



THE PRINCE OF WALES
INTERNATIONAL BUSINESS
LEADERS FORUM

The Business of Enterprise

Meeting the challenge of economic development through business and community partnerships

A Sourcebook profiling examples of good practice from around the world



“If globalisation is to succeed, it must succeed for poor and rich alike. It must deliver rights no less than riches. It must provide social justice and equity no less than economic prosperity and enhanced communication. It must be harnessed to the cause not of capital alone, but of development and prosperity for the poorest in the world. It must address the reactions of nationalism, illiberalism and populism with political answers expressed in political terms.

“Let us choose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations. Let us ensure that prosperity reaches the poor. Let us choose an enlightened way forward towards our ultimate, shared goal: a global marketplace that is open to all and benefits all.”

Kofi Annan, Secretary-General
of the United Nations,
in *A Decade of a Difference, 1990-2000*,
published by The Prince of Wales International
Business Leaders Forum, 2000

Introduction

The great debate on the advantages and failings of economic globalisation often obscures the reality that the vast majority of people earn their living by participating in local enterprise, either as self-employed or as employees of small medium and micro enterprises. Employment in large national and international companies remains an important ingredient in the world's economic life, but advances in technology, subcontracting and outsourcing combine to limit its growth. At the same time, large companies clearly have a business interest in participating in, supporting and encouraging vibrant local, national and international economic activity where enterprises of all shapes and sizes play complementary roles.

The main barriers to small, medium and micro enterprises playing their full parts in economic activity are lack of knowledge, skills and technology, which large

companies have in abundance. Increasingly these large companies are learning to share their resources and the skills of their employees with business partners and their host communities, to mutual advantage.

The Sourcebook:

- Shows how business linkages can strengthen a large company's supply or user chain.
- Suggests ways of matching mainstream business objectives to the needs and challenges of local communities.
- Underlines the value of enhancing the local business climate.
- Explores a range of options for corporate engagement.
- Highlights how innovative partnerships often lie at the heart of successful business linkages.
- Draws out the lessons learned by companies already fostering business linkages.
- Demonstrates business linkages in action.
- Provides a framework for future action.

“We are part of society and have a responsibility to the world in which we operate. This is not a matter of charity but of investment, because our continued success depends on, among other things, the progress of the communities in which we work. Our programme of global social investment, and within this the creation of sustainable local enterprise and self-employment opportunities, will help provide the means and skills with which people can build a future for themselves. Our focus is global, and we will continue to work in partnerships with NGOs and others to make this sustainable development a reality.”

Lord Browne of Madingley, Group Chief Executive of BP, 2001

Figure 1 Creating inclusive societies and economies

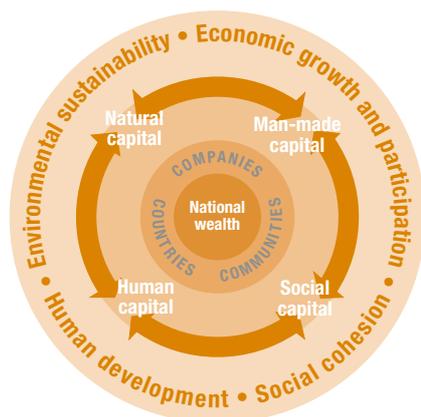
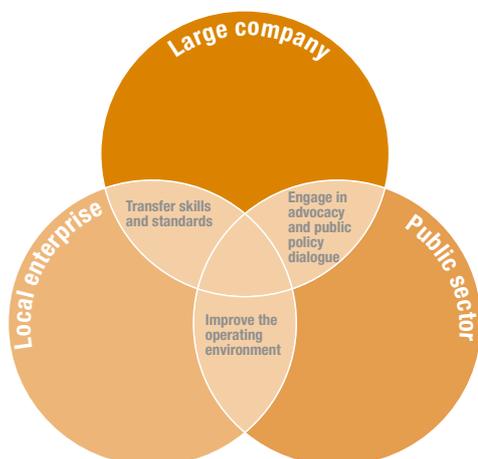


Figure 2 Finding common ground between the sectors



The need to support local enterprise development

The dawning of the 21st century has brought with it a renewed questioning of “the way things are”. Around the world, inequity and injustice are the subjects of sometimes-violent protest, accepted norms are being challenged, and governments are being called to account for their action or lack of action. The business community often finds itself a target of such protest. The Sourcebook recognises that:

- *The pressures on the business community* require it to demonstrate through action that it understands its responsibility toward the communities in which their businesses are or will be located.
- *Creating an inclusive society* is a mutual challenge to governments, civil society and the business community.
- *The boundaries of corporate engagement* need to be set in each local context depending on the strength of relationships with the public sector and with local enterprise.
- *Public policy dialogue* is an important but sensitive area for the corporate sector, where a track record of responsible corporate behaviour will encourage other sectors to take them seriously.
- *The role of local enterprise* is central to securing the long-term economic health, stability and social cohesion of any country.

The business case for supporting local enterprise development

Why should large companies invest time, effort and resources into local enterprise development? What real value lies in local supply chain development or in more general support of community enterprise initiatives? The example initiatives in the Sourcebook attest to the direct interest which companies have in the economic health of their host communities and in the underlying business case for linkages with local small, medium and micro enterprises. Some of the key ingredients include:

- Recognising *Drivers for action*, which will give impetus to local initiatives.
- Establishing the *common agenda* between the participants in any enterprise development initiative.
- Dealing with *the challenge of technology* which is often a barrier to progress.
- Highlighting the *benefits of business linkages*, which flow to each of the participants.
- Establishing appropriate *entry points for supporting local enterprise development*.

The delivery of enterprise support

A company's competitiveness and reputation depend largely on efficient and responsible deployment of its resources – be they human, natural, physical, financial or informational.

Acquiring, retaining and adding value to resources through effective management and technical processes is a continuous challenge, which applies as much to business linkages as it does to the core business. For business linkages to make sound business sense and be sustainable they have to meet the challenge of contributing to clear business objectives. At the same time, local enterprises will need support through the transfer of knowledge, skills and technology to meet the standards of business performance required. The Sourcebook addresses:

- *The ability to deliver resources*
- *The foundations for successful engagement with local enterprises.*
- *Employee engagement in business linkages.*
- *The contribution of intermediary organisations.*
- *Setting limits on commitment.*

Initiative examples

The Sourcebook profiles 26 initiative examples from around the world in a common format, highlighting:

- Drivers for action
- Business link
- Nature of support
- Outcomes
- Lessons learned

Additionally there is a profile giving brief information on initiatives being taken by a further 36 companies round the world.

Sample initiative

Asia

Indonesian flour miller builds market for urban noodle vendors

Large company: **Bogasari Flour Mills**
A major Indonesian company with one of the largest single-location flour mills in the world

Local enterprises: **Noodle-making entrepreneurs and noodle vendors**

Location: **Indonesia**

Impact of initiative	Developing supply chains	
	Building local community	x
	Supporting marginalised groups	x

Drivers for action

- Flour consumption in a predominantly rice-eating country is lower than in other countries.
- Flour provides acceptable alternatives to rice, including noodles, which are increasingly popular in fast-paced urban communities.
- Bogasari Flour Mills seeks to develop new and expanding markets for its products.
- In Indonesia, 30,000 small entrepreneurs operate flour-based industries, making and selling noodles, breads, fried snacks and other local delicacies.
- Usually established at home, these "garage" businesses are small, with limited capital and simple technology, and they comprise an integral part of the family and community culture.
- Initial research suggests that barriers to expansion and development for these entrepreneurs include access to affordable credit, difficulty in securing manufacturing permits and exposure to extortion by public officials. Vendors also have to contend with the short shelf life of fresh noodles in the hot and humid climate.
- As the sector has not been fully researched, the potential for growth is unknown.

Business link

- Bogasari Flour Mills developed a database to establish patterns of flour consumption and distribution, talking with up to 15,000 flour-based entrepreneurs.
- More than 7,600 entrepreneurs are now on the database.
- Early results prompted the focus on the market niche of noodle making.
- The company has developed relationships with 285 of the 1,367 noodle-making entrepreneurs on the database. The 285 entrepreneurs employ 7,000 workers and mobile noodle vendors.

Nature of support

- Past experience showed the importance of establishing true partnerships with the noodle makers, based on respecting the value each party brings to the relationship, maintaining flexibility and identifying practical solutions to barriers to development.
- The flour supply needed to be steady and accessible, and payment had to reflect the business realities of the noodle makers.
- Bogasari Flour Mills encouraged the noodle makers to form associations in contiguous geographic locations, involving the *paguyuban*, or forum of elders; 10 associations now operate, providing systems for disbursing, collecting and paying for the flour.
- The associations also provide a support structure and business network for entrepreneurs independent of Bogasari Flour Mills.
- Bogasari Flour Mills gives additional support in the following ways:
 - Training on quality, storage and hygiene, and workshops on machine operation and maintenance
 - A newsletter containing information on noodle production, markets, products and equipment, as well as advertising opportunities for related

product providers

- Sponsorship of community events designed to promote the range of flavours and ways of preparing noodles
- Legal support in the securing of licences and freedom to operate without harassment, extortion or threat of eviction
- A programme of loans or grants available to entrepreneurs, within set criteria, and the endowment of the associations with revolving funds available to members.

Outcomes

- After 5 years, noodle makers account for 6% of Bogasari Flour Mills sales, with further growth anticipated.
- Noodles have become established as an important alternative to rice, particularly in urban centres.
- The noodle-making industry, with its improved processes, distribution and sales, has become a sustainable part of the local economy, employing more than 7,000 people.
- The noodle-making entrepreneurs have retained control over their businesses, within a new framework of support.
- The improved distribution ensures vendors have a steady supply of fresh noodles.
- Bogasari Flour Mills has set up a tracking system to measure the impact of its programme and is committed to ongoing research and analysis.
- The experience with the noodle-making industry has provided a framework for the company to develop other manufacturing, marketing and distribution initiatives.
- Bogasari Flour Mills is applying the lessons learned to the baking industry as part of its ongoing marketing strategy.

* Lessons learned

- Research helps in understanding the social, cultural and economic factors within which small-scale entrepreneurs operate, and is an essential first step in planning effective support programmes.
- Small-scale entrepreneurs can benefit from forming associations to facilitate communication, purchasing and distribution.
- A large company can effectively and efficiently access new or expanded markets through mutually beneficial business partnerships.
- Mechanisms for two-way communication and negotiation between the large company and small-scale entrepreneurs are fundamental to building trust.
- Setting mutually beneficial objectives with business partners depends on negotiation rather than dictation.
- Business partners can be assisted and encouraged to improve without having to give up their independence.
- Successful partnerships depend on mutual respect and a blending of cultures.

"By aligning our business practices with the principles of sustainable development, we expect to gain a competitive advantage through developing new opportunities, anticipating customer requirements for environmental and social performance, and living up to the expectations of the communities where we operate."

Preston Chiaro, President and CEO, Rio Tinto Borax, in the company's 2000 Social and Environment Review

The way forward: preparing for successful local enterprise development

At the outset, a large company needs to develop a clear picture of its place in the local economy, to assess its spheres of influence and to determine where its participation in local enterprise development is likely to have impact. The company's core business and resources are at the heart of the matter and will determine the direction and nature of the company's engagement with other sectors. The way forward, for which the Sourcebook provides a framework, includes:

- *Assessing the needs, opportunities and challenges* of the local economy.
- *Planning with care* to provide a framework for success.
- *Achieving scale* wherever possible by leveraging examples of good practice.
- *Working with intermediary organisations* in a blend of knowledge and skills to achieve sustainability and scale.
- *Taking a leadership role* in the implementation of social investment policy.

IBLF's Business and Enterprise Programme

The Sourcebook is an important contribution to IBLF's programme of encouragement and support to large companies in business linkages around the world. It was made possible by generous support from the Ford Foundation. Additional information is available from Peter Brew at peter.brew@iblf.org

The Business of Enterprise

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