivers, bus operators, sari-sari stores—to serve as retailers of mobile credits (load). With only PhP 1,000, any micro-entrepreneur or individual can be a retailer and earn a 12 percent profit.

This product offering has widened the consumers' access to technology, diversified the company's product offerings to benefit poor consumers, and mitigate its environmental impact associated with the production of call cards. Load is electronically transferred from one's phone to another, thus no call cards are printed. Through this product offering, Globe increased its pool of distributors from 50,000 in 2003 to 700,000 in 2010.

The *Globe BridgeCom sa Bayan* initiative is the company's leadership and entrepreneurship program for community leaders and micro-entrepreneurs. The company helps communities identify business opportunities and provide them with skills on strategic planning, marketing and financial management. It encourages and capacitates community leaders, microfinance institutions and OFW (Overseas Filipino Workers) families to actively get involved in livelihood activities and in the creation of small businesses. The entrepreneurship initiatives offered by Globe under the BridgeCom sa Bayan Program are:

- Business at the Base of the Pyramid. Globe tailored its services and products to the needs of the low-income segment. It used "smaller value top-up denominations, innovative distribution models and technology breakthroughs for millions of subscribers."[103]

- Enabling Technologies for a New Entrepreneurial Class. "Globe Autoload Max created a new class of entrepreneurs. By simplifying retailer requirements, the company generated job opportunities and created a new revenue stream for these entrepreneurs. As a result, the benefits are being felt by an army of proprietors; their numbers have swelled from 50,000 in 2003 to more than 670,000 today."

- Utilizing the Internet for Business Opportunities for the Underprivileged. Through the Internet Café Kit, "it provides a business-in-a-box solution to help entrepreneurs start their own internet surfing or gaming business which includes hardware, software, connectivity options, marketing support, consultancy and after-sales support in partnership with other service providers."

- Advocating Entrepreneurship to Small & Medium Enterprises. In the Masigasig Magazine, "Small and medium enterprises learn about tips on how to grow their businesses and connect them to more people and technologies by featuring stories of successful entrepreneurs and the values that made them resilient, relentless and rich in growth and opportunity."

Since May 2005, this program has benefited 2,500 women micro-entrepreneurs and 4,475 barangay leaders in 1,102 barangays (villages) from 231 cities and municipalities in the country. Finally, the company CSR initiatives and product offerings have contributed to a greater understanding of specific customer segments, such as micro enterprises and the poor.

[103] Globe Telecom. (2009). "Bridging Communities: 2008 Corporate Social Responsibility and Sustainability Report." http://site.globe.com.ph/c/document_library/get_file?uuid=da90c682-5c03-4b23-929a-7add483c05ca&groupId=19543

9. General Recommendations

A Concerted Effort

The wider adoption of Strategic CSR in the Philippines, particularly those CSR initiatives involving large firms and MSMEs, requires a concerted effort among the various stakeholders. The wider education of all stakeholders on Strategic CSR is important in promoting a shift from CSR in the form of one-time corporate giving and philanthropic activities to a more sustainable effort. This entails increasing the government's appreciation of mobilizing resources for MSME development, increasing the appreciation of large firms on MSME development as a "win-win" CSR initiative, and clearly communicating the business benefits (e.g. stable supply chains and long-term cost savings) of CSR initiatives on MSME development.

Dissemination of Knowledge

Knowledge about MSMEs must be generated and disseminated to large firms (on how to communicate, educate, and transfer knowledge effectively to the MSMEs). At the same time, MSMEs must be educated on how to work with large companies, including adopting their environmental codes and product and quality standards. Training programs for CSR and business managers should be organized to increase their competencies in designing and implementing Strategic CSR initiatives on MSME development.

Role of Government

The government can improve the credibility of MSMEs as part of large firms by providing incentives and by streamlining procedures to register enterprises in the informal sector so that these enterprises will be part of the formal economy. As part of the formal economy MSMEs would be able to present proper credentials and issue receipts. Proper documentation would enable these MSMEs to become more credible business partners for large companies.

Government must also reduce the regulation on MSMEs. A systemic intervention that ensures coherence of government efforts in the promotion of MSMEs can provide an additional and much needed boost to formalize and develop the sector as a whole.

With regard to CSR and MSMEs, the government's role as a facilitating and mediating partner is essential. Government can encourage links between large firms and MSMEs by endorsing "legitimate" MSMEs. The DTI has an on-going effort to catalogue MSMEs not only in terms of products but also in terms of capability. However, efforts to mandate partnerships between large firms and MSMEs run the risk of minimum compliance rather than building permanent relationships.

Incentivizing MSME development is another measure that the government can undertake. Large companies that implement programs on MSME development can benefit from tax incentives. However, tax incentives can be abused because there is no measure for differentiating between a one-time business initiative and a Strategic CSR program.

Government can work with the private sector to develop a long-term MSME development blueprint to provide concrete programs. This will also limit the possibility of redundancy in MSME development initiatives being undertaken by firms.[104] In addition, segmenting the MSMEs by capabilities and other criteria will provide an assessment of needs, wants, and constraints and result in a strategic intervention plan to improve competitiveness. By identifying the concerns and interests of various stakeholders particularly the MSMEs, large firms, government and business organizations, a matrix can be formulated to present immediate needs and the prevailing business conditions. The government and business organizations can develop a plan which will enable them to identify how their competencies and capabilities can address the needs of the MSMEs and large firms. The preceding suggestions indicate a need to integrate and systematize government efforts to assist MSMEs.

The government can further facilitate linkages between large firms and MSMEs through country-wide catalogues, profiles and information on MSMEs including an inventory of MSME products, services and needs to guide large companies in designing their initiatives on MSME development. These outputs will also educate large firms and encourage them to transfer the knowledge to the MSMEs. The DTI can build on its existing database and provide a ready catalogue of MSMEs by product category, location and production capacity.

Government will assist in basic capability building for MSMEs, perhaps through a partnership between TESDA and DTI. The program could cover "grassroots training" for MSMEs on the specific needs and expectations of large companies, including their environmental codes, and product and quality standards.

Role of Business Membership Organizations

The government is not alone in promoting Strategic CSR. The private sector, through business membership organizations and trade association, can also develop and promote industry-wide Strategic CSR initiatives on MSME development; and encourage members to collaborate on industry-wide Strategic CSR initiatives on MSME development; encourage their members to adopt and adapt Strategic CSR initiatives on MSME development. They can develop and implement supply chain development initiatives that encourage companies to integrate MSMEs into their value chains, improve the ability of MSME suppliers to serve the needs of large companies, and increase MSMEs' appreciation of responsible business practices.

Partnership with government agencies, donor agencies and including companies will generate a critical mass in promoting responsible business practices among MSMEs especially in key export-oriented industries whose demanding buyers seek the institutionalization of practices such as environmental responsibility among their suppliers. The BMOs can work with government agencies in facilitating the provision of counterpart financial and technical assistance to large firms that want to promote the adoption of responsible business practices among local MSME suppliers.

Role of Large Firms

The CSR rationale for engaging the smaller MSMEs is straightforward—increasing income and employment opportunities for this sector. The business logic requires moving from what large companies can do or are already doing (i.e., in using smaller enterprises as suppliers and subcontractor), to what they should do (i.e., accelerating the development of know-how and skills among the smaller MSMEs by improving processes and productivity to increase volumes and basically to "graduate" them from small- to medium- sized enterprises.)

Large companies need to implement initiatives that strengthen their business linkages with local MSMEs and build the capability of local MSMEs to meet the needs of both domestic and MNCs operating in the economy.

[104] Interview with Jeffrey Tarayao of Globe Telecoms

Large companies should integrate the goal of contributing to local economic development into their business and CSR frameworks, and where possible, integrate MSMEs into their supply chain activities. They should include MSME development as a key CSR area and help MSMEs to meet their business objectives.

Large firms can identify the societal impacts of their business operations and supply chain activities, and then design their CSR initiatives to manage and address these societal impacts. They can examine their supply chain and identify business opportunities for local MSMEs and align their Strategic CSR initiatives on MSME development with their business goals. Likewise, large firms can identify the societal problems that strongly affect their competitiveness, thereby designing Strategic CSR initiatives that will mitigate these problems and will integrate socially responsible business practices in the company's supply chain activities: procurement of raw materials and services and distribution of products and services.

The business plans of large firms should include MSMEs as long-term partners that go beyond ordinary buyer-seller relationships. For example, a business plan may include a budget for framing interventions to develop the capabilities of MSMEs. Large firms tend to be top-down and hierarchic. The concept of a bottom-up business plan involving "outside" stakeholders is actually a significant change in a large firm's way of doing business. Internally, large firms can improve the capability of the CSR managers to identify problems and opportunities in the company's supply chain, and then to design appropriate CSR initiatives.

In the implementation of strategic CSR initiatives on MSME development, large firms should demonstrate strong commitment to the development of MSME business partners (to address the issue of suspicion), deliver capability-building interventions (e.g. increasing access of MSMEs to technology, capital and markets), and reform certain procedures in doing business to accommodate MSMEs (e.g. shorter payment periods for MSME suppliers). Engaging MSMEs has two elements of which building trust is the most important one. Some MSMEs probably have past experiences of large firms "experimenting" and then abandoning initiatives. Trust is a necessary condition to the second element of operations-oriented initiatives—such as capacity building and shorter payment terms.

10. Recommendations for MSME and Large Firms

In a recent survey, the RVR Center identified specific roles of companies based on their size and scope.

Most MSMEs in the Philippines are family-owned or single proprietorships. Many do not pay minimum wages or regularly engage in part-time employment to improve their profitability. These firms may regard CSR as a cost rather than a value. The first task for large firms may be to offer MSMEs processes to increase productivity and lead to a larger volume of business in exchange for minimum compliance or more. Intel used this approach in "greening" its supply chain.

Table 3: Roles of Companies based on their Size

Small Enterprise	Medium Enterprise	Large Enterprise
Operating with ethical business practice	Managing/reporting finances accurately	Maximizing profits
Managing/ reporting finances accurately	Operating with ethical business practice	Operating with ethical business practices
Maximizing long-run profits	Protecting consumers	Managing/ reporting finances accurately
Protecting the consumers	Ensuring employee health and safety	Protecting consumer and external customers
Protecting the environment, ensuring employee health and safety and providing employee benefits	Providing employee benefit	Ensuring employee health and benefits

Source: Roman, Francisco L. and Ryan Vincent L. Uy, The Evolution of CSR: Stages, Issues and Trends- A Comparison between the United States and the Philippines, AIM Journal for Asian Management Volume 1 Issue 01.

According to the Evaluation of the SMED Plan 2004-2010, MSMEs play a crucial role in the promotion and development of CSR because registered MSMEs approximately provide 70 percent of employment in the Philippines. The report also highlighted four principal areas for MSME development: BIEE (Business and Investment Enabling Environment), A2F (Access to Finance), A2M (Access to Markets), and P&E (Productivity and Efficiency). Based on the evaluation report of the SMED Plan, improvement has occurred in the four principal areas. However, access to finance and market remains an issue. The lack of credit, skills, technology and access to market are still a common problem for MSMEs despite the rapid growth of micro-finance institutions.

Another internal RVR Center (unpublished) report, entitled "The Strategic Corporate Social Responsibility Initiatives for Large Firms: Improving the Competitiveness of Micro, Small and Medium Enterprises," identified similar constraints. The responses indicate weak access to capital, technology, market, costly inputs, inadequate infrastructure, regulatory barriers, a governance gap and burdensome taxation.

According to the RVR Center interviews, MSMEs in the Philippines still lack the capacity to serve as suppliers for large firms as indicated earlier in the Reverse Trade Fair, organized by the DTI. The Fair tried with only modest success to bridge the gap between large companies and MSMEs to create new business opportunities.

Strategic CSR Framework

The RVR Center is engaged in both research on the state of CSR in the Philippines and in the region and in advocacy on expanding CSR projects, programs and initiatives. The latter now involves integrating CSR in the business operations of MSME in order to provide new business opportunities for the company, enhance business performance of the company, and address social issues, thereby creating a shared value for both the MSME and the community.

The RVR Center is developing a framework that intends to accelerate the progress towards Strategic CSR. One component is to accelerate the engagement of large firms with MSMEs. Large firms deal with smaller enterprises on an "arms-length" basis. However, since there is already an existing relationship between large firms and small enterprises, expanding and intensifying the relationship should be feasible.

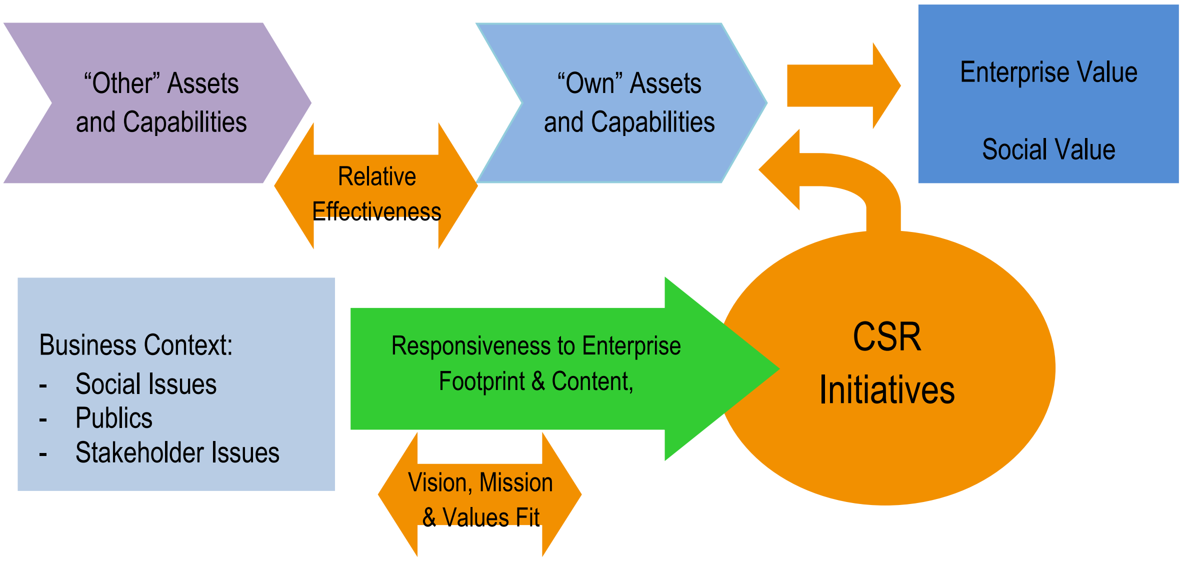
Firms must identify key stakeholders and their needs and then determine the available resources at the disposal of the company, such as financial capacity, technical and manpower capabilities. The process of matching can occur at the level of corporate planning for the annual and long-term firm strategy. This process can help provide an overall strategy for the company. The company then reviews its core competencies (skills and resources) with respect to MSME development.

The authors developed the expanded framework in Figure 2 as an approach to evaluating CSR opportunities. Large firms clearly play a crucial role in part because large firms have more developed CSR programs and have the resources and the technical expertise. As noted, large firms can create linkages with MSMEs to serve as a supplier of raw materials and provide other services. However, engaging MSMEs into the companies' supply chain by itself is not Strategic CSR. MSME development programs should move beyond seeking profitability and must address community concerns and social issues that MSMEs are involved in.

Figure 2 was recently developed as a "generic" framework. It was not specifically intended for MSME engagement. However, since it is in use among the RVR Center's network of companies, the RVR Center is attempting to "fit" MSMEs in the generic framework because firms tend to prefer being able to classify activities into recognizable "boxes." As the figure suggests, CSR initiatives must create both enterprise and social value. MSME engagement can fit in the "box" of "Other" Assets and Capabilities—implying a responsibility of the firm to build the MSME partnership.

Business organizations such as the PCCI have begun to push local chambers to get profiles of MSME products and services, as well as set up programs to provide linkages between large firms and MSMEs. Financial Institutions have also begun to create microfinance programs for their small and medium enterprise clients. In addition to a "standard" lending program, MSME financing also takes the form of grants—particularly if an international donor is involved, or through hybrid programs wherein large banks offer funding via foundations.

Figure 2: Strategic CSR Framework



Source: Alfonso, Herrera, Roman, 2010

The RVR Center interviews indicate that some large companies have existing business relationships with MSMEs but these are primarily value chain linkages between large companies and MSMEs to expand the former's network. As noted earlier, there is an "arms-length" relationship between, for example, a large firm and its suppliers or subcontractors. Strategic CSR requires greater engagement especially with MSMEs.

BOP Strategy 2.0: Business Co-Venturing

The RVR Center is also evaluating the Simanis and Hart (2008) framework to expand Strategic CSR initiatives between large firms and small enterprises. Simanis and Hart developed the "next generation" bottom of the pyramid (BOP) Strategy that sought to look at the poor as business partners and not merely consumer of quality products. BOP is a strategy developed by the late C. K. Prahalad that essentially states that the "poor" are viable consumers. "BOP 1.0" as espoused by C.K. Prahalad sought to address poverty and social concerns by providing quality and cheap services to the poor. Developing this concept to an "enterprise-based approach" (or BOP 2.0), Simanis and Hart identified the potential for companies to partner with the poor in addressing community concerns. They also argue that their partnership is more sustainable as firms engage in a process of "co-invention and business co-creation" with the communities. By doing so, they establish "close personal business partnerships" with the communities. In summary, the partnerships create "community value while establishing a foundation for long-term corporate growth and innovation, and require an entirely new strategic process and corporate capability."[105] A partnership with the MSME sector is one vehicle in addressing community issues.

In operationalizing BOP 2.0, it is essential to develop scale (relatively speaking) by having the poor coalesce into small enterprise entities that larger firms can partner with, for example, via supply chain and distribution channels. However, this process of coalescing is not automatic. Government or private enterprise must initiate

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[105] Simanis, Erik and Stuart Hart. (2008). "The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy." (NY, Cornell University)

the process. Simanis and Hart proposed three phases for companies to undertake when implementing BOP 2.0:[106]

- "Opening Up" begins with a company immersion in the community using homestays to build rapport and a base of trust. "Homestay" is one component of corporate volunteerism where they combine an employee (who is a member of the community) with another employee (who is not a member), both of whom will "stay at the home" of a third community member household.
- "Building the Ecosystem" begins by formalizing a project team comprised of company representatives and those community members who remain committed and motivated to building the new business.
- "Enterprise Creation" creates the full business model using small-scale tests and continued action learning.

Table 4: Next Generation BOP Strategy

BOP 1.0	**BOP 2.0**
• BOP as consumer • Deep listening • Reduce price points • Redesign packaging, extend distribution • Arm's length relationships mediated by NGOs	• BOP as business partner • Deep dialogue • Expand imagination • Marry capabilities, build shared commitment • Direct, personal relationships facilitated by NGOs
"Selling to the Poor"	"Business Co-Venturing"

Source: Simanis, Erik and Stuart Hart. (2008). "The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy." (NY, Cornell University)

Binalot's DAHON Program

In the Philippines, there is one application of the framework identified as "after-the-fact". One corporate initiative that operationalizes this framework is Binalot's DAHON Program. Binalot[107], an MSME, is a Filipino fast-food chain that specializes in traditional Filipino dishes wrapped in banana leaves. The DAHON Program sought to address Binalot's problem of sourcing banana leaves for their packaging. Through research they were able to identify a community in Laguna that could supply banana leaves for the company's operations.

Binalot is a case on enterprise development. Binalot's signature packaging using banana leaves has not only contributed to environmental protection but also provided livelihood programs for 30 families in Nagcarlan, Laguna.

Banking on its unique packaging and product offering, Binalot created a niche for a Filipino fast food chain. From a food delivery operation in 1996, Binalot offered franchising in 2003. With over 10 years of operations and using banana leaves as its signature packaging, the company sourced quality leaves from its suppliers located in Metro Manila. However, Binalot faced a crisis in its supply chain when Luzon was hit by typhoon Milenyo in 2006.

The extent of Milenyo's damage was visible across the agricultural landscape of Luzon. One of the hardest hit areas was Laguna, where the production and harvest of banana leaves were greatly affected. Where will Binalot find the packaging materials used for their products?

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106 Ibid.

107 For more information about Binalot Fiesta Foods, you can visit their website at <*www.binalot.com*>

Binalot used to source their banana leaves from the wet markets in Paranaque. After Milenyo, Binalot decided to source their banana leaves directly from the farmers. The decision served a two-fold purpose: to benefit the community and to ensure a consistent high quality supply of banana leaves. More importantly, the initiative offered an opportunity for Binalot to start and implement their CSR program. In 2007, the company established the *Dangal At Hanapbuhay para sa Nayon Program* (DAHON) (Dignity and Livelihood for the Community). Under the DAHON Program, Binalot not only buys banana leaves from the community farmers but provides livelihood programs for the women in the community.

About 30 families currently benefit from the DAHON program, mostly women and the elderly, who are now able to earn an additional PhP 200 for their family by cutting and cleaning the banana leaves. Moreover, the elderly regained their self-esteem as they became economically empowered and no longer needed to wait for assistance from other family members.

The program's success received international and national recognition. In 2007, Binalot received the UPS special award for small businesses, with a USD 10,000 prize. In February 2008, they received the 43rd Anvil award for their DAHON program.[108] In 2010, it received the Intel-AIM Corporate Responsibility Award.

Phase 1 Opening-up: The company met with a community leader and discussed with him the potential demands of Binalot in terms of the quantity of banana leaves needed. As a rural community, it is common for the community members to distrust Binalot as an outsider. Binalot was the first company to initiate a transaction with a community that previously experienced corporate abuse and non-payment. With the interest and commitment the community leader became the spokesman to build trust on the potential opportunity for the community to earn a living.

Phase 2 Enterprise Creation: Binalot's Operations Manager met with the community leader and members of the community to familiarize them with the order requirements and company policies. Binalot trained interested community members on how to cut, pack and bundle the banana leaves. The community leader was also trained on how to cost the banana leaves to ensure that the workers from the community earn a living. He also familiarized them with order and payment procedures. As a rural community with no telephone lines, Binalot and the community leader communicate through "text" messaging. For instance, Binalot sends a message to the community leader on the quantity of banana leaves needed at a given delivery date. Payment is through cash-on-delivery scheme as the community is reluctant to use an unfamiliar bank order scheme. Subsequently, Binalot assisted the community leader to open a bank account so that withdrawal of payments would be more secure.

Phase 3 Building the Ecosystem: Binalot used the banana leaves and also marketed the banana leaves to other restaurants in Manila to use in their packaging. Binalot marketed the banana leaves from Nagcarlan workers who then became potential suppliers to other restaurants. As a result, there are currently two companies who source their leaves from Nagcarlan through the efforts of Binalot. Binalot delivers, at no additional cost, the banana leaves from the warehouse to the restaurants. Thus, the Nagcarlan community receives the full amount paid by the other restaurants.

From 2010 onwards, Binalot plans to develop four more communities to become part of its supply chain. They are collaborating with a community in Subic, specifically with the Aetas, an indigenous tribe in northern Luzon. Another location is in the Visayas, which Binalot foresees as a potential supplier of dried fish. The third and fourth locations are still being assessed. The experiences from the Nagcarlan site that include: (1) establishing a cooperative, where community members equally benefit; (2) forging a written document identifying the roles and responsibilities of the partners; (3) identifying and building a sustainable relationship with the critical stakeholders (i.e., local government, tribal heads, etc); and (4) building alternative suppliers for its raw materials, will be implemented in these four communities.

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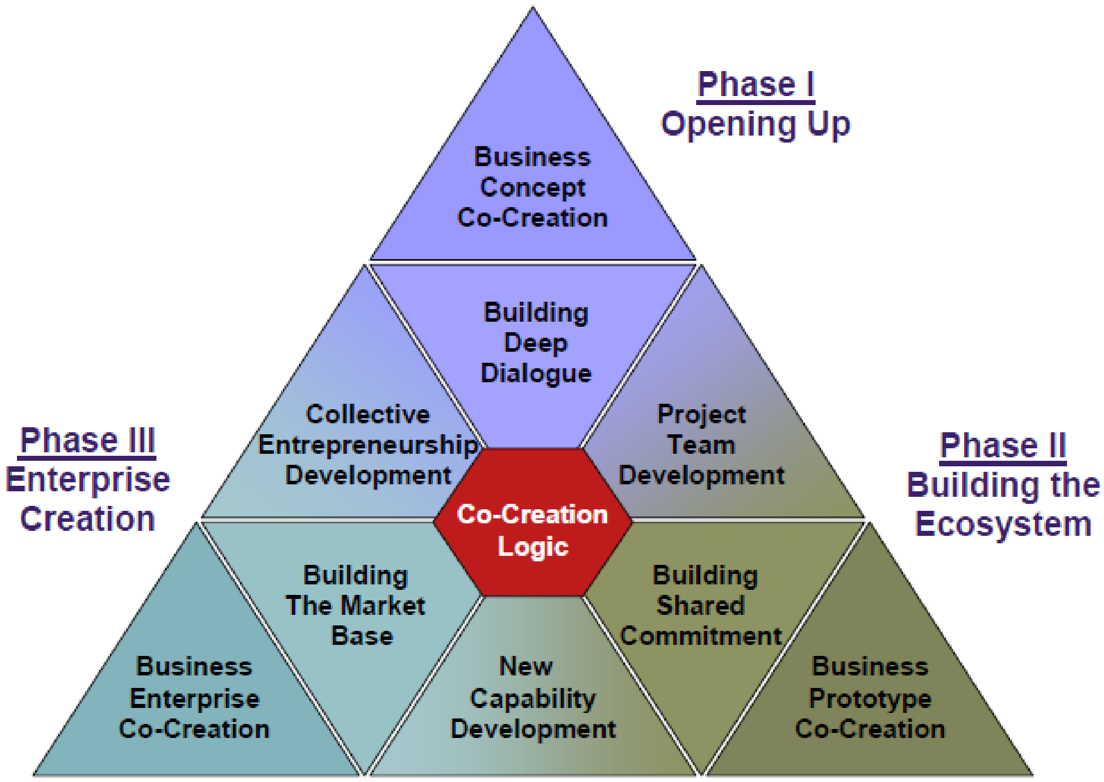
[108] Roman, Francisco L. and Ma. Cristina Alarilla (2010). Leaf of Faith: The Case on Binalot's Corporate Social Responsibility Initiative. Unpublished Document, AIM Case Study.

Figure 3: The Base of the Pyramid Protocol: Toward Next Generation BOP Strategy



Source: Simanis, Erik and Stuart Hart. (2008). "The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy." (NY, Cornell University)

Figure 3 is an extension of the work of the late C. K. Prahalad. The latter was as well known in North America as Porter. His book rationalizing the poor as customers had a significant impact on corporate strategy. It might be argued that Prahalad was merely documenting and expanding existing business initiatives. For example, large companies engaged in fast moving consumer goods retailing and mobile operations were already providing products and services to the poor. Nevertheless, Prahalad's work legitimized the strategy of meeting the needs of the BOP. As indicated earlier, Simanis and Hart took his work a step further by exploring the process of "co-creation"—an essential element in engagement with the MSME. The authors offer a framework that can be expanded into a "toolkit." Despite the business language, their framework presents a hierarchy of engagement processes. For example "Business Prototypes" require developing the "Project Team" and "Building Enterprise" requires "Building the Market Base." The apex is "Business Concept Co-Creation" in this case between the large firm and the MSME that reverts back down to the bottom of their pyramid framework to continue the process of developing prototypes and enterprises.

Design, Implementation and Evaluation of Strategic CSR Initiatives on MSME Development

There are several issues to be resolved. Both large firms and small enterprises tend to think of the latter as "beneficiaries"—with its own mindset, as opposed to being partners with a joint responsibility for implementing CSR initiatives. MSMEs tend to distrust large firms in part because the former perceive that the latter are condescending and are poor listeners. Both large firms and small enterprises need to explore other options beyond, for instance, livelihood programs. The tendency is for both entities to transfer responsibility to a community NGO, for instance, one that is engaged in small-scale income generating household production of handicrafts—to the detriment of forming a lasting partnership.

On the other hand, there is a valid role for NGO-intermediaries. The inside-out approach helps companies identify gaps or future opportunities. But these firms may not have the network to identify and organize communities—for example, in the seaweed industry made up of community-based small enterprises with a potentially large export market demand. Hence the utility of the SCOPE program discussed earlier.

Globe learned from its *BridgeCom program* to design its entrepreneurship development program based on the needs of the community and the potential business benefits such as an improvement in the company's reputation. Globe has booths to showcase and market its products and services and what these could do to assist the training participants in their business. The company is explicit in its policy not to require its training participants to purchase its products or services. However, the company tapped the strengths of its corporate business units to help train MSMEs. Employees from the finance and accounting, marketing and product development participated in the delivery of this program. Globe learned that small and medium enterprise development requires long-term investment and entails a lot of relationship- and trust-building activities. Aside from its BridgeCom Program, Globe established a separate business unit dealing with small and medium enterprises, attesting to the importance of this market segment to the company's profitability and sustainability. Looking at MSMEs as a direct market for the company's products and services, the business unit continues to build and examine the interests and behavior of the customers.

Overall, large companies can deliver capability-building interventions for MSMEs by financial literacy programs for MSMEs, providing business advisory services (product development, marketing, CSR design) through employee volunteers, increasing access of MSMEs to technology, capital and markets, and adjusting procedures in doing business with MSMEs, for instance, by shortening payment cycles for its MSME suppliers.

Large companies that are actively engaged in CSR, whether strategic or not, have an institutional knowledge on how CSR works. Drawing on their experiences to assist MSMEs is an easy way to start an engagement process between large firms and MSMEs. However large firms must internally assess their structures and processes based on the type of industry. Corporate foundations can focus on welfare-oriented CSR programs, while companies themselves could focus on CSR programs aligned with business goals. Finally, the evaluation of Strategic CSR entails clarifying the indicators of program performance. It is important to take note that there should be benefits for the community/society and for the company.

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Annex A: Strategic CSR in MSME Development: Concepts and Frameworks*

1. STRATEGIC CSR AND VALUE CREATION

Porter and Kramer challenge two assumptions and philosophy on CSR: (1) social and economic interests are separate and distinct and (2) the assumption that corporations, when they address social objectives, gain no greater benefit than is provided by private individuals. According to them, these only hold true when corporate contributions are unfocused and piecemeal as is often the case today.[109]

In arguing for a different take on CSR, Porter and Kramer suggest that there is a convergence of interests between the profit goals of businesses and the social benefit goals supported by philanthropy.[110] This point of convergence combines social and economic benefits and can be accomplished when companies take on a Strategic CSR approach.

Strategic CSR is offered as a solution to make CSR a win-win proposition for societies and the firms operating in them. The essence of Strategic CSR is the creation of "shared value" both for business and the society by combining social and economic benefits.

Strategic CSR is viewed as a business strategy. According to McEthany, Strategic CSR is a business strategy integrated with core business objectives and core competencies, albeit one intended to create both business value and positive social/environmental value.[111] On the other hand, Porter and Kramer describe it as a CSR approach where the company brings its unique assets and expertise to simultaneously address important social and economic goals.[112]

Moreover, Porter and Kramer underscore the practicability of Strategic CSR and hold that true strategic giving goes beyond cause-related marketing. Their framework stands in opposition to earlier authors who included Corporate PR and cause-related marketing as components of CSR. Strategic CSR "addresses important social and economic goals simultaneously targeting areas of competitive context where the company and society benefit because the firm brings unique assets and expertise."[113]

Through Strategic CSR, companies will make the most social impact and gain greatest profits. [114] Porter and Kramer strongly argue that strategic philanthropy "can be the most cost-effective way for a company to improve its competitive context, enabling it to leverage the efforts and infrastructure of nonprofits and other institutions."[115]

They regard strategic philanthropy as a tool of Strategic CSR—usually under the aegis of a corporate foundation because the latter may have a different mandate, e.g., a long-run breakeven as opposed to profit-generation that

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[109] Porter, Michael and Mark Kramer. (2002) "The Competitive Advantage of Corporate Philanthropy." Harvard Business Review, December 2002: 58.

[110] Ibid.

[111] McElhany, Ellie . (2007). "Strategic CSR." *Sustainable Enterprise Quarterly* 4 No. 1. Center for Sustainable Enterprise, UNC Kenan-Flagler Business School (September 2007): 1.

[112] Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

[113] Porter, Michael and Mark Kramer. (2002) "The Competitive Advantage of Corporate Philanthropy." Harvard Business Review, December 2002: 61.

[114] Porter, Michael and Mark Kramer. (2002) "The Competitive Advantage of Corporate Philanthropy." Harvard Business Review, December 2002: 61.

[115] Ibid.

avoids coming to grips with shareholder priorities. Moreover, a foundation may undertake activities unrelated to the corporate vision and mission. For instance, the Shell Foundation in the Philippines conducts training to households on income-generating activities while the corporation expands its employee and family benefit package to create a "level-playing field" for its workforce over and above requirements in any one country.

Accordingly, strategic philanthropic activities enhance the *competitive context* or the quality of the business conditions where corporations operate. Philanthropy serve a strategic purpose—e.g., gaining the social license to operate. Philanthropy per se is not Strategic CSR because it is primarily unilateral from the donor to the beneficiaries. Multi-stakeholder dialogue is one key component of Strategic CSR. Boosting social and economic conditions in a developing country can create more productive locations for a country's operations as well as new markets for its products.

2. GUIDE TO STRATEGIC CSR PRACTICE

CSR development "requires a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies."[116] Successful corporations need the government's provisions of public goods, competent workforce, enabling regulatory mechanisms essential for productive business operations and working conditions, and commitment to good governance.

A healthy society needs successful companies to provide opportunities for professional growth, jobs, wealth and innovations that improve standards of living. Therefore, sustainable development requires the mutual dependence of corporation and society. This implies that both decisions and social policies must follow the principles of shared value. Choices must benefit both. A benefit to one at the expense of the other will lead to a dangerous path and undermine the long term prosperity of both. [117]

Given the varied points of intersection in the company's and society's operations, no business can solve all of society's issues nor bear the cost of doing so. It must address those that intersect with its particular business. Other social agendas are best left to other companies or industries, government institution, or nonprofit organizations best suited to address them.[118] Therefore, Strategic CSR is therefore selective in its approach. There are three types of issues relevant to companies:[119]

- *Generic Social Issues:* These are important to society but neither affect the company's operations nor long-term competitiveness.
- *Value Chain Social Impacts:* Those that are significantly affected by the company's activities in the ordinary course of business.
- *Social Dimensions of Competitive Context:* These are factors in the environment that significantly affect the internal drivers of competitiveness in the areas where the company operates.

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[116] Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review. p. 7.

[117] Ibid, 7.

[118] Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.,7-8.

[119] Ibid.

Bhattacharyya et al. propose four steps in designing Strategic CSR initiatives:[120]

- *Identify Key Stakeholders.* Waddock, Smith and Bhattacharyya et al. assert that "organizations are web of relationships with various stakeholders."[121] Stakeholders are parties who are affected or get affected by the firm's activities. Stakeholders have concern, claim and interest in the firm's activities, or have power to influence the firm.

- *Map their Interests/Demands.* Stakeholders are identified based on their salience, a function of a stakeholder's attribute of power, legitimacy, and urgency. When a firm is doing Strategic CSR to a salient stakeholder, the firm needs to satisfy its interest or demands of stakeholders; otherwise, they may cause problems to the firm.[122]

- *Assess the Firm's Interest for Doing CSR.* After identifying the salient stakeholder, then it is time to find out the best strategic interest of the firm for doing CSR activities. CSR should improve the firm's value chain practices or the context of competitiveness for the CSR to be strategic.[123] Such kind of CSR initiatives, Bhattacharyya et al. argue— "help firms secure purchased inputs, reduce operational costs, smooth logistics, and/or contribute to the marketing and sales function of the value chain."[124]

- *Social and Environmental Problems as New Business Opportunities.* Society has a multitude of social (such as widespread poverty) and environmental problems. The private sector treats poverty and environmental problems as business opportunities by developing market-based solution. This attitude of the firm can make the society better off and create wealth for the shareholders.[125]

The preceding statements of Bhattacharyya et al. and the subsequent statements of Porter and Kramer in the next paragraph offer specific suggestions on designing Strategic CSR initiatives that are the foundation of a "Toolkit" on implementing Strategic CSR.

In Porter and Kramer's discussion of how companies can engage in Strategic CSR, there are various aspects of the process that involve the following:

- Identifying the points of intersection both the inside out and outside in linkages;[126]

- Choosing social issues that intersect with the company's particular business and determining where it can generate the best impact; [127]

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[120] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi. (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social *Responsibility Journal* 4, No. 3.

[121] Waddock, Sandra and Niel Smith. (2000) "Relationships: The Real Challenge of Corporate Global Citizenship." Business and Society Review, Vol 105, Issue 1: 47-62, Spring 2000. And Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi. (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social *Responsibility Journal* 4, No. 3.

[122] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi. (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social *Responsibility Journal* 4, No. 3: 269.

[123] Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review. p. 7.

[124] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi. (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social *Responsibility Journal* 4, No. 3: 271.

[125] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi. (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social *Responsibility Journal* 4, No. 3: 271.

[126] Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review. p. 7.

- Creating an explicit and affirmative social agenda; [128]
- Integrating the inside-out and outside-in linkages;[129] and
- Creating a social dimension to the value proposition.[130]

3. MSMEs AND DEVELOPMENT

Dallago notes that a modern and thriving small and medium enterprise sector transform the economy because it fosters innovation and facilitates the adaptation of the economic system to new realities.[131]

Edmiston notes that economists are abandoning traditional economic strategies that rely on tax breaks and other financial incentives to attract large foreign firms because they find these unsuccessful or too costly.[132] An MSME-driven economic development strategy thus appears to make sense, especially to developing countries where scarce resources and job creation are very important considerations. Initially, the development contributions of small and medium enterprises have been discussed, albeit not without some controversy. The United Nations Industrial Development Organization (UNIDO) summarizes the points of consensus succinctly:[133]

- Small and medium enterprises employ more labor intensive processes compared to large enterprises.
- Evidence shows that countries with high share of small industrial enterprises tend to have more equitable income distribution.
- Small and Medium Enterprises (SMEs) can generate sustainable livelihood through processing activities and serve as a key to the transition from agriculture-led to industrial economies.
- Innovation, risk-taking, and entrepreneurship development, which serves as a foundation for larger enterprises and long-term growth dynamics are first cultivated in small and medium enterprises.
- The build-up of systemic productive capacities is supported by small and medium enterprises by helping them absorb productive capacities and contribute to the creation of linkages between small and large firms in the economic system.
- The aforementioned linkages and existence of support industries also attract foreign investment seeking domestic suppliers.
- Small and medium enterprises are significant sources of innovation.

In addition to their economic benefits, MSMEs are seen as potential contributors to sustainable development. UNIDO points out that MSMEs open opportunities for women. OECD asserts that MSMEs have the potential to find niches in the development and sale of environmental goods and services[134]. Further, they generate tax

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[127] Ibid, 8.

[128] Ibid, 9.

[129] Ibid, 11.

[130] Ibid, 12.

[131] Dallago, Bruno "Transitional Economies. The Importance of Small and Medium Enterprises", *UN Chronicle*. No. 4 (2003): 18.

[132] Edmiston, Kellie. (2007) "The Role of Small and Large Businesses in Economic Development", *Federal Reserve Bank of Kansas City Economic Review* 9, No. 2: 3.

[133] United Nations Industrial Development Organization (UNIDO). (2002) "Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries," Accessed at http://www.unido.org/fileadmin/import/userfiles/puffk/corporatesocialresponsibility.pdf

[134] Organization for Economic Cooperation and Development. (2000). "Small and Medium-sized Enterprises: Local Strength, Global Reach," OECD Observer: Policy Brief, June 2000: 6.

revenues, and contribute to the reduction of black market activities, correction of market failures and social stability.[135]

4. LINKING LARGE COMPANIES AND MSME

In a pilot study in Europe, McKeon, Johnston, and Henry explored the potential role of large corporations can play in catalyzing the creation and growth of new businesses.[136] Examining the case of the information technology sector in Ireland, they underscored the role of large corporations as valuable sources of knowledge and "entrepreneurial learning" for small and medium enterprises.[137] The result of their study, which covered ten companies, is discussed on the next page (*See Box 1: The Case of ICT Companies in Ireland).* A majority of the SMEs studied were suppliers to multinational corporations (MNCs) with strategic alliances and collaborations in the areas of research and development (R&D). [138]

According to Nelson, large companies establish linkages with local SMEs in many areas of their supply chains.[139] The opportunities for linkages may include "procurement, agricultural outgrower schemes, manufacturing subcontracting, outsourcing non-core functions and services, distribution and retail, franchising and leasing, and sales of financial services, information communications technologies, and other productive inputs and tools."[140] An example is the Milk District in Moga, India.

In a similar context, the review of literature suggests the dependence of developing countries to MNCs in advancing technological infrastructures, know-how and managerial practices. Zhou and Xin[141] cite Pack[142] who asserted that openness to foreign technology is the key to upgrading domestic technological capacity. Close personal network to MNCs Information Communication Technology by domestic small enterprises, for example, has provided them competitive edge such as the case of Hsinchu Science-Based Industrial Park in Taiwan. While MNCs provide new technology to developing countries, the relationship between MNCs and MSMEs varies from region to region. In Singapore and Beijing, "reverse transfers" existed as MSMEs transferred local expertise to giant firms.[143] Moreover, local firms may occupy strategic positions in MNCs' technological market.

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135 See World Business Council for Sustainable Development, "Promoting Small and Medium Enterprises for Sustainable Development", *World Business Council for Sustainable Development. Development Focus Area | Issue Brief.(* July 24 2007). And Small Enterprise Assistance Fund, *The Development Impact of Small and Medium Enterprises: Lessons Learned from SEAF Investments*, (July 2004). www.seaf.com/main_report.pdf (Accessed 13 February 2010). And *OECD Policy Brief: Small and Medium-sized Enterprises: Local Strength, Global Reach*, OECD Observer (June 2000): 2

136 McKeon, Helen, Kate Johnston and Colette Henry, "Multinational companies as a source of entrepreneurial learning: examples from the IT sector in Ireland. *Education +Training* 46, no. 8/9 (2004).

137 Ibid, 433-443.

138 Ibid.

139 Nelson, Jane. (2006) *Building Linkages for Competitive and Responsible Entrepreneurship: Executive Summary.* UNIDO and Harvard University-John F. Kennedy School of Government, 2006.

140 Porter, Michael E. and Mark R. Kramer. (2006) "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review.

141 Yu Zhou and Tong Xin, "An Innovative Region in China: Interaction between Multinational Corporations and Local Firms in a High-Tech Cluster in Beijing," *Economic Geography,* (2003).

142 Pack, Howard. (2000) "Research and Development in the Industrial Development Process." In Kim and Nelson (eds.): 69-94.

143 Yu Zhou and Tong Xin, "An Innovative Region in China: Interaction between Multinational Corporations and Local Firms in a High-Tech Cluster in Beijing," Economic *Geography,* (2003).

Zhou and Xin[144] suggest that there is a significant interdependence between MNCs and local firms particularly in the services sector because MNCs need substantial local expertise and channels to market their technology. Furthermore, interdependence of both is profitable because by working with local firms, MNCs have more incentive to promote, share, and modify their technology to address the needs of local markets which may be different from those of their home countries.

Box 1: The Case of ICT Companies in Ireland

The experience in Ireland underscores the issue of host-country expectations. MNCs have their own "toolkit" of activities to expand their linkages within countries. The extent to which linkages are deepened to the point where CSR begins to emerge becomes a matter of degree. For example, many MNCs are reluctant to transfer intellectual property rights (IPR) to smaller, local enterprises. However, if the transfer does take place, it is CSR if it allows the firm to benefit beyond the direct links between the MNC and the recipient firm. For example, proprietary technology that allows the smaller local firm to develop new non-competing products for itself offers benefits that accrue to the recipient and not exclusively to the MNC itself.

According to the study, subcontracting by the MNCs has led to opportunities for the rise of indigenous specialist component ICT firms and served as the springboard for the rise of new more complex businesses. This has contributed to the growth of an industry that employed 30,000 people with a worth of at least €10 billion.

The study also points to earlier literature citing the MNCs' role in fostering the development of extensive supplier networks and help integrate small and medium enterprises to the global economy.

There are studies that both claim and question the extent and spillover effects of MNCs to local communities and businesses in the host country. The authors cite the following contributions of MNCs:

- MNCs developed the skills of the labor force for small and medium enterprises.
- MNCs promoted high quality standards.
- International investment stimulated access and linkages of small and medium enterprises to international markets which support the expansion of these firms.
- MNCs served as sources of innovation, and support and boosted the innovative capacity of the host nation, assuming the MNC is innovative.
- MNCs were able to give only medium and low support for the traded and sub-skilled supply industries (for instance, in the form of support for local suppliers, scholarships, and local community initiatives).
- The MNCs also transferred knowledge and skills, in some cases even intellectual property to some local firms so they can produce what the MNC required.

The authors concluded that despite the apparent weak integration and support of the MNCs to the local business and community sectors, the MNCs contributed to the creation and development of SMEs in Ireland. They served as invaluable sources of entrepreneurial learning for SMEs and played a catalytic role in the creation and development of new enterprises. This was accomplished largely through the skills, experience, technologies, quality standards, innovation, access, and linkages acquired by the local workforce.

5. BENEFITS OF LARGE FIRM INVOLVEMENT IN MSME DEVELOPMENT

The examples cited in the previous section show that business arrangements and investments by large companies to local MSMEs yielded positive results for both: profits as well as the growth of the respective companies and improved local business environment in the immediate area arising from spillover effects.

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[144] Ibid.

Effective business linkages between MNCs and small scale enterprises lead to mutual benefits. The linkages can result in technology transfer, and spread international business standards, thus, creating more competitive, productive, and quality driven business sectors in many countries. The linkages further improve local skills; create market growth opportunities and decrease procurement and other input costs for multinational companies.[145] *(See Table 1 Triple-win Scenario: Potential Benefits of Sustainable Business Linkages for Small Enterprise Development)*

In the resource document prepared for the Workshop "Partnerships for Small Enterprise Development" in January 2004, Deloitte presents clear-cut arguments on why large firms should support SMEs.[146] The document points out that corporate sector engagement with small enterprises can lead to reduced costs, increased market access, greater security over raw materials, improved quality of supply, compliance with environmental regulations, compliance with government regulations, closer relationship with governments, branding benefits, a more vibrant and diverse local economy, and identification of small and medium enterprise CSR initiatives. [147] The Deloitte/UNIDO framework makes an important contribution to developing the concept of Strategic CSR, especially when applying it to developing countries. The RVR Center is currently testing it as a performance indicator – in a few of the firms interviewed as part of this study—in determining the extent to which smaller firms comply with or even go beyond legislated (and often weakly enforced) environmental regulations as a result of corporate engagement.

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[145] Nelson, Jane. (2006) *Building Linkages for Competitive and Responsible Entrepreneurship: Executive Summary.* UNIDO and Harvard University-John F. Kennedy School of Government, 2006.

[146] Deloitte. (2004). *Partnerships for Small Enterprise Development.* Resource Document for the Workshop on "Partnerships for Small Enterprise Development." United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

[147] Ibid.

Table 1: Triple-win Scenario: Potential Benefits of Sustainable Business Linkages for Small Enterprise Development

Small Enterprise	Local Business Community	Foreign Investors/ Multinational Companies
Increase in employment and output	Stimulation of economic activity and enhanced economic development	Broader access to lower costs or more competitive suppliers
Access to cutting edge knowledge and technology	Increase employment and production	Reduce procurement, production and distribution costs
Enhance skills, standards and capacity	Long-term increase in local or regional competitiveness	Strengthen supply chains and distribution networks, including increased ability to reach consumers at "base of economic pyramid"
Access to new domestic and/or foreign markets	Add local purchasing power	Improved productivity
More diversified client and market structures	Access to more affordable, reliable, or better quality products and services	Increase opportunities for corporate responsibility combined with profitability
More stable relationships to buyer or producer organizations	Increase participation of large scale companies in local business and community development	Enhance reputation and local "license to operate"
Access to finance	Balance of payment benefits when products are exported and/or substitute for imports	Improve integration in new overseas markets
Opportunities to innovate, upgrade and increase competitiveness		Proactively deal with downsizing

Source: Jane Nelson, Building *Linkages for Competitive and Responsible Entrepreneurship,* United Nations Industrial Development Organization and John F. Kennedy School of Government, 2006.

Deloitte[148] points out the option of a life cycle of partnership between firms and MSMEs through the convergence of the corporations' supply chain and distribution agendas and CSR objectives in supporting the MSMEs' agenda. Initially, there may be substantial investment requirement as the corporation bridges the capability gaps of MSMEs. However, as the MSME's capability improves and the partnership matures, the corporation will begin to receive more substantial rewards in the form of "cheaper, better, more secure and environmentally compliant inputs, and easier to access and more stable markets."

[148] Deloitte. (2004). *Partnerships for Small Enterprise Development.* Resource Document for the Workshop on "Partnerships for Small Enterprise Development." United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

6. FRAMEWORKS FOR LARGE FIRM INVOLVEMENT IN MSME DEVELOPMENT

The motivation of large firms to build and strengthen their backward and forward linkages with MSMEs may depend on the MSMEs' capability to meet the business expectations and standards of large companies in terms of product quality, reliability in delivering goods and services, and other business considerations.

In addition, large firms now increasingly see the important roles of their value-chain activities in expanding economic opportunities for the poor and the communities where they operate through employment generation, livelihood creation, and human resource development training activities. Oftentimes, large companies are developing local suppliers and working with communities to address problems in their supply, distribution and other value-chain activities. Notwithstanding the dominance of business reasons for addressing problems in their value chains through CSR and other business initiatives, large firms are able to facilitate economic and social development and environmental sustainability of the societies where they operate.

Jenkins et. al. (2007) classified CSR initiatives that promote business linkages into four types:

(1) *Value Chain SME Development Linkage Programs.* Large firms operating in developing countries can forge linkages with local SMEs in many different areas of their own value chains. These opportunities may include procurement, agricultural outgrower schemes, subcontracting manufacturing, outsourcing non-core functions and services, distribution and retail, franchising and leasing, and sales of financial services, information and communications technologies, and other productive inputs and tools. Key to these programs is developing the capacity of SMEs to meet the needs of the large firm.

(2) *"Beyond the Value Chain" SME Development and Linkage Programs.* Recognizing the central role of a dynamic SME sector in local economic development, many companies are taking SME development and linkage programs beyond their own value chains. Often they do this for PR, such as demonstrating their commitment to the community and thereby strengthening their license to operate, or mitigating social risk from the viewpoint of investors. Companies engaged in large infrastructure projects or mining activities may support "beyond the value chain" SME development and linkages in order to reduce dependence in the local economy and soften the blow when they leave.

(3) *Strengthening the Enabling Environment for Business Linkages.*

   a. Some companies are taking steps to increase the effectiveness of those programs by influencing some of the environmental factors that facilitate or hinder their work. It is quite common, for example, for companies to make social investments—of money, employee volunteer time, or both—in education and training in order to build a qualified local workforce.

   b. Promote the growth and development of organizations that help build the social and economic assets and infrastructure on which SMEs depend through schools and vocational training institutes, local non-profit or for-profit business service providers, credit bureaus, entrepreneurship organizations, small business associations and chambers of commerce, linkage "brokers," and government agencies.

   c. Strengthening the enabling environment for linkages by engaging the public policy processes. Large firms are starting to explore channels for dialogue on the kinds of policies, programs and regulations that affect SME's ability to incorporate, grow and form linkages with larger firms.

(4) *Hybrid Approaches.* SME development and linkage promotion programs span to two or all three of the categories above.[149]

7. COLLABORATIVE AND COLLECTIVE ACTION MODELS FOR MSME DEVELOPMENT

In implementing CSR programs, more and more companies are forging partnerships with various stakeholders—government, NGOs, business organizations and even other corporations—to limit redundancy and strengthen the approach in rolling-out the initiatives. Companies are targeting various aspects of MSME development from linking them to the supply chain, establishment of cooperatives or improvement of the governance structure of existing community enterprises, funnelling of social development funds or providing micro-credit assistance, training to enhance MSME competitiveness, as well as activities towards public policy formulation for poverty reduction.[150]

There are six multi-sector partnership and collective models to support competitive and responsible entrepreneurship.

- *Model 1: Individual company value chains and 'hybrid' business models.* These refer to individual corporations partnering with governments, donors, NGOs and community organizations to extend the reach and development impact of their own value chain and of their core business assets and competencies—beyond what could be justified on a purely commercial basis or through non-intermediated B2B linkages. Examples: include large companies sourcing, subcontracting and procuring from small enterprises; large companies distributing or franchising through small enterprises; and large companies selling products and services to small enterprises.

- *Model 2: Collective business linkage initiatives.* These are groups of companies in the same industry sector or geography working collectively with each other and with governments, donors, NGOs, academics and others to increase the number, scale and overall development impact of linkages with and/or between small enterprises. Examples include: sector-based alliances; national or regional collective initiatives; corporate responsibility clusters or networks; and small enterprise clusters.

- *Model 3: Enhanced trade and industry associations.* These are joint efforts to expand the scope and/or to strengthen the governance and operational capacity of indigenous trade and industry associations to enable them to better serve the needs of small enterprises and to support broader development and corporate responsibility objectives beyond direct business interests. Examples include chambers of commerce and industry; trade associations and employers' organizations that establish small business units; women's enterprise support services; vertical linkage units; and corporate governance, corporate responsibility and community engagement units.

- *Model 4: 'Blended value' financing mechanisms.* These are mechanisms that catalyze, pool and/or leverage a combination of private and public funds and/or commercial capital and social investment to deliver financial services to small enterprises in an economically viable manner. Many of these mechanisms also deliver technical assistance or partner with other initiatives that do so. Examples include: small enterprise facilities and funds; small enterprise credit guarantee programs; small

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[149] Jenkins, Beth, Anna Akhalkatsi, Brad Roberts, and Amanda Gardiner. (2007). *Business Linkages: Lessons, Opportunities, and Challenges.* IFC, International Business Leaders Forum, and the Kennedy School of Government, Harvard University.

[150] Nelson, Jane. (2006) *Building Linkages for Competitive and Responsible Entrepreneurship: Executive Summary.* UNIDO and Harvard University-John F. Kennedy School of Government.

enterprise credit-rating initiatives; microfinance intermediaries; social venture capital funds; venture philanthropy; major resource or infrastructure development revenue-sharing mechanisms.

- *Model 5: Institutionalized enterprise support services.* These are dedicated enterprise support initiatives that provide combination of technical assistance, training, mentoring, evaluation and brokerage services as well as finance in some cases, aimed at improving and integrating the access of small enterprises to essential resources, skills, information and business opportunities, including improved environmental and workplace practices. Examples include: small business support centers; cleaner production centers; one-stop shops and specialized service centers; collective corporate-led training initiatives, and volunteer executive service corps.

- *Model 6: Multi-stakeholder public policy structures.* These are joint structures to facilitate more organized and systematic engagement of the private sector and other non-governmental actors in public policy consultations aimed at supporting national poverty reduction strategies, good governance, pro-poor growth and investment, environmental goals and other broader development objectives beyond direct business interests. Examples include: national public-policy forums; investor roundtables; national business councils; business councils for sustainable development; industry charters; and sector geography or issue-based public advocacy groups

In the Philippines, an example of Model 1 is a local fast food chain that worked with community NGOs and local government to build SME suppliers for some of its local ingredients. An example of Model 2 is the Baguio electronics cluster of SME-suppliers linked to Timex and other MNCs operating in that area. Model 3 is actually pervasive, especially in Mindanao where an alliance of MSMEs, large firms, the local chamber of commerce and the Davao-based business development council have been working on export linkages, household employment for women, etc. Model 4 is difficult to assess in terms of the degree of CSR-engagement. There are local foundations of large Philippine firms that offer micro-financing; one large bank focuses on serving the MSME and its CEO recently received an award for the bank's efforts. However, as noted earlier on the issue of philanthropy, the micro-finance process is primarily unilateral—after the normal due diligence and after capacity to pay evaluation is undertaken.

Large companies posses the resources and the strategic business reasons to expand economic opportunity, which "enables people to manage their assets in ways that generate incomes and options." [151] From the perspective of expanding economic opportunity, large firms are encouraged to capitalize on their strengths as businesses to improve society's welfare. This is also in line with economist Milton Friedman's take on the social responsibility of firms: "the business of business is business" which precisely endows large companies with the "capability and credibility" to work on expanding economic opportunities.

Jenkins[152] identifies four key strategies for large companies to create or expand economic opportunity.

- Creating Inclusive Business Models: Involving the poor as employees, entrepreneurs, suppliers, distributors, retailers, customers, and sources of innovation in financially viable ways

- Developing Human Capital: Improving the health, education, experience, and skills of employees, business partners, and members of the community

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[151] Beth Jenkins, "Expanding Economic Opportunity: The Role of Large Firms," *Corporate Social Responsibility Initiative Report No. 17* (2007). Cambridge, MA: Kennedy School of Government, Harvard University

[152] Jenkins, Beth, Anna Akhalkatsi, Brad Roberts, and Amanda Gardiner. (2007). *Business Linkages: Lessons, Opportunities, and Challenges.* IFC, International Business Leaders Forum, and the Kennedy School of Government, Harvard University.

- Building Institutional Capability: Strengthening the industry associations, market intermediaries, universities, governments, civil society organizations, and grassroots groups who must all be able to play their roles effectively within the system

- Helping to Optimize the Rules of the Game: Shaping the regulatory and policy frameworks and business norms that help determine how the economic opportunity system works and the extent to which it is inclusive of the poor

The comparative advantage of large firms in expanding economic opportunity may be traced to their "core business interests, assets and activities and the development multipliers they catalyze, which provide the potential impact at scale."[153] Employing inclusive business models offers a large potential for large firms to expand economic opportunity for its stakeholders, including MSMEs. The commercial viability and development impact of these models could be further expanded by "developing human capital, building institutional capacities, and optimizing the rules of the game to target market failures, governance gaps, and other bottlenecks in the economic opportunity system."

8. IMPROVING MSME COMPETITIVENESS AS A DEVELOPMENT STRATEGY

Several secondary sources cite the attributes and supposed advantages of small business enterprises over large enterprises. Edmiston's (2007) findings show that evidence casts doubt on some of these assumptions, including the assumed superiority of employment generation and innovativeness by small and medium enterprises over large enterprises.

Despite the clear arguments for MSME-driven approaches, several questions remain regarding its effectiveness as a development strategy. Particularly, governments and development institutions in both the industrializing and developing countries (like in Africa, China, India, and Philippines) adopts variations of this approach. The attempts are not always successful however, and historically, there are periods when it suffered high failure rates as attested by the experience of state funded small and medium enterprise approaches in Africa (like in Uganda, Botswana), Asia Pacific (such as in Malaysia, Australia), Europe (example Ireland), and Latin America (see Brazil).[154] The issue is not so much whether large companies are more competitive than small ones. Rather, how successful large companies can assist MSMEs to become competitive economic actors for the benefit of society and the economy at large.

And while it may be too early at this point to decide whether these approaches have failed or succeeded in accomplishing its goals, it is worth noting that certain factors and considerations appear to have significant impact on the success or failure of MSMEs.[155]

In the Philippines, the National Small and Medium Enterprises Development (SMED) Plan point to the constraints to MSME development. These include:

- Outmoded, less productive methods of operations;

- Inefficient use of appropriate technology;

[153] Ibid.

[154] See for example Charles Tushabomwe-Kazooba, "Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns", African *Studies Quarterly* 8, No. 4 (2006): 27-34.

[155] Lau Geok Theng and Jasmine Lim Wang Boon. (1996) "An Exploratory Study of Factors Affecting the Failure of Local Small and Medium Enterprises." *Asia Pacific Journal of Management* 13, Issue 2 (October 1996): 47-61.

- Limited ability to gain economies of scale;
- Insufficient management and professional know-how;
- Insufficient and inaccessible financial sources;
- Unappreciated and inadequate professional services; and
- Insufficient access to information.

Literatures suggest that some key factors contribute towards MSME success or failure. *(See Table 2: Some Factors Contributing to Failures of MSMEs)* The literature suggests that large enterprises possess certain advantages that allow them to better weather market conditions and challenges that pose a risk to MSMEs. Some of the advantages of large firms are the following:

- To be in better position for innovations through formal Research and Development (R&D). [156]
- To undertake multiple R&D projects and meet its costs further. The larger scales of production also diffuse the high costs of R&D.
- Larger number of colleagues allow for division of labor and efficiency in large enterprises.
- To better access financing and capital. [157]
- Capability for superior penetrating power. Name recognition and established reputations of large firms make it easier to penetrate new markets and/or established marketing channels. [158]
- Large firms (e.g. MNC's) possess technological edge that enables them to be competitive.[159]
- Knowledge and experience of international markets and business practices. [160]
- Excellent organizational and management experience and skills. [161]
- Know how to operate and supply goods at par with international standards. [162]

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[156] Edmiston, Kellie. (2007) "The Role of Small and Large Businesses in Economic Development", *Federal Reserve Bank of Kansas City Economic Review* 9, No. 2: 88-89.

[157] Ibid, 88-89.

[158] Ibid.

[159] McKeon, Helen, Kate Johnston and Colette Henry, "Multinational companies as a source of entrepreneurial learning: examples from the IT sector in Ireland. *Education +Training* 46, no. 8/9 (2004).

[160] Ibid.

[161] Ibid.

[162] Ibid.

Table 2: Some Factors Hindering the Growth of MSMEs

Issues	Description
Competitive environment	• Problems in government regulation (such as high costs)[163] • Non-conducive policies (such as high taxes,[164]high interest rates, and high labor cost[165]) • Non-conducive market conditions (such as poor market, high rent charges, high transport costs)[166] • Political factors (such as favoritism/patronage of government officials in business deals;[167] seizing of positions of power; erosion of political support[168])
Capitalization, Assets, and Scale	• Lack of capital and credit hinders growth[169] • Higher transactions cost for banks when dealing with smaller firms[170] • The partition of assets

[163] Lau Geok Theng and Jasmine Lim Wang Boon. (1996) "An Exploratory Study of Factors Affecting the Failure of Local Small and Medium Enterprises." *Asia Pacific Journal of Management* 13, Issue 2 (October 1996): 50.

[164] Tushabomwe-Kazooba, Charles. Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns", *African Studies Quarterly* 8, No. 4 (2006): 34.

[165] Lau Geok Theng and Jasmine Lim Wang Boon. (1996) "An Exploratory Study of Factors Affecting the Failure of Local Small and Medium Enterprises." *Asia Pacific Journal of Management* 13, Issue 2 (October 1996): 50.

[166] Tushabomwe-Kazooba, Charles. Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns", *African Studies Quarterly* 8, No. 4 (2006): 34.

[167] Ibid, 32.

[168] Robben, Antonius C. G. M. "Entrepreneurs and Scale: Interactional and Institutional Constraints on the Growth of Small-Scale Enterprises in Brazil." *Anthropological Quarterly* 57, No. 3 (July 1984): 136.

[169] Dallago, Bruno, "Transitional Economies. The Importance of Small and Medium Enterprises", UN Chronicle. No. 4 (2003): 18

[170] Ibid. 18.

Issues	Description
Competency	• Poor business management skills and decision making (such as lack of business direction;[171] lack of business plans, load shedding, lack of capital, and wrong pricing; and wrong responses to practical problems)[172] • Lack of financial management skills. Poor debt and spending management.[173] Problem in management expertise in four functional areas: marketing, accounting, inventory control and cash flow management.[174] • Inability to gauge market demands and strategic business location. [175] • Poor HR management. Inability to hire competent people for the jobs; weak ability to lead and manage (large number of) staff. [176] • The inaptitude to modernize the means of production. [177] Outmoded, less productive methods of operations.[178] • Inefficient use of appropriate technology.[179] • Limited ability to gain economies of scale. [180] • Failure to adapt entrepreneurial strategies to institutional and structural changes in society.
Networks, Linkages, and Market Access	• Insufficient access to information[181] • Weak opportunities to secure projects due to lack of contacts[182] • Lack of good suppliers/network to provide demands within standards[183] • Lack of right people to turn to for proper advice[184]
Others	• Inconsistency and instability of policies • Lack of government assistance • External factors such as - unfair competition from the public sector, large corporations and imports - competition - recession and inflation

[171]Noor Ahmad and Pi-Shen Seet, "Dissecting Behaviours Associated With Business Failure: A Comparative Study of SME Business Owners in Australia and Malaysia." *Asian Social Science* 5, No. 9 (September 2009): 98-104.

[172] Tushabomwe-Kazooba, Charles. Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns", *African Studies Quarterly* 8, No. 4 (2006): 34.

[173] Noor Ahmad and Pi-Shen Seet, "Dissecting Behaviours Associated With Business Failure: A Comparative Study of SME Business Owners in Australia and Malaysia." *Asian Social Science* 5, No. 9 (September 2009): 104.

[174] Khan and Rocha as cited Lau Geuk and Wng Boon, 47-61.

[175] Noor Ahmad and Pi-Shen Seet, "Dissecting Behaviours Associated With Business Failure: A Comparative Study of SME Business Owners in Australia and Malaysia." *Asian Social Science* 5, No. 9 (September 2009):104.

[176] Ibid, 104.

[177] Robben, Antonius C. G. M. "Entrepreneurs and Scale: Interactional and Institutional Constraints on the Growth of Small-Scale Enterprises in Brazil." *Anthropological Quarterly* 57, No. 3 (July 1984): 136.

[178] Department of Trade and Industry. "Micro, Small and Medium Enterprises (MSMEs): SMED Plan." Accessed at http://www.dti.gov.ph/dti/index.php?p=51

[179] Ibid.

[180] Ibid.

[181] Department of Trade and Industry. "Micro, Small and Medium Enterprises (MSMEs): SMED Plan." Accessed at http://www.dti.gov.ph/dti/index.php?p=51

[182] Noor Ahmad and Pi-Shen Seet, "Dissecting Behaviours Associated With Business Failure: A Comparative Study of SME Business Owners in Australia and Malaysia." *Asian Social Science* 5, No. 9 (September 2009): 104.

[183] Ibid.

[184] Ibid.

Through Strategic CSR initiatives, large companies facilitate MSME development by integrating MSMEs in their value chains. With their managerial, technological, and other resources, they can provide effective interventions that will strengthen the capabilities of local MSMEs as business enterprises. By integrating MSMEs in their value chain as suppliers, subcontractors or distributors, large firms could encourage MSMEs to adopt environmentally and socially responsible business practices that are now being emphasized by the global export markets. In turn, large firms benefit from MSME development initiatives because it create a more stable and competitive pool of local suppliers and business partners.

In the Philippines, large companies (Jollibee Foods Corporation's "Bridging Farmers to the JFC Supply Chain, Nestlé's Micro-distributorship Program, and Manila Water's "Tubig Para sa Barangay"), SMEs (Binalot's DAHON Program), membership organizations (ECOP's EBESE Program), and multilateral agencies (GIZ Philippines' SCOPE Program) implement MSME development programs.

In conclusion, Strategic CSR initiatives in the value chain of large firms can complement and supplement government efforts in MSME development. They are good platforms for realizing the government vision of developing globally competitive MSMEs. With their higher business standards, they can make local MSMEs competitive by exposing them to the rigors of doing business in a cost-effective, reliable and accountable manner. With their knowledge on global new market trends, they can provide practical guide to MSMEs in integrating environmentally and socially responsible business practices.

Annex B: Support Initiatives for Strategic Corporate Social Responsibility in Micro, Small And Medium Enterprises Development*

1. A FRAMEWORK FOR PUBLIC SECTOR INVOLVEMENT IN CSR

1.1 Reasons for Government Involvement in CSR

Ward (2004) proposes the following principal justifications for the public sector involvement in CSR activities:[185]

a. CSR can guide the development of national government policies on enhancing the overall competitiveness of the country by (1) aligning national investment promotion strategies with the CSR interest of foreign investors; (2) turning the market access impacts of CSR into a competitive advantage and (3) aligning businesses' CSR practices with broader public goods that are fundamental underpinning of national competitiveness.

b. With appropriate public sector engagement and support, CSR expressed through international supply chains and foreign direct investment (FDI) can act as a catalyst for domestic enterprise development. There is extensive literature (Roman, 2009) indicating that global supply chains and FDI create a multiplier effect on domestic enterprise development in specific sectors given specific government policies/incentives. It is less clear from the literature review whether CSR can successfully or sustainably integrate into on global enterprises as they enter markets and establish sub-contracting linkages. However, the interviews in this report suggest that multinational corporations with global CSR mandates do incorporate CSR in their efforts to build supply chains.

c. Public sector understanding of CSR in international supply chains and FDI can help build and ensure the long term sustainability of domestic enterprises.

d. CSR can help inspire new strategies to address gaps in public sector capacity.

1.2 Strengthening Public Sector Role in CSR: The Necessary Ingredients

It is necessary that public sector involvement in CSR covers the following areas:[186]

a. *Building awareness on the CSR agenda.* The CSR agenda is largely shaped by multinational corporations (MNCs) and industrialized countries. Hence, for some developing nations, strong public sector role is critical in building and promoting awareness of the CSR agenda. If a country seeks to effectively capture the potential sustainable development and poverty reduction benefits of the CSR agenda, access to information on the overall drivers of CSR, key players and effective pressure points are invaluable. Supporting initiatives could include country specific impact assessment studies and work on strengthening the integration of CSR-related themes in enterprise development and exports investments promotion.

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[185] Ward, H., Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock. The World Bank, 2004.

[186] Fox, T., H. Ward, and B. Howard, 2002. Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study, The World Bank.

Measuring performance is a key concern in CSR and impact assessment is important for a private sector firm. Supporting initiatives in building awareness are moving away from simple output measures—schools built, health workers trained, households with income generating projects, etc., to longer-term impact or outcome assessment. Linking firm-based impact studies to country and sector analyses will significantly establish the contribution however small CSR initiatives are.

b. *Building a stable and transparent environment for pro-CSR investment.* Specific initiatives to enhance pro-CSR investment need to be accompanied by action to build the basic governance characteristics of a business environment that is attractive to investors. This includes addressing graft and corruption, effective administration of a tax system, regulatory certainty, and having an effective judiciary system. Counterparts to these basic characteristics that reflect core concerns of the CSR agenda include provision for rights of public participation, access to information and access to justice.

   The latter three elements are proving crucial in the Philippine mining industry that is at a delicate balance—between increasing GDP and protecting the environment. The whole thrust of "responsible mining"—no longer sustainable mining and the proverbial social license to operate, requires public participation, and access to relevant information and the courts—specially for marginalized communities affected by large scale (open pit) mining.

c. *Engaging the private sector in public policy processes.* CSR can play a crucial role in support of national policy priorities, for instance, integrating private sector initiatives with the national poverty eradication strategies. Thus, in fostering a public-private partnership, the private sector can gain additional insight and knowledge on how to align their CSR activities with the national development strategies of the State.

d. *Frameworks for assessing priorities and development strategies.* The government should develop a CSR framework for the private sector that is aligned with the local or national priorities. The framework could map existing drivers and constraints in the local context in order to define appropriate modes of intervention with an overall strategy.

1.3 Public Sector Activities in CSR: The Key Themes

The World Bank (2002) also categorizes activities that promote CSR in ten key themes[187]:

a. *Setting and ensuring compliance with minimum standards.* Government can be a facilitating agent in setting and ensuring the compliance of firms. These may include the use of CSR tools and corporate codes of conduct and standards in addressing CSR-related issues; partnership through cooperative environmental policy instruments such as environmental covenants; and collaborative effort with community stakeholders, and other CSR actors supporting actions against "worst practice" companies. There are at least three sets of minimum standards. For example the Philippine government has strong laws protecting the environment but weak enforcement. Private firms incorporate CSR into their internal codes of conduct or statement of ethics. In the field of CSR leadership by example still matters. And there is a movement to set environmental standards such as ISO 26000.

[187] Fox, T., H. Ward, and B. Howard, 2002. Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study, The World Bank.

b. *Public policy roles of business.* Government can align the business practices of firms with its sustainable development goals through active engagement with the business sector in creating policy proposals, and creating partnerships with the private sector.

c. *Corporate governance.* Corporate governance guidelines and codes of best practices offer one way to respond to poor CSR practices. Beyond government legislation, establishing basic requirements for business organization and corporate accountability, public sector roles have also included negotiations and implementation of international principles, partnership-based code development and engagement in capacity building, and pension legislation linked to good corporate governance practices.

d. *Responsible investment.* This places emphasis on inward investment policies linked to CSR-friendly practices. This includes: requiring technology transfer, creating local economic linkages, consulting with the local community, formulating guidelines for public sector loan guarantees and public investments; and public-private partnership that seek to align corporate investment with public sector investments – focusing on infrastructure, education, and health provision.

e. *Philanthropy and community development.* Philanthropy is the basic form of CSR for business. Governments can harness the community development potential of corporate philanthropy and social investment through dialogue to optimize their alignment with public sector goals. In certain cases, they can mandate corporate contributions in return for a license to operate, and create incentives for voluntary corporate donations and social investments through tax incentives or public recognition.

f. *Stakeholder engagement and representation.* The public sector has a key role to play in facilitating stakeholder engagement through capacity building initiatives or multi-stakeholder process. Governments may also require companies to enter into stakeholder engagement through mandatory legislation. Moreover, governments also represent the interests of particular stakeholder groups in international policy debates.

g. *Pro-CSR production and consumption.* Public sector promotes pro-CSR production practices through business, technical and advisory services, and research. This may be in the form of government promotion of "green" goods and services to penetrate international markets, pollution charges associated with "polluter pays" principle, among others. On the consumption side, support for environmental and social labeling schemes designed to stimulate consumer demand for preferable goods and services, and CSR-compliant procurement practices are key public sector activities.

h. *Pro-CSR certification, "Beyond Compliance", standards and management systems.* These include public sector roles in developing guidelines for private sector voluntary codes of conduct or standards, establishment of environmental management system standards, and capacity-building activities designed to help domestic companies to integrate CSR into their core business practices.

i. *Pro-CSR reporting and transparency.* Promoting public awareness on environmental and social issues is a familiar part of sustainable development agenda. The so-called "triple bottom line" reporting of companies dealing with their social, environmental, and economic impact has attracted government attention worldwide. Government intervention may be in the form of mandatory reporting through legislation and through developing guidelines for voluntary reporting.

j. *Multilateral processes, guidelines and conventions.* The contemporary CSR agenda is associated with a number of multilateral processes and guidelines. An example is the UN Global Compact, which was launched by the UN Secretary General Kofi Annan in 1999. The UN Global Compact has received endorsement from numerous developed and developing nations. Another example is the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, which provides a guideline for responsible investment focusing on employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Finally, intergovernmental processes emerged to tackle sector-specific issues, for instance the Kimberly Process on the so-called "conflict diamonds", and the Clean Development Mechanism of the Kyoto Protocol on climate change issues.

2. PUBLIC SECTOR AND LARGE FIRM-MSME CSR LINKS

2.1 The Necessity for Large Firm-MSME CSR Links

The term "business linkages" generally refers to any upstream or downstream, formal or informal relationship that takes place between MNCs, large firms and local business partners. The research notes the fairly pervasive links that large domestic firms have with MNCs through joint ventures and supplier arrangements, build-operate-transfer, consortium lending, etc. MNCs start with a concern to protect their legal presence—resulting in at least minimum compliance between the foreign and the local partner and extending toward "corporate PR" and move towards shared CSR activities that for the moment "trickle down" to smaller suppliers in the value chain. For the purpose of this discussion, business linkages will refer to backward linkages or the purchase by MNCs of parts and other production components from local vendors.

In creating linkages, the market often fails because markets are concerned with cost and efficiency. There is a high cost for MNCs to enter into long-term supply contracts with local firms because it is more expensive and the risk of failure to deliver is high. MNCs are also wary of investing and building the capacity of local firms because of the danger that these suppliers may eventually supply their competitors. As a result, the probability of domestic firms to become competitive suppliers is reduced. To address this gap, there is a need to invest in developing technology and capacity, as well as provide access to credit to local firms.

The government can play a crucial role in the development of a favorable environment for business linkages. It can encourage the creation and deepening of backward linkages by lowering the costs and improving the incentives for linkage formation for both MNCs and domestic enterprises. There are four approaches to stimulating linkages to micro, small and medium enterprise (MSME) in the supply chain. Educating suppliers is the obvious first step. Secondly, large companies offer inducements such as larger longer-term contract for suppliers who improve their efficiency. Third, the Japanese keiretsu system involves direct minority equity investments in "favored" suppliers leading to the fourth level of sharing information, R&D, access to bulk discounts, etc. The objective is to stimulate linkages that raise the efficiency of production and contribute to the diffusion of knowledge and skills from MNCs to the local MSME sector.

Government can also facilitate the increase of FDIs, through the integration of MNCs and local firms. FDIs are a key factor in attaining sustainable economic growth for developing nations. FDIs can be channeled to create backward linkages with suppliers, thereby supporting development gains for local businesses, while creating cost savings to investors. The government is a better channel for FDI than the private sector.

On a global scale, FDI compares specific sectors in different countries before "weighing" the FDI portfolio in favor of a specific industry in a specific country. The choice of a local partner is one key factor. But the government as a whole—through macroeconomic stability and the rule of law, for instance, and through sector-specific incentives (tax breaks for infrastructure development for instance) –plays an even more important role. Thailand has several MSME government agencies, including the Office of Small and Medium Enterprise Development

(OSMED) with links to the National Economic and Social Development Board (NSDB) and the Board of Investment that in turn promote small and medium enterprises to the larger MNCs.

To enhance sustainability, efforts should be made to ensure that FDI is long-term and not specialized. Effective business linkages programs should place emphasis on upgrading the capacity of local MSMEs to meet the requirements of foreign investors. Hence, promoting business linkages lies at the intersection of MSME and FDI policies.

Often, there is a misalignment on policies between government programs on strengthening MSMEs and in attracting FDIs. There is a need to integrate these two policies through dialogues and close cooperation between investment promotion agencies and business service providers. The government must identify its competitive advantage on specific economic sectors to strengthen it. Countries have specific comparative advantages to offer to FDI and MNCs. However, the government itself has a competitive advantage if it demonstrates good governance and a level playing field. It should also identify MNCs with the right corporate strategy and track record in terms of supply chain management and direct government investment promotion programs and at the same time strengthen local enterprises.

An effective business linkage program will enable a fast and effective method to upgrade domestic enterprises; to facilitate the transfer of technology, knowledge and skills; to improve business and management practices and to facilitate access to finance and markets.

2.2 Public Sector Roles in Promoting Large Firm-MSME Links

The government has an important role in promoting CSR. It can create an enabling environment that encourages firms to manage their environmental and social impacts while maintaining or maximizing economic gains.[188] At the same time, public sector regulatory and enforcement capacity plays a critical role in underpinning CSR practices that facilitate sustainable development.

In promoting CSR, the public sector has specific competencies such as the setting of overall policy and regulatory framework for businesses to operate. The public sector has the legitimacy and authority to draw together the overall strands of the enabling environment in ways that allow each of the actors to make contributions. At the same time, the public sector may opt to take a laissez-faire approach, endorse current CSR initiatives or facilitate the emergence of voluntary approaches that are more aligned with public policy goals. John Dunning is an economist with 50 years of experience in FDI and Home-Host Country interaction. Dunning developed a somewhat complex typology of the interaction between host country governments as recipients of FDI. An attempt was made to apply his typology with respect to CSR. The attempt was not conclusive as the public sector tended to demonstrate a variety of approaches that were not generalizable. However, there are cases wherein the public sector takes a stronger approach on enforcing CSR norms to address market failures.[189]

A review on public sector activities to strengthen CSR identified four central roles of the government, namely[190]:

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[188] Fox, T., H. Ward, and B. Howard, 2002. Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study, The World Bank.

[189] Ward, H., 2004. Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock, The World Bank.

[190] Ibid.

a. *Mandating.* Governments define minimum standards for business operations and performance embedded within a legal framework. These include laws, regulations, penalties, and associated public sector institutions that relate to the control of some aspect of business investment or operations. The government can use its ability to enact and implement laws to create a policy environment that would encourage MSME linkages with large firms.

b. *Facilitating.* Facilitating includes setting clear overall policy frameworks and positions to guide business investment in CSR, development of nonbinding guidance and labels or codes or application in the marketplace, laws and regulations that facilitate and provide incentives for business investment in CSR by mandating transparency or disclosure on various issues, tax incentives, investment in awareness raising, research, and facilitating processes of stakeholder dialogue. In the same way that the government provides incentives for philanthropic activities (i.e., tax deductions for donations to registered charities), it can also provide incentives for large firms that conduct training to develop the capacity of local suppliers.

c. *Partnering.* The notion of "partnership" is central to the CSR agenda. Strategic partnerships can bring the complementary skills and inputs of the public sector, the private sector and civil society in tackling complex social and environmental problems. The government can partner with large firms in training MSMEs and other projects to enhance the ability of MSMEs to conduct their own CSR.

d. *Endorsing.* Government endorsement of CSR practices is manifested in political support for particular kinds of CSR practice in the marketplace or for individual companies, endorsing specific award schemes or nongovernmental metrics, indicators, guidelines, and standards, and leading by example, such as through public procurement practices.

There may be inevitable overlaps across the four categories of public sector roles. However, various literature underscore the effectiveness of public policy intervention to promote CSR lies not in one specific government role but the complementary roles of government in addressing CSR related issues.

2.3 Public Sector Policies and Measures in Promoting Large-Firm-MSME Links[191]

2.3.1 Creating a Sound Business Environment Attractive to FDI. FDI also provides an indirect assistance to MSME linkages with respect to partnerships with domestic corporations. In general, MNCs prefer to outsource from medium-sized enterprises because of the volume that they can offer and for administrative convenience. However, the act of investment frees up funds for the local partner to undertake linkages with smaller enterprises—often for "political" purposes such as building relations with local officials in local communities by using local small firms. The MNC as the vehicle for FDI accepts this process as part of the local partner's contribution to building the social license to operate (SLTO). The MNC realizes the importance of the SLTO, but is often willing to assign this task to the local partner.

The crucial role for governments is to create conditions and be proactive in developing new drivers to attract international production and services, especially in contract manufacturing. This implies giving equal emphasis to promoting domestic investment to benefit from FDI.

While opening up the economy is the first step, it may not be enough to attract sustained flows of FDI. At the minimum, foreign investors are expecting (1) assurances of the rule of law, (2) a commitment to be treated no

[191] Kumar, R., 2003. Changing Role of the Public Sector in the Promotion of Foreign Direct Investment, Asia Pacific Development Journal.

less favorably than competing domestic investors, (3) provisions for the free transfer of capital, profits and dividends, (4) guarantees against expropriation of their assets and (5) binding arbitration of disputes.

The standard determinants of competitiveness are not only the economic, technological and measurable attributes such as: strong economic fundamentals, political stability, technology development, human resources development, physical infrastructure, financial and labor market flexibility. There are also non-economic factors to consider, that include: the promotion of democratic institutions, human rights, corporate governance, and anti-corruption efforts. Effective governance is therefore essential to encourage both sound FDI and domestic private investment.

According to the United Nations (UN), government should not exempt foreign investors from domestic laws governing corporate and individual behaviors, or use cost and discretionary investment incentives or those that erode labor and environmental standards in a "race to the bottom". In a published report, the UN recommends that developing countries need to continue improving their attractiveness to FDI through positive actions, through the improvement of standards of accounting and auditing, transparency, corporate governance, and public administration, rather than through tax concessions.[192]

While, according to an OECD study, incentives-based competition for FDI have a distorted effect on a *de facto* basis especially on local firms and against firms in sectors that are not targeted. Undiscerning use of investment incentives and other discretionary policies by governments to attract FDI can have a negative effect on FDI flows, partly because incentives could be viewed as unsustainable. Policies in promoting FDIs should be geared towards addressing two sets of market failure, which are outcomes of failing to harness fully the potential of FDIs in development. The first arises from information or coordination failures in the investment process that leads a country to attract insufficient FDI or worse, the wrong quality of FDI. The second results when private interests of MNCs diverge from the interest of the host countries.[193]

The challenge for government is to achieve the right balance by promoting synergy between FDI and domestic private investment to create a win-win situation for the citizens. At the heart of these endeavors is improving the competitiveness of a country's economy to improve its economic fundamentals. Apart from a series of measures to liberalize the economy and promote FDIs by many countries, there is a need for proactive policies aimed at shaping new industrial and service locations through a cooperative approach between the public and private sectors.

A typical FDI promotion model encompasses: (1) liberalization of FDI regimes by reducing barriers to entry, strengthening standards of treatment for foreign investors and improving the functioning of markets through enabling framework, (2) governments attracting FDIs by marketing their countries through one-stop national investment promotion agencies, (3) targeting of foreign investors at the level of industries and firms parallel to the economies development priorities and (4) the need to promote sequential investment once initial investment has been made.

The last two approaches require public proactive interventionist approach to nurture specific industry clusters that build on the country's competitive advantages. The most important is through production linkages between foreign affiliates and domestic firms to enhance their efficiency. In his earlier research and later as an advisor to United States Agency for International Development, Porter advocated the development of clusters within an industry and stated that a nation-wide cluster network will offer a distinct advantage as a second tier

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[192] Kumar, R., 2003. Changing Role of the Public Sector in the Promotion of Foreign Direct Investment, Asia Pacific Development Journal.

[193] OECD, 2003. Trends and Developments in Foreign Direct Investments, Paris.

development above the micro-development of specific firms—via their value chain. Porter at least for a time influenced the focus towards cluster-based investment promotion.

2.3.2 Improving a Business Environment Conducive to Linkage Formation. There are numerous types of linkages in the form of backward linkage (foreign investor sourcing from domestic firms), forward linkage (foreign investor selling to domestic firms for distribution and marketing), and horizontal linkage (cooperation in production as well as interaction with domestic firms engages in competing activities). Linkages can also involve other stakeholders such as universities, training centers, research and technology institutes, export-promotion agencies, and other private institutions. The relationship may take the form of R&D contracts with local institutions such as universities and training centers.[194]

In creating sustainable linkages, the governments can lower the costs and raise the reward for linkage formation especially for MNCs and local firms. Fiscal and financial incentives are the common form of motivator for MNC, to forge local linkages with local firms in developing countries. The availability of local suppliers to be competitive in cost and quality is an important factor in the linkage formation. At the same time, the technological and managerial capabilities of domestic firms also determine the ability of host economies to absorb and benefit from the knowledge that linkages can transfer. In this regard, policy measures to strengthen the legal and institutional framework for linkage formation is important.

The linkage process is greatly affected by the availability of meso-institutions. Public and private providers of financial, technological and training support often play key roles in the process of fostering the development of viable suppliers. Without this kind of institutional support, domestic firms may be unable to get a required quality certificate, training or capital needed to become competitive.

Policy measures should therefore be geared towards nurturing MSMEs as well as institutions that provide financial, technological and training support in the process of fostering development of viable domestic enterprises. Public intervention may be in the following areas:

a. Providing accurate market and business information for linkage formation that should cover names and profiles of supplier information, product price information, and a range of up-to-date databases depending on individual country strategies.

b. Matchmaking implies a more active government role and focusing on the specific capabilities and needs of individual buyers and suppliers and working closely with them to reach supply arrangements. It can take many forms: facilitating one-to-one supplier encounters and negotiations, acting as an honest broker in negotiations, supporting supplier audits, providing advice on subcontracting deals, sponsoring fairs, exhibitions, missions and conferences.

c. Facilitating technology upgrade in various ways, including technology transfers as a performance requirement, partnerships with foreign affiliates in technology upgrading programs, and strengthening inter-firm linkages training. Governments can provide tax incentives to induce technology transfer from MNCs to foreign affiliates and their local subcontractors. In addition, governments can tap foreign affiliates in technology upgrading program such as in the case of Singapore's Local Industry Development that coordinates with the Economic Development Board and other company managers to identify potential weaknesses in their suppliers, and evaluate their capabilities and design programs to remedy their weaknesses. Foreign affiliates participating in the program then transfer technology and

[194] Shen, X., 2002. "Linking Local Suppliers to Multinationals: How Can Governments Play a Useful Role?" Transition Newsletter, The World Bank.

skills to suppliers to upgrade their capabilities. The government provides organizational and financial support. As indicated earlier, the government of a developing country has the ability to influence FDI. While it might not directly create CSR initiatives, government facilitation does offer the groundwork for the firm to develop its CSR initiatives.

d. Promoting supplier associations for private sector training programs and collaboration with international agencies. Supplier associations established with government support can help build training linkages. For example, the Republic of South Korea encourages big companies to help small and medium enterprise supplier associations and participate in other training programs.

e. Legal protection against unfair contractual arrangements and other unfair business practices, including an effective competition policy.

f. Encouraging the support of foreign affiliates to domestic suppliers through fiscal incentives, co-financing or guarantees, and in some cases monetary incentives.

g. Training and skills development of the local workforce. In the case of the Republic of South Korea, tax credits are given to about ten percent of large firms (foreign and domestic) to compensate them partly for expenditures on human resource development in small and medium enterprises. While in Singapore, the Skills Development Fund of the Singapore Productivity Standards Board gives financial assistance to companies for training their workers.

Some of the noteworthy examples of linkage programs include the National Linkage Program of Ireland, which is essentially a brokerage service to promote local sourcing by foreign affiliates and the Industrial Linkages Program of the Small and Medium Industries Corporation of Malaysia, including its Global Supplier Program, which covers training, product development, and testing.[195]

There are other areas that require an important focus irrespective of any specific linkages that need to be forged. For one, there is a need to create a high-level technical manpower geared closely to activities or industries prioritized by government. In the Republic of Korea, a high training levy on large firms has enabled the setting up of the Korea Advanced Institute for Science and Technology and the Korea Institute of Technology aimed at exceptionally gifted students. The second is assistance to small and medium enterprises, especially in creating a level playing field with large firms. The basis of global competition is increasingly one of supply chains competing with one another, and hence a small and medium enterprise policy will also have to create effective supply chain management to improve productivity through better work process and technology.

A vibrant and technologically dynamic domestic enterprise is desirable to maximize the benefits from FDIs. As profit margins are eroded on lower-end products, technological innovation is the only path to capturing markets in the higher end of the market chain and creating new ones. In this regard, the public sector should build and strengthen technological infrastructure, and upgrade technological competence of domestic firms for them to remain competitive. Boosting R&D is an important element that should be supported with sufficient funding, fiscal incentives, and assistance in the application of new production techniques and new products. A culture of being receptive to change is an important strategy that should permeate at all levels.

In addition a new growth driver in the "knowledge economy" is intellectual property (IP) and its management. IP cuts across industries and involves creation, protection, use, valuation, and technology transfer. The global agreement on IP, called trade-related aspects of intellectual property rights (TRIPs), is now part and parcel of

[195] Kumar, R., 2003. Changing Role of the Public Sector in the Promotion of Foreign Direct Investment, Asia Pacific Development Journal.

World Trade Organization membership. While there may be controversy on patents working against the interest of developing countries, carefully worked out intellectual property protection can boost domestic innovation and improve access to new technologies. In particular, governments could encourage local firms in IP management to develop patents and assist in the funding of costly patent applications.

However, it is important to note that in creating a strategy that would encourage linkages there is a need to consider the historical, cultural, institutional context of the country because one strategy that has been effective in one country may not necessarily be effective in another. Success also depends on whether the policies complement each other. For instance, the promotion of supply links may be successful because it is complemented by a general policy of technology upgrading or industrial training. Indeed, the more policy measures aimed at promoting linkages are consistent with, and embedded in a broad range of policies that facilitate enterprise development, the higher the chances for linkage-promotion policies to succeed.[196]

2.3.3 Strengthening the Capabilities of Local MSMEs

The single most important host country factor influencing linkage formation is the availability of local suppliers with competitive costs and quality. The technological and managerial capabilities of domestic firms also determine to a large extent the ability of a host economy to absorb and benefit from the knowledge that linkages can transfer. In particular, the tendency of foreign affiliates to source the most sophisticated and complex parts and components in a production chain either internally or from a preferred supplier within or outside a host country depends essentially on the capabilities of local companies. Another key requirement stressed often by MNCs and large domestic conglomerates, is the “right attitude” towards continuous improvement and in particular, a commitment to upgrade quality on the part of suppliers. Developing the “right attitude” or more precisely creating the culture of ethical behavior and social responsibility is the cornerstone of Strategic CSR. The organization that has internalized the value and rationale for CSR represents the highest level attainable—perhaps only by a few. More often, good CSR companies require leadership by example—that suggests a hierarchical motivation.

Supporting meso-institutions affect the linkage process. Public and private providers of financial, technological and training support often play key roles in fostering the development of viable suppliers. Without this kind of institutional support, domestic firms may be unable to get a required quality certificate, training or capital to become competitive. Moreover, the costs incurred may be too high even for foreign affiliates to engage in supplier development activities. Global and local firms are still profit-oriented and tend to view any cost—CSR or otherwise as relative—to the next option. For example, the Thai government in the mid-2000s launched the One Tambon One Product (OTOP) wherein each tambon or village was expected to specialize in one product for export based on its own handicraft skills. Some Thai villages went into dyeing baskets and bags, others into ceramics, and still others into organic herbal products. The Thai government did its part by requiring malls to carry OTOP products, by offering financing, by including OTOP producers in Thai Airline’s catalogue, and so on. OTOP was arguably successful, but the main beneficiaries were not the small village producers but medium size—albeit rural firms as well as small firms acting as consolidators—thereby increasing the volume on offer. The larger “small” firms needed less training and were already familiar with export procedures and quality standards. CSR should therefore focus on encouraging efforts by large firms to move down the scale towards MSMEs.

2.4 Business Linkage Promotion Programs: With Country Examples[197]

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[196] United Nations Conference on Trade and Development. World Investment Report 2001. New York and Geneva, 2001.

[197] United Nations Conference on Trade and Development. World Investment Report 2001. New York and Geneva, 2001.

Basic features of linkage promotion programs. Some countries have taken a more proactive approach by setting up specific linkage promotion programs dedicated to increasing and deepening linkages between foreign affiliates and domestic firms. These industry linkages were undertaken on national and sub-national levels and focused on certain key industries providing opportunities for technological learning, skill building and other collaborative activities involving various stakeholders. In Ireland, supply opportunities were successfully developed in metal and plastic component industries, printing, packing, automation equipment, electronics, manufacture assembly, and system testing equipment. Not surprisingly, most specific linkage programs are in countries with a significant FDI presence and strong local supplier base. Most of these countries have institutions for MSME development and FDI promotion, as well as skills and financial resources to staff and fund linkage programs. Strategic CSR requires a concerted effort by firms to engage with appropriate institutions—government and non-government in order to accelerate the development of CSR initiatives among MSMEs.

Common objectives of linkage programs include: (1) increase domestic production and employment, (2) improve the current account, (1) make MNCs more rooted in the local economy and (4) upgrade the capabilities of domestic enterprises.

There are also three elements common to the national level linkage programs. These are (1) the provision of market and business information, (2) matchmaking by such means as trade fairs or data base development and (3) support to local enterprises through provision of managerial and technical assistance, training, audits and occasionally, by financial assistance or incentives.

Sub-national level linkage programs. Creating linkage programs at the sub-national level have the following objectives that go beyond simply creating linkages, increasing employment and balancing trade: (1) intensifying interaction among firms in a cluster of industries or in a spatially dispersed network of enterprises, (2) creating an environment conducive to continuous technological upgrading and (3) enhancing the quality of FDI and rooting foreign affiliates more firmly in the local economy.

Cluster-oriented programs seek to build on location specific capabilities and use “third generation” investment promotion strategies. The emphasis is on moving up the value-chain and linking value chains with global ones. Some programs that began as national programs have evolved into cluster-oriented programs. In cluster-oriented programs, linkages between local firms and foreign affiliates are considered byproduct, not a primary objective. They typically encompass matchmaking, institution building and strengthening competitiveness of suppliers. The main instruments used are technology policy, research and development, and technical support for local firms. Emphasis is on the good functioning of institutions as standards and quality bureaus, business networks, and professional associations. Examples of this approach are the Global Supplier Program of Penang, Malaysia, the Mexican national and local level programs, the high-technology linkage program in Costa Rica, as well as the regional programs in the United Kingdom – the Source Wales program and the Scottish Enterprise Network.

A broader category of these linkage programs are not exclusively geared to linking foreign and domestic firms, but have an indirect impact on linkages. Examples range from the supplier development and “ancillarization” initiatives in India to the MSME development schemes in developing economies.

Agency base of linkage programs. Linkage programs can be located in different agencies. Some come under the auspices of foreign investment promotion agencies as in Thailand and the Czech Republic. Others are integral parts of economic development agencies such as the Economic Development Board of Singapore, Enterprise Ireland, the Malaysian Ministry of International Trade and Industry and its operational arm, the Malaysian Industrial Development Authority, and Ministry of Economic Affairs of Hungary. Yet others are part of the regional development strategies as in the northeastern England, Scottish and Welsh programs in UK. In most instances, as in Ireland, Wales, Singapore and Thailand, the public agency liaises with the private sector, via a joint steering committee or through consultations. The northeastern England program has an interesting variation. It involves the local and national governments, the business community and trade unions, as well as the regional universities.

Impact of business linkage programs to the economy. Countries with well-established business linkage program have attempted to measure and assess the impact of these programs to the economy. Collecting and analyzing evidence on linkages is key in evaluating polices on linkages. Linkage program evaluation may be undertaken by measuring the extent of linkages and the depth of linkages.

a. *Extent of linkages.* The extent of linkages can be measured in the following ways (1) counting the number of linkages, or the number of relationships between foreign affiliates and domestic firms (Singapore), (2) share of domestic firms in the number of suppliers to affiliates (Hungary, Costa Rica) and (3) value of contracts of local suppliers (Thailand). The share of locally sourced inputs is part of the "retained value" measure, the purpose of which is to measure the embeddedness of foreign affiliates in the local economy and host economies' value added. "Retained value" is the sum of the local wages paid by a foreign affiliate, inputs sourced locally, profits accruing to local stakeholders and local taxes paid. A variation of this is the share of value by local suppliers in total value added by foreign affiliates. The local content of foreign affiliate production is sometimes used to capture the degree to which affiliates link with the host economy. This has been used in Thailand, Malaysia, India and China.

b. b. *Depth of linkages.* Measuring the depth of linkages also means measuring the impact of linkages in macro and micro economic levels. At the macro level, the effect of linkages can be assessed by their contribution to increase in employment, output or exports. At the micro level, contribution of linkages can be measured by the growth of supplier productivity, improvements in the quality of products and the shift into higher value added products. These indicators are used to measure productivity, technology-intensity, and so on. Surveys of foreign affiliates and their suppliers can provide useful information in this regard.

In general, the effectiveness of a linkage program is largely context-specific, predicated on the economic environment and institutional setting. If local firms have well functioning linkages among themselves, it is more likely that they will actively engage in a linkage program. Similarly, active program implementation may be assisted by the presence of domestic and international chambers of commerce, business associations and the strong involvement of government.

Key ingredients. The key ingredients of successful linkages programs include:

a. *Strong political commitment.* Programs pursued at the sub-national level may have more impact, particularly in large countries, since they allow for a focused approach and bundling of resources, and are more amenable to close interaction among stakeholders.

b. *Clear delineation of lines of responsibility, with coherence among goals and measures.* Some linkage programs tend to have conflicting and overlapping lines of authority, with overall policy responsibility and implementation situated in different ministries and agencies. Such a situation calls for special efforts to coordinate.

   A key lesson drawn in an UNCTAD survey of 123 investment promotion agencies (IPAs) regarding business linkages is that IPAs require a clear mandate in supporting the creation and nurturing of business linkages. Given the plethora of organizations already involved in supporting small and medium enterprise development, it may not be surprising that more IPAs have not actively sought to become more involved in this field. Further, it is rare that the charter of IPAs mentions supporting small and medium enterprise investor linkages as core activity. Yet, the positioning of IPAs makes it potentially viable facilitator of MNC— small and medium enterprise linkages. To the extent that IPAs clearly have the value to add in efforts of the host country to foster business linkages, IPAs may wish to consider approaching their governing body for a clear mandate to support their constituency investors in forming business linkages with local firms. Having an official mandate will make it easier for the IPA to organize accordingly, and to deploy financial and human resources required.[198]

c. *Effective public-private partnerships.* Linkages will be sustained if they are technically viable and commercially profitable for the firms involved. Suppliers can induce governments to assist them by encouraging local sourcing by affiliates. Foreign affiliates and their parent companies can help the government identify the scope for local sourcing and give advice on programs needed. To be convincing and generate mutual trust, linkage programs need to be staffed by professionals with the appropriate skills and background.

The RVR Center is involved in another research on Public-Private Sector Partnerships (PPPs)—in the Philippines and India. While not focused on CSR, the survey component will include questions on CSR in PPPs—particularly with respect to the SLTO. Moreover AIM has a program on “Bridging Leadership” that involves multi-stakeholder ownership in the decision-making and implementation of socially—but not necessarily environmentally critical concerns. The very preliminary indications are that private firms that are already engaged in CSR initiatives already have the professionals with the necessary skills to initiate linkage programs. However, these skilled professionals are only a small if necessary part of an entire trust building, problem-solving, decision-making and implementing system that ultimately requires stakeholder ownership of both the issue and its resolution.

To conclude, the more linkage promotion programs are embedded in policies that facilitate enterprise development in general, the higher the likelihood that these programs may succeed. It is vital to have well-functioning institution to channel two-way flows of information between governments and stakeholders and to provide industrial services.

[198] United Nations Conference on Trade and Development. A Survey of Support by Investment Promotion Agencies to Linkages. New York and Geneva, 2006.

Annex C: Strategic Corporate Social Responsibility of Large Firms*

1. INTRODUCTION

The Asian Institute of Management-Ramon V. del Rosario, Sr. Center for Corporate Social Responsibility (RVR Center) implemented a research project aimed at promoting the practice of Strategic CSR by large firms operating in the Philippines. Funded by BMZ via GIZ, this research was linked with the goal of harnessing the contributions of private firms in addressing today's foremost development challenges, including playing substantial roles in the development of micro, small and medium enterprises (MSMEs).

Three major objectives were pursued in this research:

- To identify the key strategies for increasing the participation of large firms in improving the competitiveness of MSMEs;
- To generate policy and program recommendations to encourage large firms to undertake Strategic corporate social responsibility (CSR) initiatives on MSME development;
- To generate inputs for the design, implementation and evaluation of Strategic CSR initiatives on MSME development of large firms.

2. CONSULTATION WITH STAKEHOLDERS

2.1 Research Questions of the Project

In meetings with stakeholders from the Department of Trade and Industry (DTI), business associations and with one large company (Globe Telecom), the research team introduced the research project as an initiative funded by BMZ via GIZ. The meetings started with a brief introduction of the research project's main research questions:

- How can we tap the contributions of large firms in the development of MSME in the Philippines?
- What are key strategies for increasing the participation of large firms in initiatives to develop and improve the competitiveness of MSMEs?
- What policies and programs are needed to increase the participation of large firms in initiatives to develop and improve the competitiveness of MSMEs?
- How should large firms design, implement and evaluate their Strategic CSR initiatives on MSME development?

2.2 Key Elements of Interest during the Consultation-Meetings

The consultation-meetings with key stakeholders were conducted in a conversational manner. The intention was for insights of stakeholders on the research topics to surface. A number of questions were pursued by the team during consultation-meetings. The following elements of interest were tackled:

- Vision and mission of the organizations
- Involvement of large firms in CSR initiatives

- Views and experiences on MSME development as a CSR initiative
- Examples of large firms involved in MSME development initiatives
- State of large firm-MSME linkages
- Government and business initiatives to foster large firm involvement in MSME development
- Facilitating and constraining factors affecting large firm involvement in MSME development
- Considerations in designing, implementing, evaluating Strategic CSR initiatives by large firms

2.3 Stakeholder Profile and Questions Asked During the Consultation-Meetings

A profile of the stakeholders consulted is presented below.

Name	Position	Organization
Merly Cruz	Undersecretary	Regional Operations & Development Group, Department of Trade & Industry
Rhodora Leaño	Director	Bureau for Small and Medium Enterprise Development (BSMED), Department of Trade & Industry
Alberto Lim	Executive Director	Makati Business Club
Jana Franke	SCOPE Consultant	Strategic Corporate-Community Partnership for Local Development, German Development Service (DED), now GIZ, and Philippine Business for Social Progress
Jeffrey Tarayao	CSR Manager	Globe Telecom
Patricia Corpus Calilong	Associate Director	Philippine Business for Social Progress
Victoria San Juan-Co	Manager	Membership Development Unit, Philippine Business for Social Progress
Felix Tonog	Business Support Manager	Enterprise Development Group, Philippine Business for Social Progress
Crisanto Frianeza	Secretary General	Philippine Chamber of Commerce and Industry
Jerry Bernas	Executive Director	League of Corporate Foundations
Romeo Garcia	Research and Advocacy Manager	Employers Confederation of the Philippines
Dang Buenavista	CSR Manager	CSR Division, Employers Confederation of the Philippines

The following table enumerates the questions asked during the consultation-meetings.

Elements of Interest	Questions
Vision and mission of the organization	• What is the vision and mission of your organization?
State of involvement of large firms in CSR initiatives	• What is your assessment of the involvement of large firms in Corporate Social Responsibility (CSR) initiatives? • What key issues have they focused on in their CSR initiatives?
Views on Strategic CSR	• Do you think that Strategic CSR—which argues for the alignment of CSR initiatives with business goals and competencies, and key social issues affecting the competitiveness of companies – is the right direction for large firms? • What do you think are the advantages and disadvantages of practicing Strategic CSR?
Views on MSME Development as a Strategic CSR initiative	• What is your view on the importance of MSME development as a CSR initiative for large firms?
State of involvement of large firms in MSME development	• Are you aware of any large companies that implement CSR initiatives on MSME development? • What kinds of activities are they pursuing in the implementation of such initiatives?
State of linkages between large firms and MSMEs	• How would you describe the degree of linkages between large firms and MSMEs in the Philippines? • In what ways do the business activities of large firms affect the MSMEs? • Are the business activities of large firms critical to the development of MSMEs? • What is the level of contribution of MSMEs in improving the competitiveness of large firms that operate here in the Philippines?
Organizational initiatives to foster linkages between large firms and MSMEs	• Has your organization embarked on any initiatives to build and strengthen the linkages between large firms and MSMEs? • Can you describe the rationale, activities and results of such initiatives? • What do you think are the most effective initiatives that business and industry associations can undertake to encourage large firms to contribute to MSME development? • On the part of government, what do you think are the most effective policy and program interventions to encourage large firms to contribute to MSME development? • At the firm level, what do you think are the most effective strategies to facilitate the adoption and implementation of Strategic CSR initiatives on MSME development?
Facilitating and constraining factors affecting the adoption of Strategic CSR initiatives on MSME development	• What do you think are the key factors that facilitate the adoption of Strategic CSR initiatives on MSME development at the firm level? • What do you think are the key factors that constrain the adoption of such Strategic CSR initiatives on MSME development at the firm level?
Key considerations in designing, implementing and evaluating Strategic CSR initiatives on MSME development	• What do you think are the critical considerations that large firms should address in formulating their Strategic CSR initiatives on MSME development? • What aspects of the business operations should be assessed so that large firms could be systematically guided in designing their Strategic CSR initiatives on MSME development? • What aspects of the external operating environment of large firms should be assessed so that large firms could be guided in designing their Strategic CSR initiatives on MSME development? • What kinds of INTERNAL and EXTERNAL structures and processes are needed in the implementation of Strategic CSR initiatives on MSME development? • What are the business benefits of such CSR initiatives? • What do you think are the societal benefits of such CSR initiatives?

3. KEY FINDINGS

The following tables present the key findings of the consultation exercise.

ELEMENTS OF INTEREST
Profile of MSMEs in the Philippines • History of MSME development in the Philippines • Definition of MSMEs (employment versus asset-based) • Statistics on MSMEs (geographic distribution, industry presence, base of ownership, etc) • Contribution of MSMEs to development (employment, value added)
Supply/Value Chain Linkages Between Large Firms and MSMEs • Degree of linkages between large domestic and multinational firms, and MSMEs • Degree of large firm-MSME linkages in key economic sectors/industries • Export-import supply/value chain linkages
Value of Large Firm-MSME linkages (Benefits and Costs) • Large firm perspectives • MSME perspectives • Business/industry association perspectives • Government perspectives
Policies and Programs on MSME Development and Large Firm-MSME Linkages • Government • Business & industry associations • Firm-level initiatives • Civil society organizations
CSR Practices of Large Firms in the Philippines • Key issues addressed in CSR initiatives of large firms • Geographic coverage of CSR initiatives • Beneficiaries • Key drivers for CSR practice - Market drivers (standards of buyers, consumer preferences, etc.) - Societal drivers (government policies/programs) - Company's self interest: expectations of gains in competitive advantage, reputation, etc. • Level of commitment to CSR (funds allocated, quality of implementation structures)
Strategic CSR Initiatives on MSME Development by Large Firms • Prevalence of the initiatives among large firms • Large firm attitudes and behavior • Rationale of such initiatives • Process of and considerations in designing Strategic CSR initiatives on MSME development • Departments/units/persons implementing the initiatives within the large firms • Key activities implemented • Results of CSR initiatives on MSME development • Facilitating and constraining factors • Live case examples (Globe Telecoms, Bank of the Philippine Islands, Planters Development Bank, Splash, Toyota, etc.) • Insights of people involved in the implementation of Strategic CSR initiatives on MSME development • Analysis of the entries to the Asian CSR Awards

Rationale for Improving the Competitiveness of MSMEs
To meet the requirements of today's global economy • Today's global economy emphasizes the importance of responsible business practices among global firms and their suppliers, including MSMEs that form part of the supply/value chain. • Risks abound in enterprises that do not adhere to socially responsible ways of doing business, including practices related to managing environmental impacts, compliance with labor standards, and the like. • Global firms are beginning to encourage if not mandate the adoption of responsible business practices among their suppliers especially from developing economies. There are benefits in terms of increased access to business opportunities offered by global firms but there are also costs especially on the part of MSMEs which still lack the resources needed to meet the new market standards for doing business. • In addition to government initiatives to promote the competitiveness of MSMEs, large firms have certain roles to play in improving the capacities of MSMEs to deal with the realities of doing business in today's global economy.
To improve the capacities of MSMEs to meet the needs of large firms • In the Philippines, MSMEs generally lack the capacity to serve as suppliers for large firms.[199] This was confirmed in Reverse Trade Fairs organized by the country's Department of Trade and Industry (DTI). In these fairs, the exhibitors (composed of large companies) showcase their production and manufacturing requirements so that MSMEs (potential suppliers) could harness these as potential business opportunities. • Overall, MSMEs are unable to supply the needs of large companies. They have problems meeting the quality, quantity and reliability requirements and standards of large firms. • MSMEs face a number of key constraints to their competitiveness: weak access to capital, technology, markets, and cheaper inputs; inadequate infrastructure; regulatory barriers; governance gaps (unpredictable implementation of laws) and burdensome taxation • While large firms are affected by factors affecting the competitiveness of MSMEs, they worked around these constraints as compared to MSMEs. MSMEs are severely affected by government pressures and regulations than large firms. • There is a need for a systemic fix to improve the competitiveness of MSMEs in the country. • Since the Asian financial crisis, the formal sector has lost more than 50,000 establishments with employment losses reaching to about half a million. Most of the employment losses were from the micro enterprises. • Micro enterprises have gone underground to escape excessive regulations of the labor market and escape taxation because they are unable to comply with basic labor standards and minimum wage requirements.
To ensure corporate sustainability and competitiveness of large firms • Improving the competitiveness of MSMEs also improve the competitiveness of large firms operating in the country. • More competitive MSMEs would enable large firms to specialize more in producing or providing certain products or services. The strategy of improving the competitiveness of MSMEs fits with the realities of the new economy where more and more firms tend to limit their size than agglomerates. • Large firms nowadays want to be as efficient as possible and will only grow in size. They outsource certain activities that can be more efficiently done by other smaller firms. Global competition is pushing companies to go beyond their boundaries in search for solutions to their business problems. MSMEs are potential solution providers to large firms. • It is cheaper and easier for large firms to import their raw materials than source them domestically. However, large firms could be shielded from the vagaries of the international market as well as assured of their corporate sustainability if they have local suppliers that can meet their needs.[200] • Large firms can gain strategic and competitive advantage if they develop and strengthen their upstream and downstream business linkages with local MSMEs.

[199] Interview with Rhodora Leaño, Director of Bureau of Small and Medium Enterprise Development (BSMED), Department of Trade and Industry.

[200] Interview with Jerry Bernas, Executive Director of League of Corporate Foundations

State of CSR Practice among Large Firms
The CSR concept is generally acceptable to and being understood by large firms in the Philippines • CSR is generally accepted by companies in the Philippines unlike in other Asian countries (Laos, Vietnam) where companies are still trying to understand the concept.[201] • The leading companies in the Philippines like Ayala, Phinma, AIG and Philamlife are leading in the practice of CSR. • General understanding of CSR is one where firms give money to the poor, support foundations, provide scholarships, disaster relief and outreach activities. • These are not the only part of CSR. In fact, there is the governance aspect of CSR—paying the correct taxes, for example. • CSR initiatives benefit not only the business but also the company's stakeholders. • Some companies are practicing CSR without knowing it.
Philanthropic CSR activities still dominate • Large majority of CSR-practicing companies are involved in education initiatives (providing scholarships and other forms of educational assistance). • The value of philanthropic CSR initiatives remains. This is understandable given the fact that in a developing country context such initiatives remain valid and legitimate because the government lacks the resources to provide for much-needed public goods.
Key issues being addressed • Large majority of CSR-practicing companies have programs on education and health. • Over 90 percent of the League of Corporate Foundations (LCF) members have initiatives on education. In terms of priority, the key issues addressed by LCF members are environment, enterprise development, health and arts and culture. • Livelihood • Focus on health, workplace practices, healthy lifestyles, education • Prevalence of one-time events like family day, sports fest, annual team-building activities, medical missions • Tree planting activities • Employing people with physical disabilities • A majority of the Philippine Business for Social Progress (PBSP) members are focused on philanthropic, one-time activities and giving grants
MSME development initiatives not yet prevalent among those practicing CSR • Companies are still not so involved in MSME development initiatives. • MSME development initiatives are something new and not yet widespread even among those firms who have long been practicing CSR.
Motivations for doing CSR initiatives • To look good or improve reputation • To do good for society • To support national development priorities • To improve relationship with firm stakeholders • To address problems affecting the company's value chain
CSR implementation structures and processes • Companies with corporate foundations form a small subset of the membership of business associations. • Corporate foundations were a trend of the 1990s for tax breaks, grant giving purposes and for community outreach programs. • Companies themselves, not just corporate foundations are practicing CSR. • Some companies have opted to create internal company structures for implementing CSR initiatives. The evolving CSR philosophy has favored the integration of CSR within the business and not its outsourcing to corporate foundations. • The new trend is to internalize CSR activities than outsource these to corporate foundations. • Business associations have formed committees, units or programs to promote CSR. In LCF, there are five committees handling issues related to: education, environment, enterprise development, health and arts & culture. • CSR programs of firms are not well documented especially the best practices. • CSR programs are only being sustained incrementally without much innovation.

[201] Interview with Jana Franke, Consultant for the Public-Private Partnership Program (SCOPE) of the German Development Service

Views on Strategic CSR

Companies are seeing the value of Strategic CSR

- Philanthropic activities are still needed but will decline in prevalence in the coming years. The financial crisis has prompted companies to start thinking about how to make their CSR initiatives more sustainable.
- Companies and business associations are increasingly appreciating the value of Strategic CSR.
- Making CSR strategic—to generate benefits not only for the society but also for the business—is one of the directions being evaluated if not practiced by a number of companies.
- It is expected that Strategic CSR initiatives would get a larger degree of mindshare among business associations and companies implementing CSR initiatives.
- Business associations (like PBSP) that focus on corporate citizenship, CSR, sustainability and related concepts are beginning to move towards making CSR practice more strategic. The policy within PBSP has shifted. In the next five years, this business association will focus on generating and providing business solutions to poverty and other social issues.
- Corporate sustainability concerns would drive the uptake of Strategic CSR among firms. Companies are getting more interested in doing triple-bottomline reporting. There is a growing interest on the Global Reporting Initiative (GRI) framework for reporting on and communicating CSR activities.
- While it is not yet prevalent, the practice of Strategic CSR is seen as a desirable direction. Strategic CSR initiatives generate benefits not only for the community but also for the company. The alignment with business-related goals and corporate competencies and resources makes them more appealing to companies.
- Strategic CSR initiatives are more sustainable compared to the one-time disaster relief operations and other forms of philanthropic CSR.
- There are more competent and experienced government and civil society institutions that address issues on hygiene, health and other social issues. Encouraging companies to focus on business-related initiatives that help people earn money is a more desirable direction in practicing CSR.[202]
- Companies should focus on what they can do best: business development.

There is need to define what Strategic CSR is

- There is a need to define the boundaries of Strategic CSR.
- There is a need to distinguish it from purely business, profit-oriented initiatives.
- Strategic CSR is part of the business model.

Initiatives on Strategic CSR are easier to sell to companies

- When companies do CSR, they should do it with a return in mind: there should have some positive impact on the firm.
- Companies will not support certain CSR programs that do not have a positive impact on their image with customers, improve relationship with workers, as well as create a more stable and efficient supply chains.
- Making CSR more strategic will increase the buy-in of companies.

Focus on business solutions to address key societal problems

- Some companies and business associations (like PBSP) underscore the importance of harnessing the unique competencies and resources of private firms in addressing social issues.
- PBSP's Board has adopted a decision to focus the organization's CSR advocacies and programs on providing and generating business solutions to poverty and other societal issues.
- The Philippine Chamber of Commerce and Industry (PCCI) also emphasizes the importance of providing and generating business solutions to key societal problems.

Small firms can also practice Strategic CSR

- Strategic CSR can be practiced both by large firms and small and medium enterprises . Because CSR is often associated with giving something, MSMEs wonder if they could practice CSR. The SCOPE Program, the German Development Service's program on public-private partnerships, shows that it is possible for MSMEs to practice Strategic CSR that does not cost so much money. Examples of these are MSME initiatives that embed the communities as suppliers of raw materials, services and other products that companies need.

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[202] Interview with Jana Franke, Consultant for the Public-Private Partnership Program (SCOPE) of the German Development Service

Views and Inputs on Strategic CSR Initiatives on MSME Development
Strategic CSR initiatives on MSME development are not yet prevalent. • A majority of companies are not into it because there is a perception that it is not a high-impact intervention compared to addressing poverty, education, health and environmental issues • MSMEs are considered business entities whose owners are not poor.
While they are something new they are more acceptable to companies. They are initiatives that could maximize the positive contribution of large firms to society • Doing CSR along the purview of economic development is something new. However, it is acceptable to companies because it is aligned with their nature: it is natural for companies to think about developing the market. • CSR initiatives on MSME development would increase in the future because firms are beginning to feel the pressure of thinking about corporate sustainability • Enterprise development or working with MSMEs is one of the most sustainable CSR initiatives because it positively impacts both the community and the company. • Much easier to sell to companies especially if the company and societal benefits are well presented. • Wealth creation is a function of entrepreneurship: if you create wealth through entrepreneurship or enterprise development, you create more opportunities for employment. • MSME development is a legitimate CSR issue especially if initiatives related to it stimulate economic activities in communities and contribute to the core business of firms.
Some large firms carry out MSME development activities but they do not call these CSR • Some large companies have business relationships with MSMEs but these are not considered as CSR. • The value chain defines the linkages between large companies and MSMEs. CSR demands that the linkage extend beyond the ordinary buyer-seller relationship. • Some companies are implementing initiatives to develop their suppliers and MSME clients, but they do not label these efforts as part of their CSR practice. • On a purely business and technical side, large firms have long been carrying out activities to develop their suppliers, but they do not call these activities CSR initiatives.
There is an advantage in framing existing/future interventions in terms of CSR • PCCI says it would be easier to secure the buy-in of firms on key issues if framed under the CSR banner. It has been successful in convincing companies to adopt environmental standards, family planning activities and other social issues if these issues are packaged under the CSR label. • CSR is a good vehicle to advocate and promote certain programs addressing societal issues. • Large companies would have a rallying guide, and the roadmap for the needed interventions will become clearer. • Labeling company initiatives on MSME development would motivate them to provide high-quality interventions. • Adding a CSR component might give their work a new dimension: "In other words, companies have to look at developing the market not only for one bottomline but for the other bottomline, and that's what you call Strategic CSR."[203] • MSME development initiatives require an investment into the future. Labeling such initiatives as CSR would probably push large firms to invest in such initiatives even though they are still thinking of cost savings in the context of the economic and financial crisis. • Framing the business initiatives to develop suppliers in terms of CSR would motivate companies to think more in terms of partnership with MSMEs, and to go beyond the ordinary buyer-seller/seller-buyer relationships.

[203] Interview with Alberto Lim, Executive Director, Makati Business Club.

Views and Inputs on Strategic CSR Initiatives on MSME Development

Large firms can facilitate the development of MSMEs through their initiatives to develop their value chains
• Large firms can promote the competitiveness of MSMEs by the business standards they set.
• Large companies who have no choice but to source locally have to train MSMEs.
• A number of large companies go out of their way to transfer their technology to small suppliers so that the raw materials they source is of acceptable quality.
• MSME development initiatives started off as livelihood programs, but more and more programs done by members are being linked with the supply chain.
• The thrust of some firms is how to integrate CSR in the supply chain or link it with business objectives in terms of increasing market share.
• Existing initiatives are mostly small-scale. Some large firms invited by LCF in the 2009 CSR expo were hesitant to showcase their models because the initiatives were really still "small."
• Some companies advocate that their MSME suppliers also practice CSR.
• MSME development initiatives are already being carried out by progressive companies such as Ayala, Shell, Petron and other big players. Small companies like *Binalot* have such initiatives. *Binalot* works with communities in the sourcing of banana leaves used in its growing number of fast-food chains.
• There will be a shift from livelihood programs to supply chain initiatives.
• Banks carry out microfinance programs for their small and medium enterprise clients. There are three models of interventions:
  - Grant: A large bank donates to a microfinance enterprise that manages the grant
  - Lending program: Large bank operates as a microfinance institution and earns profit from the lending program
  - Hybrid: Large bank giving money to a foundation that manages the grant as a lending program
• Companies are tired of livelihood programs that do not grow into sustainable enterprises.
• Some large firms implement some activities (training on productivity and quality) that are cascaded to their suppliers and contractors. Human resource practices of big firms are also cascaded down to suppliers and contractors.
• Interventions to develop the entrepreneurs are limited in scope: there are no credit facilities; technical and capability building interventions are not as extensive.

Companies Involved in Enterprise/MSME Development Activities
Model 1. Company-client/customer relationship • *Planters Development Bank*: a leading proponent of small and medium enterprise development initiatives; established an SME Development Park in Naga, Cebu; its chairman won the Entrepreneurship Award of the Ernst and Young; is showing that working with small and medium enterprise is very profitable contrary to what many people think. • *Bank of the Philippine Islands*: forms part of the Ayala Group of Companies, which emphasizes the practice of Strategic CSR; provides lending and capability-building initiatives for small and medium enterprises. • *Splash Corporation:* trains mothers on haircutting, cosmetology; encourages trained mothers to establish small businesses such as salons; gives discounts to these mothers who order Splash products; expands opportunities for stay-home mothers to earn incremental income for their families while contributing to the sales of company products • *SMART:* Pasaload program that taps the profit potential of the base-of-the pyramid as consumers and distributors of its products Model 2. Company-community relationship • *Petron Corporation* used to source rags used in its Bataan province refinery from Manila; taps mothers in its Bataan host communities to make rags instead of sourcing these from Manila; Stay-at-home mothers earn incremental income from this initiative of Petron to source its supplies from its host communities. Petron benefits in terms of reduced cost. • *Jollibee Foods Corporation* works with tomato and onion farmers in Bukidnon province. • *San Miguel Corporation* works with farmer communities to meet its needs for cassava and corn. Model 3. Company-contractor/supplier model • Siemens mandates contractors and suppliers to practice responsible ways of doing business, e.g. requiring contractors not to pay bribes in their transactions. • *Pacific Traders (*Cebu-based company) separated a lot of its employees because of the Asian financial crisis. The retrenched workers were encouraged to form a cooperative, which was tapped by the company as a subcontractor for its furniture products. • *Nestle* realized that risks abound in the supply chain and one way to ensure a more stable supply chain is to raise the environmental standards of its suppliers; its initiatives aim to raise the quality of environmental management standards and practices of suppliers. • *Toyota* improved the productivity and quality assurance systems of its suppliers. • *San Miguel Corporation* gave priority to its retrenched salespeople to serve as sellers and distributors of company products. • *Manila Water*: During its transition from a government to a private company, Manila Water had to separate some employees. Those employees were given opportunity to serve as suppliers or contractors for works such as pipe installation. Other case leads to pursue: SM Supermalls, Energy Development Corporation, Pascual Labs: setting up farms for its “Lagundi” line of products, Shangri-La: sourcing from green enterprises, and Figaro.

Case example: Globe Telecom

Like other companies, Globe Telecom's CSR programs transitioned from various approaches and focal issues. There was a time when its CSR programs were merely philanthropic and not clearly linked to its core business. Now, Globe has realized that its CSR programs must create value to its business and to the society where it operates. Its focus on democratizing the access of and distribution of technology to MSMEs as a specific market segments contributed substantially to its profitability and to national development. For Globe, practicing Strategic CSR—creating value for both the society and the company—is an imperative to ensure corporate sustainability.

While Strategic CSR is important, philanthropic initiatives remain valuable for the company. Philanthropic initiatives, explains Jeffrey Tarayao, CSR Manager of Globe, are needed especially by people living below the poverty line who do not have the needed education, mindset and other capacities to take part in livelihood and other economic-opportunity-enhancing initiatives. Scholarships, livelihood programs, health projects are still important. They can help the poor move beyond the poverty line and to participate in the company's Strategic CSR programs and to harness opportunities from its products such as the Auto Load Max Sim.

Globe Auto Load Max Sim offers opportunities to individuals and micro enterprises to earn incremental income. Through this product offering, Globe enables anyone—from tricycle drivers, bus operators, sari-sari stores—to serve as retailers of mobile credits (load). With only PhP 1,000, any micro-entrepreneur or individual can be a retailer and earn 12 percent profit.

This product offering has widened the consumers' access to technology, diversified the company's product offerings to benefit poor consumers, and mitigate its environmental impact associated with the production of call cards. Through this product offering, Globe increased its pool of distributors from 50,000 in 2003 to 700,000 in 2010.

Through the *Globe BridgeCom sa Bayan* initiative, the company's leadership and entrepreneurship program for community leaders and micro-entrepreneurs, the company helps communities identify business opportunities and provide them with skills on strategic planning, marketing and financial management. It encourages and capacitates community leaders, microfinance institutions and OFW (Overseas Filipino Workers) families to actively get involved in livelihood activities and in the creation of small businesses. Since May 2005, this program has benefited 2,500 women micro-entrepreneurs and 4,475 barangay leaders in 1,102 barangays (villages) from 231 cities and municipalities in the country.

The company CSR initiatives and product offerings have contributed to a greater understanding of specific customer segments, such as micro enterprises and the poor.

Facilitating and Constraining Factors for MSME Development Initiatives of Large Firms
Facilitating Factors • CEO buy-in: CEOs must be convinced that such program is an investment, not an expense. • Need to address problems in the supply chain (e.g., ability of suppliers to consistently provide products of acceptable quality and quantity). • Trend within companies to source locally and engage with their communities. • Pressure from global buyers for responsible business practices in the supply chain. • Industry characteristics: greater pressure to develop MSME suppliers in export-oriented or highly innovative industries • Profitability considerations: actual/potential impacts of the initiatives on the bottomline • Fit of such initiatives with business objectives • Business benefits from such initiatives; some companies are investing in CSR initiatives that do not even impact their bottomline • Dissemination of best practices from companies doing such initiatives
Constraining Factors • Capability and credibility of MSMEs - Weak capability of local MSMEs as suppliers for large firms - Easier, cheaper to import than to source domestically (tariffs are now much lower): imported materials from China are cheaper compared to materials shipped from Bohol to Cebu - Not so much linkage yet between large firms and MSMEs - Profitability considerations dominate in supply chain management - Many micro enterprises belong to the informal sector (not registered): companies do not like to work with partners with no track record and who cannot issue official receipts - Disincentives (taxes, tedious regulations) for those in the informal sector to join the formal sector - Suppliers of large firms are large themselves or medium enterprises; it is very rare for micro enterprises to become suppliers for large firms - MSMEs are not critical to the success or profitability of large firms • CSR motivations - Firms motivated by reputation gains would find MSME development less sexy compared to medical missions, providing scholarships, etc. • Cost - Unwillingness to spend for the development of local suppliers - Availability of financial and other resources for implementation • Stakeholder characteristics/salience - MSMEs do not belong to any poverty grouping that would provide strong justifications for the firms to provide development interventions. • Knowledge gaps - Lack of knowledge of CSR managers to design/implement Strategic CSR initiatives - Such initiatives are perceived as something new

Key Strategies for Increasing Large Firm Involvement in MSME Development

Advocate for a change in motivations for doing CSR

- Educate firms, governments, and business associations about CSR approaches that align business objectives and competencies with initiatives to address societal problems especially those that strongly affect the profitability and competitiveness of firms.

Increase the appreciation of MSME development as a CSR initiative by large firms

- Communicate the business benefits clearly (more stable, secure supply chain; cost savings); align the initiatives with self-interest of large companies; provide cost-benefit calculations to large companies; answer the question, "What's in it for them?"; make the companies see the revenue side of the CSR initiative to convince them it is not just an expense but an investment; and provide an actuarial study to large firms to convince them to invest in such initiatives.
- Focus advocacy on key stakeholders (CEOs, CSR managers, PR guys marketing CSR projects, leaders of industry and business associations).
- Package the CSR initiative as a "win-win" proposition for companies and communities.
- Conduct a half-day awareness program for the CEOs to secure their buy-in.
- Conduct a two- or three-day training program for persons handling CSR to improve their technical proficiency in developing a workable program on Strategic CSR on MSME development.
- Showcase best practices to large companies: CSR practice is about trends. Once people start doing something better, it takes a while for it to be adopted, it catches on, and then everyone starts doing it.

Increase the appreciation of business & industry associations on the importance of fostering linkages between large firms and MSMEs

- Examine the profiles of the members of business and industry associations and identify opportunities for intra-association (within the PCCI or PBSP) or inter-association linkages (between Makati Business Club (MBC) and PCCI).
- Channel advocacy efforts to chambers and business associations, rather than individual companies.
- Sell the CSR initiative to the leaders of business chambers and associations.
- Give awards so that the companies would become more motivated.
- Target the associations of HR managers especially in special economic zones.
- Implement an awareness-raising program. Clarify what is Strategic CSR and its benefits for business and the society. In PCCI, for example, such programs could be coursed through the PCCI's five groupings/networks (National Capital Region, South Luzon, North Luzon, Visayas and Mindanao). Every year these PCCI groupings conduct strategic planning sessions. But prior to these sessions, there are conferences which may cover new topics that the PCCI wants the local chambers to address in their annual plans and programs. During these conferences, the PCCI groupings come up with resolutions (e.g., to implement certain programs). The strategic planning sessions identify what specific activities are needed to implement these resolutions.

Organizational Profiles

- League of Corporate Foundations
  - Established in 1996, LCF is a non-profit network composed of 75 corporate foundations and corporations. It focuses on networking, partnerships and capacity building.
  - LCF has a CSR Institute which serves as its capacity-building arm.
  - The CSR Institute is still in the infancy stage. It is in the process of developing case studies among members and developing modules on how to teach CSR from a practitioner point of view to complement what the academe is doing in terms of theory.
  - Focuses on providing services to its member foundations and companies to help them improve their CSR practice and become a platform for exchange, partnership and network
- Employers' Confederation of the Philippines
  - Mostly large companies
  - ECOP focuses on industrial and labor relations
- Philippine Chamber of Commerce and Industry
  - Mix of large companies and MSMEs
  - 10 to 15 percent are large companies or medium-sized firms
  - Small and medium enterprises need the PCCI initiatives more than the large firm members who have their own research and advocacy units.

Raise the government's appreciation of the importance of encouraging large firms to get involved in the development of MSMEs

- Emphasize the actual and potential contributions of large firms (financial, market, technological access, etc.) in MSME development[204]
- Educate governments about the potential policy and program options in promoting large firm involvement in MSME development. There are different interventions along the mandating, facilitating, partnering and endorsing roles of government in promoting private sector involvement.

[204] GIZ representatives suggested the alignment of this research with the DTI's initiative to come up with a new MSME Development Plan for 2010 up to 2016

Government Interventions to Facilitate Large Firm Involvement in MSME Development
Improve the business enabling environment • Improve the credibility of MSMEs as partners of large firms: provide stronger government incentives and hasten procedures for enterprises in the informal sector to register or join the formal economy. • Encourage MSMEs to surface and join the formal sector: there are MSMEs that are not registered; they don't have proper receipts. Large companies do not like to deal with MSMEs whose paperwork is not in order. Government can help facilitate the incorporation of MSMEs so that they become more credible partners in the eyes of large firms. • Reduce regulations on MSMEs. • Provide systemic interventions to ensure coherence of government efforts to help MSMEs. • Carefully evaluate government options for encouraging large firm involvement in MSME development: assess interventions (along the government's mandating, facilitating, partnering, and endorsing roles in promoting CSR) in terms of effectiveness. Mandating MSME development as the social responsibility of large firms may not be effective because there is resistance from companies. When this responsibility is mandated, large firms would opt for minimum compliance instead of going beyond the minimum standards or expectations. • Provide tax and other incentives for large companies that undertake programs on MSME development, but also look at other government incentives other than taxes. However, the more incentives are given to large firm involvement in MSME development, there is more room for abuse because people want to get the incentives so they might come up with something that looks like CSR but is not really CSR. • Giving incentives to large firms would require setting up a system for classifying certain business initiatives as CSR or not. • Do away with providing capability-building programs for MSMEs. The private sector could better provide such programs if there are right incentives. Government should provide the proper incentives and subsidies for the private sector to take up the challenge of participating in MSME development. Quality of the programs would be much better because the expertise in business development resides in large firms. - Possible policy model: Productivity and Incentives Law (1990): gives incentives to employers who provide productivity development programs for their employees. The law was not too effective. There were not too many takers maybe because of the following reasons: (1) incentives are not too attractive; (2) tedious mechanism for availing incentives and (3) companies also do not know about this law. Amend the law to cover capability-building programs run by companies. In other countries, companies that offer training programs for employees of their contractors receive tax breaks or subsidies from the government. • Provide credit windows for MSMEs: different securities requirement, lower interest rates. - Possible model: Philexport program with SB Corporation, Landbank, in partnership with the Foreign Buyers Association of the Philippines • Examine the legitimacy of giving tax incentives to companies that do Strategic CSR on MSME development. Do a careful study on this: scope of the incentives, who will get the incentives, what kinds of programs (within company supply chains or beyond) should receive incentives. • Assess the benefits of the government incentives for companies that develop MSMEs. Push for the local government implementation of the Barangay Micro Business Enterprises (BMBE) law. Local governments do not want to implement this law because of expected revenue losses. • Share in the burden of organizing supplier communities. Questions from stakeholders • Several suggestions for the research were articulated by the GIZ representatives and other stakeholders consulted. These include evaluations of a number of options (and questions) for encouraging large firms to get involved in the task of MSME development. - What are the most effective government interventions to encourage large firms to get involved in MSME development? - Would it be more effective to encourage large firms to become an active stakeholder in improving the policy framework for CSR and in teaching MSMEs rather than to impose this obligation on them?[205] - What is the role and influence of market drivers in the adoption of CSR initiatives among MSMEs? [206]

[205] Inputs from Jochen Weikert of GIZ

Government Interventions to Facilitate Large Firm Involvement in MSME Development
Develop a long-term MSME development blueprint • Provide concrete programs where companies interested in MSME development could funnel initiatives to avoid redundancy of efforts.[207] • Segment the MSME: they may have different needs and constraints and thus require different interventions to improve their competitiveness. • Define the roles and responsibilities of the private sector in MSME development.
Facilitate linkages between large firms and MSMEs • Develop catalogues, profiles of and information on MSMEs in the country. • Do an inventory of MSMEs products, services, and needs to guide the large companies in designing their initiatives on MSME development. • Generate and disseminate knowledge about MSMEs: (1) how to educate them, (2) how to communicate with them and (3) how to transfer the knowledge from the large companies to the MSMEs effectively and to ensure their sustainability. • There is a need to "romance the large companies" in the effort to get them involved in the task of MSME development. • Serve as a matchmaker or bridge between large companies and MSMEs. • Facilitate business matching opportunities. DTI should provide a ready catalogue showing the potentials of MSMEs in particular product sectors or areas. This catalogue could be useful for both companies and business associations who also do not have access to good profiles of what MSMEs can offer.
Establish institutions to do capability building for MSMEs • Establish a school for MSMEs: There is no school today that provides education for MSMEs. There is a need for "grassroots training" for MSMEs on the specific needs and expectations of large companies, including their environmental codes, and product and quality standards.

[206] Inputs from Kumar of GIZ

[207] Interview with Jeffrey Tarayao of Globe Telecoms

Business/Industry Association Programs for Facilitating Large Firm Involvement in MSME Development
Business associations in the Philippines are not widely involved in efforts to foster the linkages between large firms and MSMEs. However, there are a number of initiatives that aim to build and strengthen MSMEs and to foster linkages between them. PBSP, for example, has an Enterprise Development Program that aims to enhance the access of small and medium enterprises to credit and to encourage volunteers to contribute to small and medium enterprise development. The Employers Confederation of the Philippines (ECOP) has implemented the ECOP Big Enterprise Small Enterprise (EBESE) Program that encourages large firms to improve the productivity and quality systems of their small and medium enterprise suppliers. Business associations consulted are still not widely involved in efforts to foster the linkages between large firms and MSMEs. MBC, whose members are large companies, has not been engaged in such initiatives so far. It believes that when it comes to MSME development initiatives, the PCCI is the most appropriate organization to talk to: "I think it's a new area for us because in the past, if small and medium enterprise concerns, we tend to pass it on to PCCI."[208] MBC underscores the importance of educating stakeholders on how to implement such initiatives: "You tell us how to do it and give us some models on how to do it. We could promote it but the practices should be more concrete. At this time, it's still policy-level. You identify what's happening out there. Pick up the models and from there you can infer if that can be done in other industries."[209]
Align programs to promote linkages between large firms and MSMEs with the vision and mission, and interest of the business and industry associations. • MBC's *Anti-corruption initiatives*. The MBC is applying for a grant on an initiative to clean up the procurement systems and processes in the private sector. A corrupt procurement system in the private sector often victimizes small and medium enterprises who do not have the choice but to pay bribes to secure a business. This initiative is part of the thrust of MBC to promote corporate accountability. CSR programs, the MBC said, are useless unless the companies are clean. Doing CSR may only hide the bad and corrupt practices of companies. • For Financial Executives of the Philippines (FINEX): initiatives to improve governance and accounting systems of MSMEs • For trade associations: initiatives to improve the supply chain linkages between large firms and MSMEs • For the Management Association of the Philippines (MAP) whose members are CEOs and heads of companies: initiatives to promote CSR vision and corporate sustainability • For Franchising Association of the Philippines: initiatives to promote the practice of CSR among MSMEs so that when large and small companies sit at the table they have a common understanding of CSR • ECOP's EBESE Program: quality and productivity programs carried out by large firms to benefit their suppliers - Linkage model was based on the buyer-seller relationship - Linkages program in the future would probably focus on human resource development and industrial relations. The focus would be on building the competencies of MSMEs on human resource practice and building capabilities to meet labor standards.

[208] Interview with Alberto Lim, Executive Director, Makati Business Club

[209] Ibid.

Business/Industry Association Programs for Facilitating Large Firm Involvement in MSME Development

Conduct education and awareness programs

- Share experiences on similar programs: people may lack ideas on how to practice CSR
- Educate companies on what CSR is all about: understanding its scope that goes beyond philanthropic CSR activities and that it can be done by the different functional business units in terms of the supply chain, purchasing, etc.
- An example is the 2009 CSR Expo of LCF.
  - CSR Expo in celebration of the CSR week every first week of July. The 2009 CSR Expo's tagline—Business Unusual: SOS (Skills, Opportunities, Sustainability)
  - Enterprise development was the highlight of the CSR Expo in 2009
  - In times of crisis, people need to make money. Employment creation was the focus, and the thrust was to increase the productivity of small enterprises.
  - LCF worked with PINOYME Foundation to develop a program on how to bridge large corporations with MSMEs
  - Large corporations were invited to showcase their models for engaging communities and MSMEs
  - Four short cases on enterprise development were presented during the 2009 CSR Expo. One case focused on linking the supply chain with the base of the pyramid (BOP). The other cases focused on green enterprises, agribusiness, and marketing strategies.
  - For each session, there was one corporate presentor, one from the NGO side, and one from a middleman or consolidator's perspective.
  - The objectives of the conference were to showcase the opportunities for partnership, and to educate the LCF members on the different models for doing CSR projects on enterprise development and in the supply chain.

Identify champions from the business sector

- Look for recognized association members and leaders who could champion the advocacy for large firms to link with MSMEs (Joey Concepcion of RFM, Jaime Zobel de Ayala, etc)

Provide counterpart assistance to large firms

- The German-supported SCOPE Program provides 50 percent of the project cost. Its money goes to the company that manages the project, but everything that is bought using program funds will goes to the community.

Provide matchmaking/consulting services to large firms and MSMEs

- Integrators and co-operators play an important role in promoting linkages between large companies and MSMEs.
- Provide large companies with contacts from MSMEs.
- Provide consulting service to association members: help companies identify their problems and implement solutions

Examples:

- Cebu Furniture Industry Foundation, Inc. (CFIF) serving as matchmaker
  - Established a raw materials library (abaca, etc.)
  - The library lists the raw materials and where these can be sourced in the Philippines
  - CFIF members, a mix of large companies and MSMEs, can access this library
- PCCI initiatives
  - In 2009, PCCI came up with a supply chain program. It sent 30 people to Japan to undergo a trainors' training on how to institute responsible business practices in the supply chain.
  - These "trainors" will advocate to the MSMEs to implement responsible business practices in the supply chain.
  - PCCI has been pushing the local chambers to get the profiles of MSMEs' products and services.
  - Buyers from all over the world also go the PCCI when they want to buy certain products like furniture. These business opportunities are passed on to the local chambers who can supply the needed products.
  - PCCI has set up the MOVE (matching opportunities, ventures, and exchanges) committee whose job is to set up deals between large firms and small and medium enterprises.

Advocate for needed policy reforms

- Focus advocacy on the improvement of the business environment
- Advocate for improvement in the registration procedures for business enterprises: registration procedures are disincentives for MSMEs who want to register
- Advocacy to improve labor market policies to make them more friendly to MSMEs

Design, Implementation and Evaluation of Strategic CSR Initiatives on MSME Development
Micro, small, and medium enterprises have different requirements and niches in the value chain. • Linkages may be stronger between medium and small, or between small and micro, than between large companies and MSMEs. • CSR requires that the linkage between large companies and MSMEs extend beyond the ordinary buyer-seller relationship in the value chain. • Large companies have financial, managerial, technological, and market access. • Case studies can be undertaken showing the involvement of large companies in the development of MSMEs (motivations, challenges and constraints, opportunities, strategies, activities, monitoring and evaluation). • Stakeholders said it is very important to show large companies how they can practice Strategic CSR on MSME development. Some important considerations in designing and implementing the initiatives are the following: - Deciding whether MSMEs are beneficiaries or implementors of CSR initiatives. - Setting the boundaries of Strategic CSR to differentiate it from the firm's core business. - Setting the firm's long-term CSR plan, including initiatives on MSME development. - Addressing the issue of stakeholder suspicion: Why should MSMEs believe in large firms? Do large firms have the mandate to promote CSR?[210] - Addressing the issue of lack of social preparation of large firms and MSMEs who think more in terms of livelihood programs than looking at partnerships for potential business ventures. • It is also important to note that in designing Strategic CSR program that - There is no "one-size-fits-all" approach because industries and companies are different. - It is important to assess the strengths and weaknesses of industries/companies. - The initiatives must be aligned with the self-interest of companies. - Large companies must think harder about it and look for linkages with MSMEs that can contribute to the business bottomline.
Design of Strategic CSR Programs • Improve the competency of the company's CSR manager to assess the value chain for problems and opportunities. Have the CSR manager work closely with business operations. Oftentimes, companies want to get involved in Strategic CSR, but they do not know how. Sometimes, it's just a problem of how to do it. • Assess the value chain for opportunities to work with communities and MSMEs. • Assess the company's resources and competencies; identify what business solutions the company can offer to develop the MSMEs. • There is a need to assess the business value of the initiatives as well as the societal benefits: a "win-win" formula must guide the design of the initiatives. • Align the CSR initiative with the company's core values. • Identify most effective interventions to develop MSMEs within the company's value chain - Deliver capability-building interventions: financial literacy programs for MSMEs; business advisory services (product development, marketing, CSR design) through the company's employee volunteers; increasing access of MSMEs to technology, capital and markets - Reform large firm procedures in doing business (example: short payment cycles for its MSME suppliers)
Implementation of Strategic CSR • Drawing on the expertise of large companies is the right way to do it. • Implementation structures and processes depend on the nature of the company. • Corporate foundations can focus on welfare-oriented CSR programs; while companies themselves could focus on CSR programs aligned with business goals. • Secure the buy-in and involvement of the CEO.

[210] Inputs from Rolf Dietmar of GIZ

Design, Implementation and Evaluation of Strategic CSR Initiatives on MSME Development
Evaluation of Strategic CSR • Clarify the indicators of program performance. It's important to take note that there should be benefits for the community/society and the benefits for the company. *Company benefits* • More reliable suppliers • Diversified base of local suppliers • Better ability to deal with price fluctuations of imported raw materials • Improved business reputation • Trusted relationship with host communities

Example 1 SCOPE Program of the German Development Service

A public-private partnership program implemented by the German Development Service in the Philippines that harnesses the value-chain linkages in designing CSR programs that produce win-win situations both for firms and communities.[211] The program aims to improve the business environment by improving the reliability of supplier communities. It also helps communities to become embedded in the supply chain of companies.

SCOPE's approach: 1) identify problems along the value chain of the company, 2) find a community that can help the company address the problem, 3) find a reliable partner (NGO, people's association and cooperatives) at the grassroots level.

Companies know what the problem is in their value chain but they may not know how to fix it. They know that they lack suppliers of seaweeds but they don't know where to look. If they have identified the communities that can supply their needs, they do not know how to organize the communities.

The SCOPE program taps on the expertise of corporate foundations and non-government organizations in organizing the community. Companies themselves may lack the expertise to properly engage with communities and thus partnerships with NGOs and people's organization on the ground are needed.

Example 2: Globe Telecom.

It assessed the societal and business value of forging stronger ties with MSMEs as well as the company's value chain for potential opportunities to work with MSMEs. Globe examined the distribution channels for its products and found opportunities to work with community stores and micro-entrepreneurs.

Globe considered the company's resources and competencies in prioritizing interventions on MSME development. These considerations will help the company decide what effective and sustainable interventions it can undertake on MSME development. It educated the stakeholders on the concept of Strategic CSR. Some stakeholders may believe that a CSR initiative where a company earns profit is not really CSR.

Learning from Globe's BridgeCom program. The design of the entrepreneurship development program was guided by assessments of what the communities needed and the potential business benefits such as an improvement in the company's reputation. However, while Globe places booths to showcase and market its products and services and what these could do to assist the training participants in their business, the company is explicit in its policy not to require its training participants to purchase its products or services. The company tapped the strengths of its corporate business units to help train MSMEs. Employees from the finance and accounting, marketing and product development participated in the delivery of this program.

Globe learned that MSME development requires long-term investment and entails a lot of relationship- and trust-building activities. Aside from its BridgeCom Program, Globe has established a separate business unit dealing with small and medium enterprises, attesting to the importance of this market segment to the company's profitability and sustainability. Looking at MSMEs as direct market for the company's products and services, the business unit continues to build and examine the interests and behavior of this customer.

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[211] Interview with Jana Franke, SCOPE Consultant

Annex D: Possible Approaches for MSME Development under LSES: MSME Engagement as a Business and CSR Strategy for Large Firms*

1. STEPS IN DESIGNING STRATEGIC CSR[212]

Bhattacharyya et al.[213] propose that designing Strategic CSR includes the identification of stakeholders, mapping the stakeholders' interests and demands, finding the firms' interests for doing CSR[214] and incorporating the resolution of potential social and environmental problems as companies pursue business opportunities. To complement the work of Bhattacharyya et al., there is some evidence from interviews and (non-projectable) research that indicates that firms will almost always encounter social and environment problems. The act of employing some members of a community and not others immediately creates a social problem. New site locations will likely create environmental impact, however minimal. Strategic CSR requires anticipating these social and environmental problems. The latter issue is explained in Section 1.4.

1.1. Identification of Stakeholders

Citing Waddock and Smith (2000), Bhattacharyya et al. assert that "organizations are a web of relationships with various stakeholders."[215] Therefore, any framework to be developed or applied for CSR should start from stakeholders' identification. Stakeholders are parties that are already affected or may become affected by the firm's activities. Stakeholders that have concerns, claims and interests in the firm's activities, also have power to influence the firm.

Table 1

List of Stakeholders

1. Owners/shareholders/investors
2. Top management/management
3. Employees
4. Customers and Consumers
5. Special interest groups
6. Suppliers/Contractors
7. Competitors
8. The wider community (including government)

Source: Adapted from Bhattacharyya et al. "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 266

[212] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi, (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 266.

[213] Ibid.

[214] Ibid.

[215] Ibid, 268.

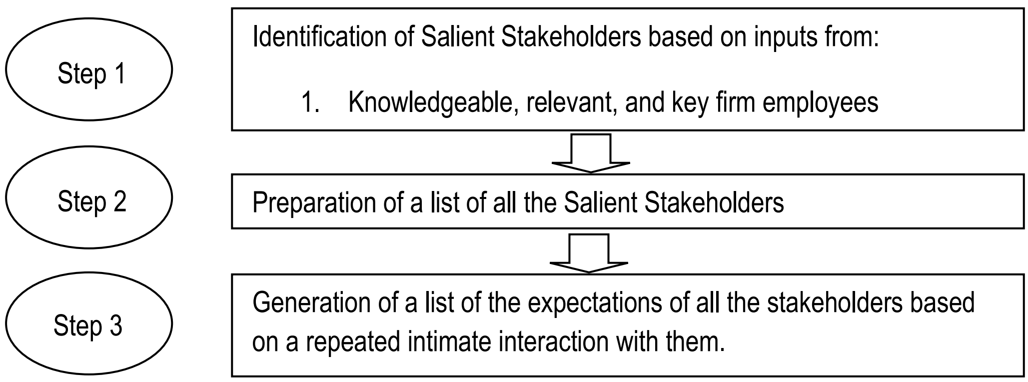
1.2. Mapping their Interests and Demands

In determining the interests and demands of stakeholders, it is important to identify who are the most significant and relevant to the firm. Stakeholders may be classified according to their salience-- a function of a stakeholder's attribute of power, legitimacy, and urgency. Power means that stakeholders can harm or damage the assets and functions of the firm, such as those politically connected in the society. Stakeholders' legitimacy is based on the management view that the claim of the stakeholder is appropriate and reasonable. Urgency is based on the stakeholders' possession of firm-specific assets.

The concept of a salient stakeholder goes beyond the interests of the shareholders—who are obviously "salient." For example, in many PPP ventures, the government and communities are salient stakeholders with the power to assist or hinder a PPP. Illustrated in the diagram below is a series of activities as well as the sources of information for identifying salient stakeholder expectations and interests.

Figure 1

Generating a List of Salient Stakeholders Expectations and Interests to be Engaged for Firm CSR



Source: Adapted from Bhattacharyya et al. "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 266.

1.3. Finding the Firm's Interest for Doing CSR

The next step is to find out the strategic interest of the firm in doing CSR activities. Porter and Kramer point out that CSR should contribute to the firm's value chain practices or improve the context of competitiveness for CSR to be strategic.[216] For example, Nestlé's CSR initiatives reinforced the primary activities and supported Nestlé's supply chain. (See Porter and Kramer 2006)

These CSR initiatives, Bhattacharyya et al.[217] argue, "help firms secure purchased inputs, reduce operational costs, smooth logistics, and/or contribute to the marketing and sales function of the value chain." [218] The CSR

[216] Porter, Michael and Mark Kramer, (2006) "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006).

[217] Porter, Michael and Mark Kramer, (2006) "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006).

[218] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi, (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 271.

activities could improve the input factors of production (e.g., skilled labor or needed physical infrastructure), set higher standards for the quality of products or services, improve local demand conditions so that it becomes more refined and substantial in size, influence rules and regulations to foster healthy competition, improve investment climate, and/or build the capacity of the raw material suppliers or the related and supporting industries.[219]

The comparison of the "standard" Porter Value Chain and the CSR-embedded Value Chain implies an improvement in firm margins—"Doing good and doing well." Although clearly an expectation, there is some evidence from the United States, from a joint undertaking between The Nature Conservancy and Dow Chemical that this cooperation might indeed improve the firm's margins. According to Newsweek (February 21, 2011), "A virgin forest is pleasant to look at, of course, but it also prevents soil erosion and improves water quality at no cost—valuable if you happen to own a beverage plant downstream that depends on clean water."

1.4. Social and Environmental Problems as New Business Opportunities

Unfortunately, like "zero defects" true sustainability is a long-term goal for many firms in developing countries. New ventures should indeed reduce or even eliminate social and environmental problems. However, in looking at the current state of the environment, there are regrettably real opportunities in addressing and redressing environmental problems—in waste management, recycling, etc.

Businesses are challenged to treat poverty and environmental problems as business opportunities by developing market based solutions in solving societal problems. This undertaking by the firm can enhance the welfare of society and create wealth for the shareholders.[220]

Bhattacharyya et al.[221] highlight the opportunity to offer market solutions and generate value out of social conditions like poverty. The author points that the "Base of the Pyramid" (BOP) market, should be part of the core business and not just CSR initiatives through the development of the micro-finance business and the partnerships of various firms e.g., French firms Danone, a dairy company, and Telenor, a telecom company with Grameen Bank in Bangladesh. Environmental degradation is not just a problem to be solved but one that offers business opportunities. There are numerous examples of companies taking advantage of this market by developing more fuel efficient products, hybrid fuel/electric cars, recycling wastes into marketable products and carbon credits.

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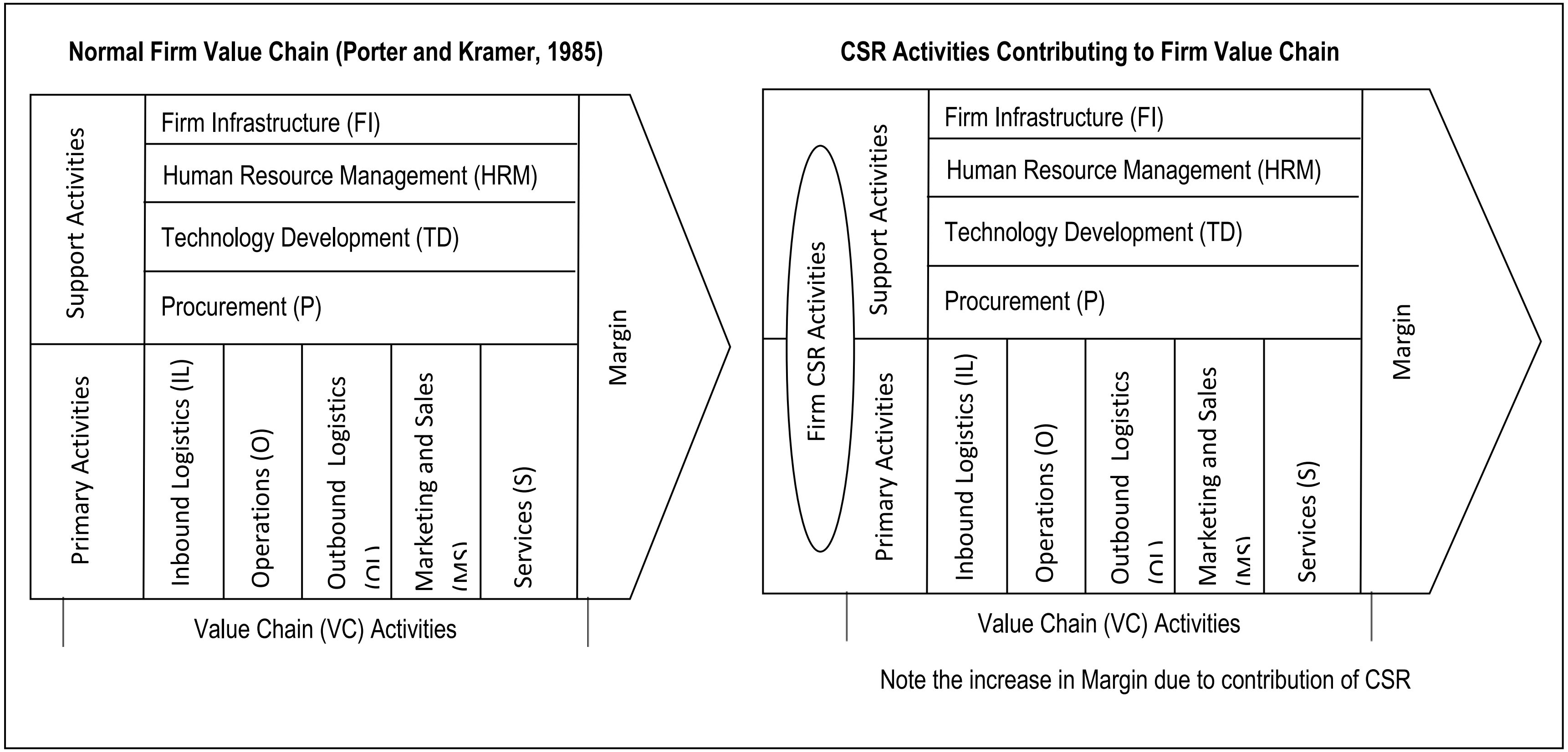
219 Porter, Michael and Mark Kramer. (2006) "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006)

220 Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi, (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 273.

221 Ibid.

Figure 2

Comparison of Normal Value Chain and Value Chain with CSR Contributions



Source: Adapted from Porter and Kramer (2006) as cited by Bhattacharyya et al. "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 266.

Finally, Bhattacharyya et al.[222] conclude that the interests of a business organization, as far as Strategic CSR is concerned, could lie in three directions:

a. "Design and integrate the CSR initiatives of the firm such that the firm value chain (set of activities internal to the firm done to produce and deliver finished goods and services to customers from raw material inputs) activities become more effective and efficient;"

b. "Plan such type of CSR interventions that will improve the context of competitiveness of the firm / industry (external factors influencing a firm);" and

c. "Undertake such CSR programs that can provide for new business opportunities (new product market combination) for the firm in future." For example, some domestic firms in the Philippines and Malaysia are offering "clean, green, and healthy" liquid products—water and juice drinks. Admittedly, part of the incentive for these efforts is to counteract in-road from multinational competitors. However, the outcome is still an improvement in the product offering.

2. HOW COMPANIES CAN ENGAGE IN STRATEGIC CSR[223]

In their discussion of how companies can engage in Strategic CSR, Porter and Kramer identify the following processes:

a. Identifying the points of intersection both the inside-out and outside-in linkages;[224]

b. Choosing social issues that intersect with the company's particular business and determining where it can generate the best impact; [225]

c. Creating an explicit and affirmative social agenda [226] and integrating the inside-out and outside-in linkages[227] and

d. Creating a social dimension to the value proposition.[228]

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[222] Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora and Abha Chaturvedi, (2008) "A Toolkit for Designing Firm Level Strategic Corporate Social Responsibility (CSR) Initiatives", Social Responsibility Journal 4, No. 3 (2008): 273.

[223] Porter, Michael and Mark Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006) : 9.

[224] Ibid, 7.

[225] Ibid, 8.

[226] Ibid, 9.

[227] Ibid, 11.

[228] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 12.

2.1. Identifying the Points of Intersection in Inside-Out and Outside-In Linkages[229]

This process begins with mapping the inside-out and outside-in linkages of the company. According to Porter and Kramer[230], the tools used to analyze the competitive position and development of the firm can similarly be used for this purpose. The process starts with charting all the social consequences of the firm's activities. It requires creating an inventory of opportunities and problems that need to be investigated, prioritized and addressed.

Porter and Kramer,[231] distinguish between what they refer to as "inside-out" and "outside-in" linkages. "Inside-out linkages" refer to the normal impact on society (either negative or positive) of the firms activities through its operations. "Outside-in linkages" refer to external social conditions that positively or negatively influence corporations. The value chain, on the other hand, "depicts all the activities a company engages in while doing business."

According to Porter and Kramer[232], the company should attempt to "clear-away" the negative value chain impacts. Since companies cannot address every area in the map, the next task is to identify those areas of social context with the greatest strategic value both for society and for its own competitiveness.

Looking at the Social Dimension. The next step is an examination of the social dimensions of the company's competitive context (also referred to as "outside-in" linkages), which affect the firm's ability to improve productivity and execute strategy.[233] Porter and Kramer recommend the "diamond framework," to show how the conditions at a particular company's environment affect its competitiveness (e.g., honest enforcement of policy, transport infrastructure, etc.). This step integrates a social perspective into the core framework used by the company to understand its competition and guide its business strategy.

Porter's Value Chain becomes a standard feature in corporate strategic planning. Porter and Kramer incorporated social impact (an external factor) into (internal) value chain analysis. There is some evidence from interviews that this framework is being used. However, the approach focuses on the more narrow supply chain—for instance by "greening the supply chain" with value chain analysis as an afterthought.

Porter and Kramer attempt to link their Value Chain Framework with the earlier 5-Forces Framework—the latter is certainly more "outward oriented." The adaptation follows the format of the original 5-Forces Framework by providing firms with a "check list" of items to assessing/evaluating the strategic impact of their CSR activities.

2.2. Choosing Social Issues that Intersect with the Company's Particular Business and Determining where it can Generate the Best Impact [234]

The company needs to examine the social issues it identified and organize them into three categories: generic social issues, value chain social impacts, and social dimensions of competitive context. These should be categorized and ranked in order of priority. Three types are succinctly described in the table below.

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[229] Ibid, 7.

[230] Ibid.

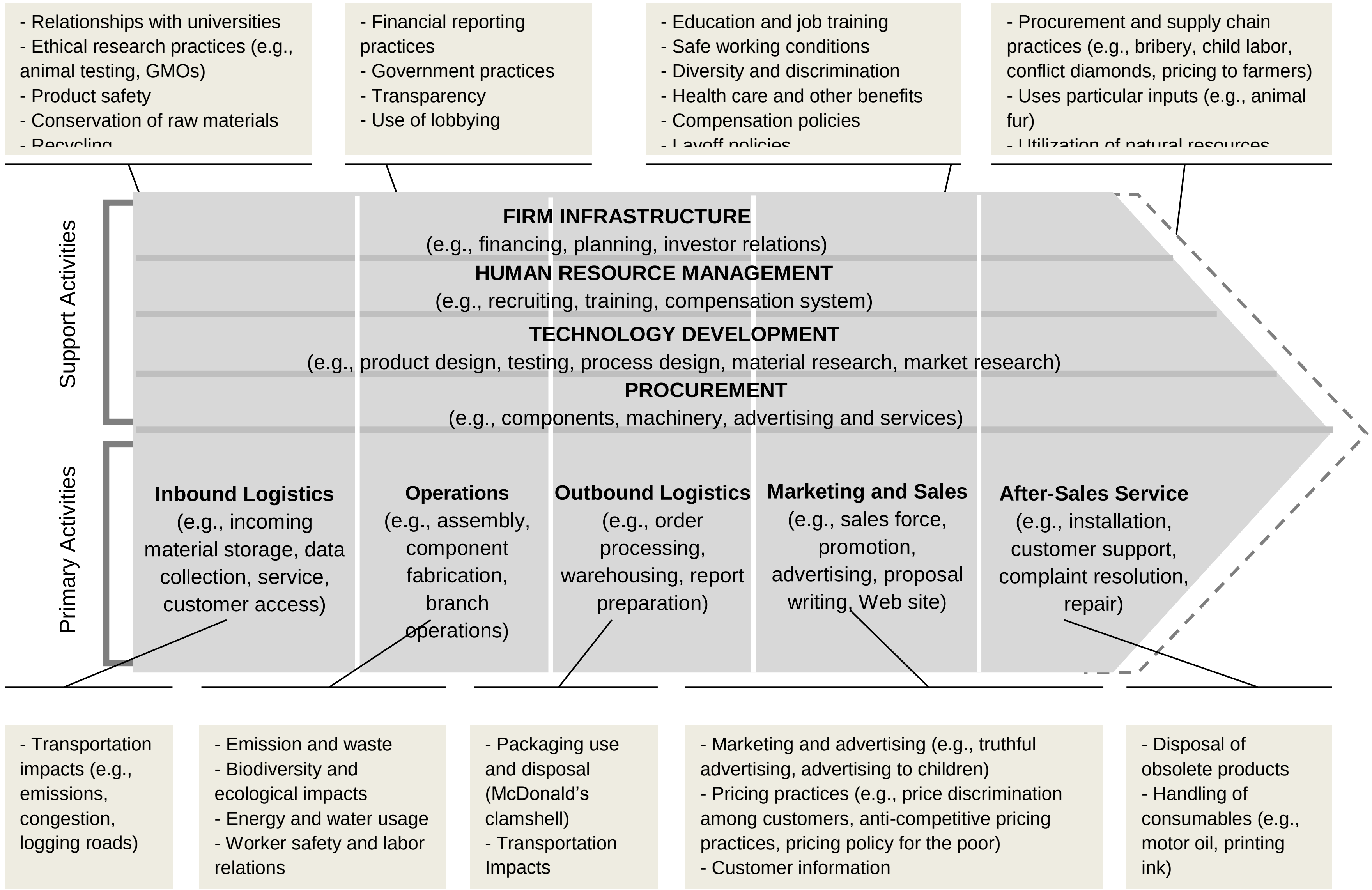
[231] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 7.

[232] Ibid.

[233] Ibid.

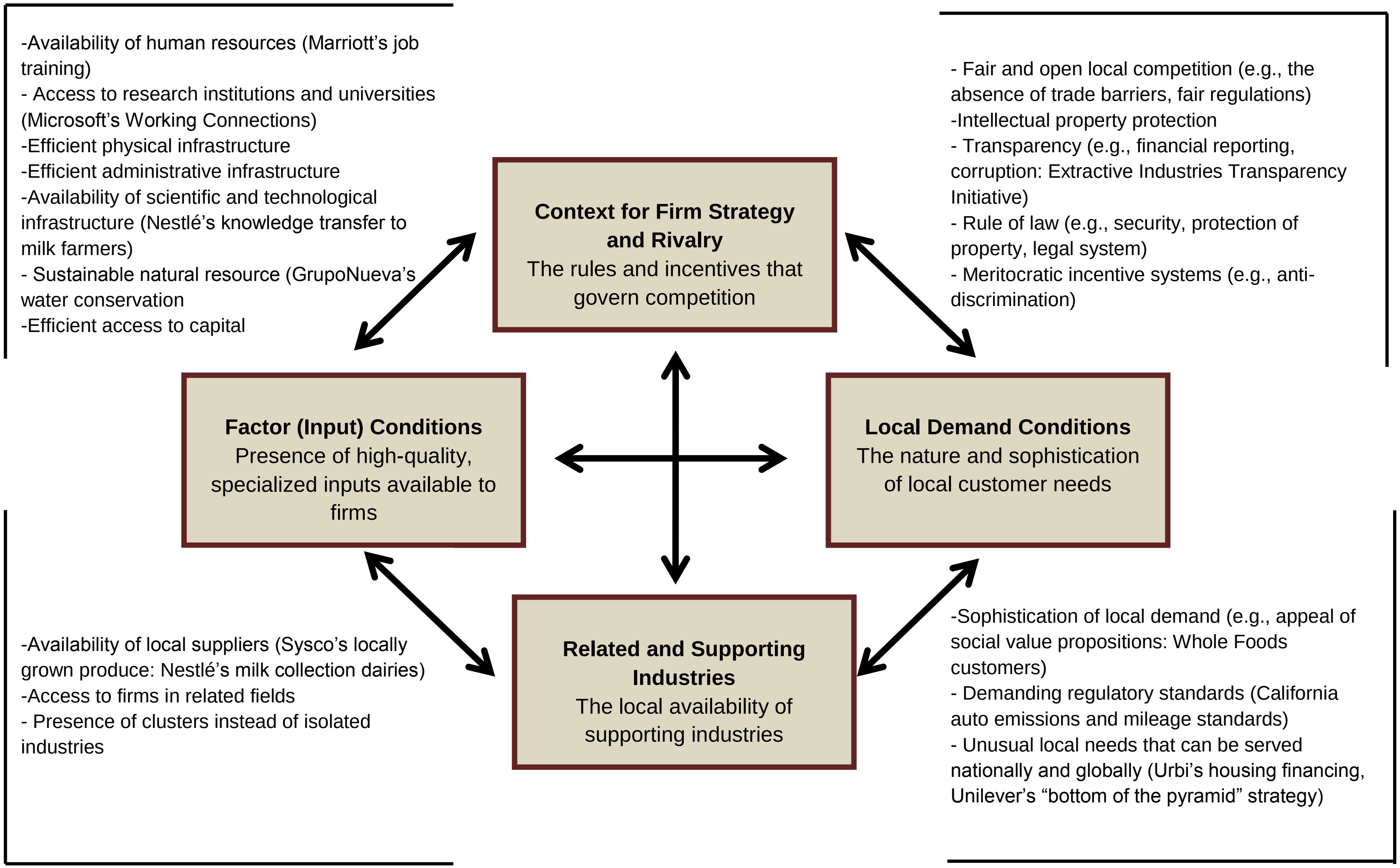
[234] Ibid, 8.

Figure 3: Social Impacts Value Chain (Looking Inside Out)



Source: Adapted from Porter (1985) and cited by Michael Porter and Mark Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 9

Figure 4 Social Influences on Competitiveness (Outside-In View)



Source: Adapted from Porter (1990) as cited by Michael Porter and Mark Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 9.

Table 2

Three Types of Issues Relevant To Companies

Type	Description
Generic Social Issues	- Important to society but neither affect the company's operations nor long-term competitiveness
Value Chain Social Impacts	- Those that are significantly affected by the company's activities in the ordinary course of business
Social Dimensions of Competitive Context	- Are factors in the environment that significantly affect the internal drivers of competitiveness in the areas where the company operates

Source: Adapted from Porter (1985) as cited by Michael Porter and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): nine.

2.3. Creating an Explicit and Affirmative Social Agenda [235]

Ultimately, categorizing and ranking of issues allows for the firm to create an affirmative corporate social agenda. These should look beyond community expectations and aim to achieve social and economic benefits. Porter and Kramer[236] insist that a substantial portion of the company's resources should be allotted to truly Strategic CSR.

Strategic CSR was defined in the previous sections and distinguished from good citizenship, and other forms of CSR and philanthropy. (See Figure 5.) Accordingly, Strategic CSR offers strategies that may reconfigure nonmarket social activities to social market activities. Earlier, it was pointed out that Strategic CSR is both a business and a CSR strategy where CSR strategy is integrated into the core business objectives and core competencies. Firms should implement small number of initiatives whose social and business benefits are large and distinctive. It leverages on the company's core business and expertise to simultaneously address important social and economic goals.

2.4. Integrating the Inside-Out and Outside-In Linkages and Creating a Social Dimension to the Value Proposition[237]

Once the affirmative corporate social goal is identified, the next step is to integrate the inside-out with the outside-in practices. The process starts from the "bottom-up" with the actual project or program. The company or its CSR manager is expected to break down the elements of the project or program and then to identify—possibly through a sliding scale the extent to which external factors are dealt with internally and to evaluate gaps or variances and how to resolve them. The authors do not provide a specific approach in linking the inside-out and outside-in practices, leaving it to the firms to work out the process of linkage. This requires a close

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[235] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 9.

[236] Ibid.

[237] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 11.

examination of the value chain, and figuring out ways of adjusting the activities in the value chain so that it reinforces improvements in the social dimensions of the context. The goal is to integrate value chain practices and investments in the competitive context. When these practices are fully integrated, CSR are also better integrated into the day-to-day operations of the company.

Adding a social dimension to the value proposition and making social impact integral to the whole strategy require developing a unique value proposition that other competitors are not offering-- such as a commitment to the usage of natural and environmentally friendly materials and practices (like in the Wholefoods Corporation) to pioneering materials used in packaging, and innovative "green" distribution systems would address the needs of the poorest (like the case of Unilever).

Figure 5

Mapping the Terrain of Responsive CSR and Strategic CSR

Generic Social Impacts	Value Chain Social Impacts	Social Dimensions of Competitive Context
Good Citizenship	Mitigate harm from value chain activities	Strategic philanthropy that leverages capabilities to improve salient areas of competitive context
Responsive CSR	Transform value-chain activities to benefit society while reinforcing strategy	**Strategic CSR**

Source: Adapted from Michael Porter and Mark Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 9.

Porter and Kramer appear to take a pessimistic view on the issue of social impact. Their "terrain" seems to assume the inevitability of "harm" and therefore the authors suggest a two-stage approach—first to mitigate any harm, and second to "transform" the value chain and to provide philanthropy as part of Strategic CSR.

2.5. Organizing for CSR

This particular stage deals with the adjustments in organization, incentives, and reporting requirements. The adjustments should prioritize social issues based on their salience to business operations and their importance to the company's competitive context. According to Porter and Kramer,[238] the company should move from an emphasis on image to an emphasis on substance, and to shift from a fragmented defensive posture to an integrated affirmative approach.

[238] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006): 11.

The company should establish clear measures for social impact. Further, value chain and competitive-context investments are to be integrated in the performance metrics of managers with profit and loss responsibility. Personnel responsible for CSR need to be made knowledgeable of every activity in the value chain, while operating managers are made to understand the importance of the outside-in link to competitive context. It also requires that operating managers are convinced and overcome the “us-versus-them” mindset, which responds defensively to discussions of social issue. Finally, the firm must ensure to build focused, proactive, and integrated social initiatives that are in line with their core business and strategies.

3. HOW LARGE CORPORATIONS CAN SUPPORT MSME[239]

Deloitte released a resource guide titled "Partnerships for Small Enterprise Development" in preparation for a workshop with the same title held in New York City in January 2004. The document explained the rationale and explored the potential of large corporations’ engagement in small and medium enterprise (SME) development as a means of both accomplishing commercial and CSR documents, and promoting growth of developing economies. The document also cited 21 cases of large corporations engaged in small and medium enterprise development activities and described modalities where partnerships can take place.

3.1. Four Situations in which an Organization could undertake Strategic CSR

Deloitte [240] describes four situations in which an organization would be compelled to undertake a Strategic CSR approach, noted below:

a. When the organization seeks to resolve a business problem that cannot be solved within traditional business boundaries. It must address the primary source of the social issue (e.g., the fast food restaurant example mentioned earlier in which the societal issues affecting low wage worker retention were addressed with positive impacts on the employees and the organization).

b. When an organization creates an opportunity based on a societal issue or trend (such as marketing “green” products to consumers in response to environmental issues such as global warming).

c. When an organization seeks to protect itself from a threat posed by a societal issue. For example, the ski industry carefully assesses global warming because of the potential negative impact on snowfall.

d. When an organization seeks to have a greater business and societal impact from its existing CSR program.

3.2. Partnership Approaches for Corporations to Work with SMEs

The different approaches towards working with small and medium enterprises include working with business membership organizations (BMOs), working with development organizations, working with government agencies,

[239] Deloitte. (2004) Partnerships for Small Enterprise Development. Resource Document for the Workshop on "Partnerships for Small Enterprise Development.” United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

[240] Ibid.

and working with NGOs.[241] The approaches are not mutually exclusive and corporations can mix and match approaches to suit their requirements. These are described in detail below:

Working with Small and Medium Enterprise Representative Organizations. Organizations like cooperatives, industry associations and clusters, and other forms of representative organizations provide a good potential small and medium enterprise partner for large corporations, especially where there are a large number of potential small and medium enterprise partners, working with collective groups may prove especially advantageous. In its presentation of 21 cases, UNIDO cited six cases wherein the corporations partnered with representative organizations.

These corporations included Unilever, which works with both small and medium enterprise\ suppliers and business associations; SC Johnson which chose to work with a Kenyan parastatal agency representing some 200,000 pyrethrum growers in Kenya; Pentland, Nike and other footwear manufacturers work with industry associations in the footwear sector in Vietnam who play a central role in implementing the program; Fiat and UNIDO who worked with the Automotive Component Manufacturers Association of India; Bogasasir Flour Mills which worked with business associations of small noodle makers in Indonesia; and Deloitte Touche Tohmatsu which works with the Business Beat Initiative and a large number of black business associations in South Africa.

Working with Development Agency Partners. Corporations may benefit from working with development agencies, which have longer experiences and expertise in working with both government and industries including the small and medium enterprise sector. These organizations contribute their expertise and serve as “neutral” brokers who can bring together various stakeholders: corporations, government, NGOs and small and medium enterprises in an environment of trust. These entities can also provide assistance in linking the corporations with other partners, provide technical support, and assist in linking with government policies and generating local community support.

Partnerships vary in form from agency-wide programs to one-off partnerships specifically directed towards specific opportunities. One advantage of such partnerships is that whenever corporations support private sector projects in areas such as health and education via partnerships, development agencies are able to focus their resources on marginalized sectors.

Deloitte[242] gives examples where corporations partner with development agencies.

a. Fiat’s partnership with UNIDO in the automotives sector in India;

b. ChevronTexaco and Citibank’s partnership with UNDP that led to the development of a business center in Kazakhstan;

c. British Petroleum’s partnership with the Department for International Development (DFID) of the British Government through the Business Linkages Challenge Fund (BLCF) to engage the Private Sector Initiative in Tanzania;

d. BASF Group collaboration with UNIDO in developing eco-efficiency analysis tools for dyeing and tanning companies in Morocco;

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[241] Deloitte. (2004) Partnerships for Small Enterprise Development. Resource Document for the Workshop on “Partnerships for Small Enterprise Development.” United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

[242] Deloitte. (2004) Partnerships for Small Enterprise Development. Resource Document for the Workshop on “Partnerships for Small Enterprise Development.” United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

e. SiamDutch, BASF Group, Bayer linkage with USAID to promote markets for Insecticide Treated Bed nets; and

f. E. Oppenheimer and Sons engagement with DFID through the BLCF to support small and medium enterprise development in mining areas.

Working with Government Partners. Government partnerships are essential in addressing regulatory constraints or issues, in providing technical support to SMEs as part of a program and in helping small and medium enterprise access finance through other agencies or programs. Long-term goals are better accomplished when government partners are involved, and the concerns are beyond the concern of the corporations or go beyond the planned timeframe.

Deloitte (2004) mentions the collaboration of Pentland and Nike with the government of Vietnam in improving the use of chemicals by subcontractors. DuPont's partnership with the Ministry of Agriculture and the National Livestock Board in Columbia to sell agricultural inputs to small-scale farmers where the government partner developed the forward contracting system used to help small-scale farmers finance their inputs. Hewlett-Packard involves government partners on their icommunity programs, which in some cases require access to government services through IT portals. Shell, on the other hand, works with government departments in providing support to young entrepreneurs.

Working with NGOs and Other Private Sector Partners. NGOs and private sector partners can provide a bridge and fill in the gaps that are not covered by government and development agencies. Many of the examples reviewed by Deloitte[243] involve NGOs or private sector facilitators. One advantage of working with NGO partners is their experience working with small enterprises. Often, these NGOs have ground presence because they understand the terrain and constraints, and are well-placed to provide direct support to small and medium enterprises. On the other hand, the private sector can promote the development of small and medium enterprises through commercial linkages and provide general support. These firms can offer valuable intermediary services to bridge the capacity gaps between the small and medium enterprises and corporate sector.

Large Companies Working Together – Collective Action. Corporations that work together in linked or related areas in the value chain can lead to a more integrated approach to small and medium enteprise support. Together with small and medium enterprise, these organizations can form industry clusters with the potential of magnifying the impact and benefits of their programs and projects.

Deloitte[244] cites as an example the collaboration of Nike, Pentland, and other corporations involved in the footwear industry in Vietnam. It also notes that BP worked with seven other corporations in other sectors to develop better links with the local economy in Tanzania. On the other hand, Siamdutch, BASF Group, Bayer, and other corporations collaborated with USAID to increase the private sector provision of insecticide treated bed nets. The preceding examples indicate joint efforts between large entities—multinational firms and multilateral agencies.

[243] Ibid.

[244] Deloitte. (2004) Partnerships for Small Enterprise Development. Resource Document for the Workshop on "Partnerships for Small Enterprise Development." United Nations Development Program, Global Compact, United Nations Industrial Development Organization (New York, USA. 15-16 Jan 2004).

4. A SUGGESTED FIVE-STEP PROCESS ON HOW AN ORGANIZATION CAN DESIGN AND IMPLEMENT A STRATEGIC CSR PROGRAM[245]

Milliman et al. propose specific methods for implementing the Strategic CSR program of Porter and Kramer and employed case studies to illustrate each step of the process. They propose a 5-Step Process from design to monitoring and evaluation.

Table 3

5-Step Process in Designing and Implementing a Strategic CSR Program

Step 1	Scoping the organization's environment for ways the firm can translate societal issues which impact it into some type of a corporate advantage.
Step 2	Development of an expanded menu of CSR program options to create corporate opportunities associated with these societal issues.
Step 3	Careful analysis of Strategic CSR program options based on consideration of economic and societal impacts as well as other relevant organizational variables.
Step 4	Implementation of the selected Strategic CSR program option which often involves coordination with other organizations and sectors.
Step 5	Measuring both the economic and social outcomes and reporting results within the organization and to key stakeholders.

Source: Adapted from Milliman, John, Ferguson, Jeffery and Ken Sylvester. "Implementation of Michael Porter's Strategic Corporate Social Responsibility Model." The Journal of Global Business Issues – Conference Edition 2008 (2008).

4.1. Step 1: Scoping the organization's environment on how the firm can translate societal issues and transform to a corporate advantage

The first step is to assess societal trends or issues and postulating how these impact the organization and its customers. The organization needs to take a broader perspective, to recognize and consider opportunities and threats beyond traditional business boundaries and to adopt greater systems thinking and capability accounting for the link between business and societal opportunities.

The organization's strategic planning should include a systematic process of incorporating inputs from various sources who can offer insights on social issues that affect the firm. Sources within the company can include environmental, health, and safety, public relations, and governmental affairs, R&D, customer service, marketing, as well as similar and/or related units and/or managers or staff who interface most directly with new products or customers. As part of the planning and budgeting process, these units normally provide customer and product related inputs via research (surveys) and through external networks. The added dimension is to provide

[245] Milliman, John, Ferguson, Jeffery and Ken Sylvester. (2008). Implementation of Michael Porter's Strategic Corporate Social Responsibility Model. The Journal of Global Business Issues – Conference Edition 2008: 29-33.

information on extensions or new CSR activities in the value chain that can be incorporated into the planning and budgeting process.

This also requires an examination of the organization's most significant impacts on society and the potential problems or threats to the organization that these may create. The strategic planning process should incorporate inputs from key operational managers, who are familiar with the impact of the organization (including its various systems, processes, and entire supply chain) on its external environment. Accordingly, inputs from these sources can provide guidance "into relevant societal trends and new ways that the organization can solve problems or create opportunities." One critical input is the assessment of the degree to which CSR is internalized in the organization versus the compliance as a "top-down" initiative. Volunteerism is an example of the willingness of the organization to undertake CSR activities.

According to Milliman, Ferguson, and Sylvester,[246] such an approach is consistent with Porter and Kramer's[247] framework of "outside looking in," where the organization maps the various means with which the business key processes and success factors are affected by society and vice-versa. The primary contribution of Porter and Kramer is to link external realities involving social and environmental problems with the internal processes of the firm. Large corporations tend to develop their own culture and perspective—for example, on how best to service their customers. Porter's value chain focuses on identifying profitable opportunities in business processes. The presumption of the framework is that an expanded "outside looking in" perspective will offer mutually beneficial opportunities—by addressing a social or environmental problem and providing greater margins in the value chain and for the firm.

4.2. Step 2: Development of an expanded menu of CSR program options to create corporate opportunities associated with societal issues

The second step of designing a Strategic CSR program involves the generation of ideas and alternatives for creating an opportunity or for countering a threat that stems from the identified social issues. This requires organizational creativity and involves problem solving directed towards solving business issues or opportunity creation out of identified business-society linkages in the previous step. The output from the ideas and alternatives should generate programs outside of the traditional boundaries of the organization. Related to the issue of organizational culture that creates in turn an organization-wide perspective is the concept of organizational rigidity—a narrow perspective and a tendency to "remain inside the box." Large (and presumably) successful organizations are prone to this failing—resulting in a lack of innovation. Organizations respond by "thinking out of the box", "brainstorming"—processes that encourage creativity and that should include CSR.

One example is a fast food restaurant who initially sought to solve this problem of front line worker turnover through traditional means which included hiring, training and pay programs.[248] When these programs failed to produce the sought after results, the owner took on new alternative program options outside the traditional business arena, including a van transportation program and later on, the provision of social services through a partnership with NGOs and governmental agencies. This particular example is typical of many firms in

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[246] Milliman, John, Ferguson, Jeffery and Ken Sylvester. (2008). Implementation of Michael Porter's Strategic Corporate Social Responsibility Model. The Journal of Global Business Issues – Conference Edition 2008: 29-33.

[247] Porter, Michael and Mark Kramer, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review (December 2006).

[248] Milliman, John, Ferguson, Jeffery and Ken Sylvester. (2008). Implementation of Michael Porter's Strategic Corporate Social Responsibility Model. The Journal of Global Business Issues – Conference Edition 2008: 29-33.

developing countries. Their approach to CSR is to take small steps that create quick wins. Thus, helping employees with transportation problems is a very real issue for the employees—for example, working mothers who must meet the family needs while spending an hour or more commuting to and from work using multiple modes of public transport. The solution does benefit the firm by reducing turnover. CSR in the Philippines and probably in other developing countries is a movement towards an ideal goal.

4.3. Step 3: Careful analysis of Strategic CSR program options based on consideration of economic and societal impacts as well as other relevant organizational variables

The third step involves an analysis of the program options developed in Step 2 and assessing which among these options will have the best possible impact on the society and the organization. As in the normal strategic planning process, these options should be assessed in a manner similar to other business decisions. Strategic CSR options should be assessed on their projected costs and economic benefits (e.g., increased efficiency, sales increase, etc.) as well as the return on investment (ROI). The probability of success and the possible timing of the ROI, which largely depend on the firm's capability and core competencies, also need to be calculated.

The analysis should not be confined to the estimated economic benefits and impacts. The firm should also take into account the potential impact of the alternatives being considered on other important goals of the organization such as regulatory enforcements, public relations, employee motivation and morale, etc. Accordingly, the organization should also examine whether the proposed program options are aligned with the company's core values and culture. Taking these factors into account will help the organization generate added benefits from its Strategic CSR programs.

4.4. Step 4: Implementation of the selected Strategic CSR program option which often involves coordination with other organizations and sectors

The fourth step may require the organization to interact with other players and institutions in society in a new manner. Government agencies, NGOs, as well as other businesses and organizations may establish partnerships and relationships. It may take a considerable amount of time to engage these organizations effectively and develop areas of mutual interests, trust, and to take on partnerships in specific programs. The organization may also need to have influential representation in key institutions and decision makers (e.g., media) in order to leverage and perhaps to protect or promote its interests.

It is important to move corporations away from the "PR" perspective of CSR. Large corporations usually contain PR or "Corporate Affairs" units that can be quite adept at assessing stakeholder sentiment and responding to it. The critical solution is to transform the relationship between the organization and its external networks into a partnership involving a two-way exchange. Large corporations need to accept and use information rather than simply giving it out to their different publics.

4.5. Step 5: Measuring both the economic and social outcomes and reporting results within the organization and to key stakeholders[249]

The final step implies the development and use of appropriate measures and indicators of success should be identified prior to program implementation. The measurement should be done in a way as to ensure that outcomes and impact are assessed instead on lingering on the efforts made (like number of people receiving an education or degrees instead of the amount of scholarship donations given). The results should then be reported to key stakeholders and transmitted to its various channels. This step requires that the organization develops its proficiency in managing communication with external constituencies (when in dealing with sensitive issues).

5. ESTABLISHING PARTNERSHIPS BETWEEN SME AND LSE

In 2002, the United Nations Industrial Organization released a set of guidelines for partnerships entitled "UNIDO Business Partnerships for Industrial Development," to guide development organizations like the UNIDO and large companies (such as Transnational Corporations) aimed at industrial partnerships/linkages. While originally intended for UNIDO partners in the Global Compact initiative, much of the principles and process explained in the guide may be applicable for corporations considering using their CSR for SME development through industrial partnerships and other linkages.

The UNIDO guide states that a "systematic, step-by-step approach to partnership building, which sets realistic objectives, clearly defines the role and benefits of each partner, and ensures transparency and good communication" that are all necessary in order to avoid problems from such partnerships.

There are different types of partnerships: partnerships with a strategic objective, focusing on long-term development effects, and partnerships with very specific short-term objective(s). The partnership approach varies with the type of partnerships. In order to determine the right form of partnership approach, stakeholders should look at the two main dimensions which serve as broad determinants of the character of the partnership. These include:[250]

[249] Milliman, John, Ferguson, Jeffery and Ken Sylvester. (2008). Implementation of Michael Porter's Strategic Corporate Social Responsibility Model. The Journal of Global Business Issues – Conference Edition 2008: 29-33.

[250] UNIDO (2002). UNIDO Business Partnerships for Industrial Development Partnership Guide. p. 24.

Table 4

Dimensions and Determinants of Partnership with Industrial Organizations

Dimensions	Considerations/Elements
Industry Sector Life-Cycle Stage	• Type of industrial activity (e.g., car, textile or telecommunication industry); • Place in the industrial life cycle (innovation, maturity, decline - this will have a major impact on the stability or dynamism of the business environment in which the partnership operates).[251]
Time Frame	• Time perspective of the main business partners for achieving the envisaged objectives; • Complexity of the envisaged activities (for example, joint product development versus simple process improvements); • The range of actors needed to make the partnership work (in complex partnerships, it may be necessary to distinguish between an "inner circle" of key partners and partners who cooperate on an ad-hoc basis); • The character and objectives of the actors - in UNIDO's case, for example, it will make a difference whether the objective is to reinforce the impact of existing UNIDO services, or to gather experience in new fields of industrial development.

Source: Adapted from UNIDO, UNIDO Business Partnerships for Industrial Development, (2002)

Table 4 is intended to reinforce the view that CSR evolves over time based on the life cycle of the sector—in terms of its maturity and growth for example, and based on the complexity of activities—more complex activities involving many stakeholders take longer to complete, and the outcomes can not always be accurately predetermined at the start of the project. For example, will a corporate-aided employment generation program in a community be sustainable? What if the industry is on a long-term decline? The UNIDO approach is imperfect but it highlights important difficulties in carrying out CSR activities.

It should be stressed that the actual characteristics of a partnership will always depend on the specific project. In other words, the more complex the potential developmental task of a partnership is, the more long-term oriented the chosen partnership approach should be.

The document combines the various factors in a matrix showing "typical" partnerships in different contexts. This matrix adapted from Klein and Winnen emphasizes that the actual characteristic of the partnership is highly dependent on the specific project at hand. The matrix stresses the usefulness of "complex, longer-term partnership structures" for the sustainable upgrade of small and medium enterprise capacities. The guide also emphasizes that long-term oriented, complex partnership approaches require significant commitment, in particular time, financial resources and persistence of all partners in order to accomplish the joint objectives. (See Figure 6 and Table 5.)

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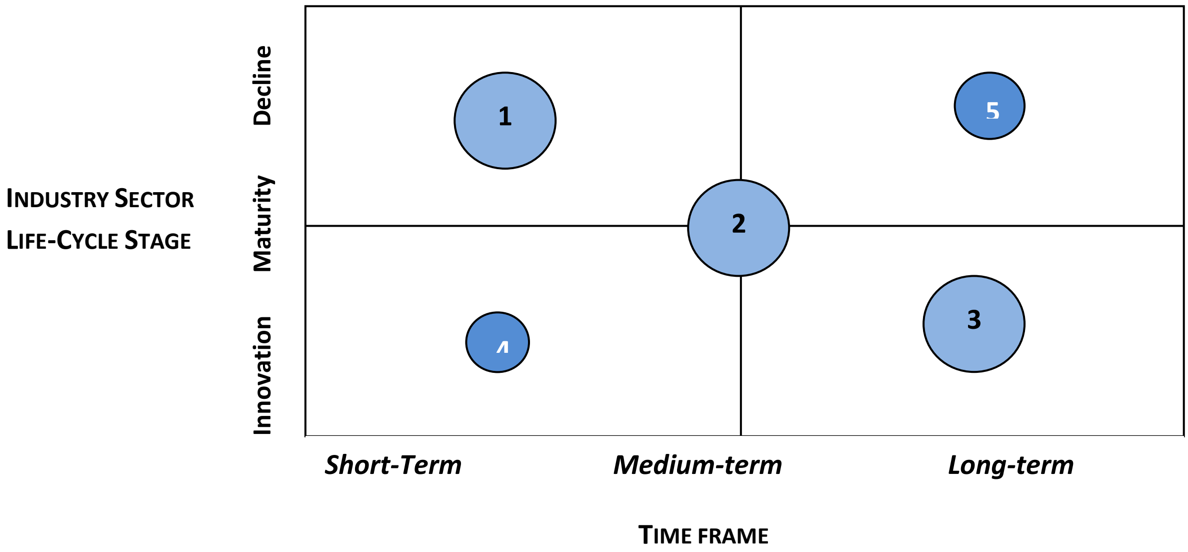
[251] "Industry" must primarily be seen in the context of the partnership, not the sector as such. The partnership may deal with, for example, a highly innovative segment of a declining industry such as textiles, and innovativeness will differ by firm within that segment.

Figure 6

Partnership Approaches in Different Industry Sectors



Source: Adapted from Klein Woolthus and Winnen Kan Ook (n.d.) as cited by UNIDO, UNIDO Business Partnerships for Industrial Development, (2002).

UNIDO (2002) argues that development of partnerships is a cumulative process. Before such a partnership is entered into, the prospective partners must establish firm agreements on the basics. The parties need to be familiar with each other and cultivate working relationships before more ambitious goals and tasks are undertaken. The partners should agree on acceptable working definitions that reflect the principles of eco-efficiency and social equity for example "to supply goods and services in a way that maximizes their contribution to economic development and human welfare while minimizing negative impacts on the natural environment, the workforce and society."

Likewise, the UNIDO approach in Figure 6 and in Table 5 provide another imperfect but useful categorization of the range of options that a partnership can undertake given sector characteristics that lead to possible types of partnerships and key determinants.

Table 5

Partnership Approaches Suitable to Support SMEs

Approach No.	Industry Sector Characteristics	Most Suitable Type of Partnership	Important Determinates of Partnership
1	High degree of maturity or even decline with a well established structure	Operational short-term partnership	• Usage of standardized technologies and business procedures within an established industry sector • Partnership actors are easily interchangeable
2	Significant growth rates, heading toward maturity with a well developed and complex structure	Medium-term partnership	• Partners are not replaceable at short notice • The industry is based on established technologies within a known business environment • Trust building among partners
3	High degree of innovation and early growth in a highly complex, yet uncertain business environment	Long-term partnership	• Partnership follows a work-in progress approach, within not established industry structures • Flexibility and long- term trust building • Drawback: Unique players could exploit each other's know-how
Note: The table item numbers correspond to the numbers in the matrix in Figure 6			

Source: Adapted from UNIDO, UNIDO Business Partnerships for Industrial Development, (2002)

The UNIDO's organizational issues in developing a partnership for sustainable development include:

Leadership and management. Leaders are the people who get the partnership process going and who coordinate the various activities and undertakings. Roles and positions must be identified and staffed with people who are dynamic, good communicators, professionals, and known for integrity. In order to avoid future problems, the mandate and accountability must be established by agreement. UNIDO[252] identifies three basic roles/functions that may be combined or engaged as the partnership develops a project champion (the catalyst of the partnership); a broker (who coordinates negotiations and stimulates cooperative behavior); and a focal point (who manages activities).

Support in the form of multi-disciplinary project teams where all key players are represented so that their strengths complement one another should result in effective, sustainable and balanced solutions. Training for the

[252] UNIDO (2002). UNIDO Business Partnerships for Industrial Development Partnership Guide. p. 24.

staff must be provided so that they can perform their roles well. These should be complemented by adequate material and time resources. Further, the partners must be patient as such arrangements can be a time consuming process, given the different cultures and orientations of the participants.

Communication, culture and trust. In the exploratory phase, a good system of communication must be established. Good communication (which includes linguistic and cultural factors) must be set up early in the exploratory phase to create a basis of mutual understanding on which the next phases in the partnership process can build. Communication should attempt to resolve the easier issues first, to be framed and find a common ground; and ultimately focus on mutual interests and benefits instead of the individual positions of each party. This step-by-step approach would gradually improve communication over time.

The form and medium of communication should balance cost considerations and effectiveness. It should pay attention to content and style and avoid jargon which might not be understandable across the various partners. The approach must be inclusive and provide all partners with relevant information. The structures and modes must also be efficient and transparent, minimizing the number of contact points. It should also invite feedback and participation (e.g., round table discussions) in order to strengthen the partnership.

Instruments and expertise. The instruments and types of expertise required depend on the context. Having discussed communication tools earlier, the remaining important formal partnership instruments according to UNIDO[253] include "the business plan, the partnership agreement, the monitoring and evaluation system and the partnership management system - which may or may not be a separate entity."

The main categories of expertise needed may be categorized into three types: management, team building and technical know-how. While a partnership may rely initially on external expertise (like on external consultants and resource persons), it is necessary that internal staff capacities are developed to take on the work. Training methods on balance theory, experience, practical knowledge, and where possible teamwork should be encouraged.

The UNIDO framework is seven years old and many of the guidelines already form part of the process of project management. However, its utility lies in the potential to overlay CSR processes and initiatives.

[253] UNIDO (2002). UNIDO Business Partnerships for Industrial Development Partnership Guide. p. 24.

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