Business in Development Study 2012

Australian business leaders provide insight into delivering business outcomes with social benefit in developing countries
Executive summary

Introduction

Developing economies are important to the future success of Australia’s multinational businesses. They are home to powerful mass markets and significant sources of talent, and represent the next wave of economic growth for many industries. As businesses move into new markets in developing countries, they present new opportunities to positively impact development issues and drive change.

“Macquarie has a large focus in Asia and indeed globally. We view developing countries as the growth engine of the global economy.”

Nicholas Moore, CEO, Macquarie Group

Recognising the significant impact Australian businesses operating in developing countries have on poverty alleviation, and the considerable opportunity that engagement with these organisations represents in terms of achieving its goals, the Australian Agency for International Development (AusAID) commissioned the Business in Development Study 2012 (the Study). This Study is one of the preliminary steps AusAID is taking to improve links with Australian businesses. This study was commissioned by AusAID to provide a basis for informed discussion on AusAID’s business engagement agenda. It has been produced by independent analysts and does not reflect the views of AusAID nor of the Australian Government.

The Study aims to establish a body of evidence to characterise the nature of core business activities that Australian multinationals operating in developing countries undertake which contribute to poverty alleviation. The Study further aims to identify common ground that will facilitate engagement between these businesses and AusAID, to mutual benefit. The Study was conducted by Accenture Development Partnerships (Accenture) and Business for Millennium Development (B4MD) between January and May 2012 on behalf of AusAID.

The target audience for this Study is both AusAID and Australian businesses, although it is also relevant to other business leaders, to development sector organisations and other aid agencies, and to developing country governments who are looking to attract foreign investment and build the capacity of their private sectors.

About AusAID

AusAID works as part of a global effort to reduce poverty by effectively administering the Australian government’s aid program. The Australian government considers reducing poverty critical to the future of developing countries and also key to Australia’s security and prosperity.

AusAID works collaboratively with other Australian government departments and agencies to deliver aid. It also works with Australian non-government organisations, academic and research institutions, members of the wider Australian community, and with the governments of partner countries to reduce poverty in developing countries.

Report structure

The first three chapters of the Study focus on understanding the ‘what, where, how and why’ of business activities of Australian companies in developing countries, and the extent to which these activities impact poverty alleviation. Findings include:

- Activities currently undertaken by business that contribute to poverty alleviation
- Countries where businesses undertake these activities
- Drivers that motivate businesses to have an impact
- Barriers and associated enablers related to operating in developing countries
- The extent to which businesses anticipate their operations will continue to have a poverty alleviation impact in the future.

Chapters four and five consider how Australian businesses can engage with partners, their current level of awareness of the work of AusAID,
and how they might engage with AusAID as a partner in the future.

There is growing evidence of considerable common ground between aid agencies and private sector organisations that would provide opportunity for mutually beneficial partnerships that could have scalable and sustainable impact. The United States Agency for International Development (USAID), the United Kingdom Department for International Development (DFID) and the Swedish International Development Agency (SIDA), among others, have all acknowledged the value of engaging with business. Figure 1 provides insight from DFID on the convergence of the work of aid agencies with that of the private sector.

**Study methodology**

The Study comprised a literature review, a survey with responses from 56 Australian businesses active, or with potential for activities in developing countries, as well as interviews with 35 Australian business leaders.

The literature review considered over 30 articles from academics, development and business thought leaders. The review highlighted a growing trend away from ad hoc corporate social responsibility programs as a means to tackle entrenched development issues, as well as recognition that core business activities that also have a social outcome are increasingly seen as the means to achieve scalable and sustainable impact. This recognition formed the underlying premise of the survey and interview questions.

The online survey was distributed to over 180 Australian businesses, representing a significant portion of large and medium sized Australian business with activities, both operational and procurement related, in developing countries. The response rate was high, with approximately 30 percent of the companies contacted completing the survey.

In addition, interviews were conducted with 35 Australian business leaders. These interview responses provided a rich body of evidence to support and further define the findings of the survey, as well as offered greater insight into the high-level trends that emerged from survey responses. Interview responses were also critical in understanding the interest of, and potential for businesses to engage with AusAID on activities that contribute to poverty alleviation and capacity building in developing countries.

The survey respondents by sector closely match the relative focus of Australian businesses with an overseas footprint: the Mining & Energy industry was most highly represented (27 percent of respondents), followed by the Banking (14 percent), Professional &

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**Agency Attributes:**
- Strong emphasis on results for poor people
- Rigorous analysis of what works and delivers value
- At the heart of international development policy
- Willing to take risks, innovate and learn from experiences
- Flexibility and adaptability

**Common Ground:**
- Developing existing and new markets that work for poor people
- Promoting profitable investment in low income countries
- Innovating to identify new markets, products, services, and means of delivering them
- Serving the needs of poor women and men through market solutions that are commercial and sustainable

**Private Sector Attributes:**
- Ability to find and serve new markets
- Flexibility to innovate with new products and services to compete and find new opportunities
- Constantly striving to increase efficiency
- Understanding clients’ needs
- Sustainability

*Source: Department for International Development UK (DFID)*
Legal Services (14 percent), Health & Life Sciences (13 percent) and Consumer Goods & Services (11 percent) sectors.

Business activities that alleviate poverty

There is increasing evidence that business activity in developing countries can have a sizeable progressive impact on poverty alleviation. Survey findings support this.

Findings – Part 1: Business in development

Ninety-three percent of survey respondents agreed that business can play an important role in alleviating poverty

- **Activities**: Australian business leaders indicated that multiple activities are important both to the future of their businesses and to poverty alleviation.

- **Countries**: There is significant overlap between the countries where AusAID works and where Australian businesses believe they have the greatest impact on poverty alleviation – with particular reference to Indonesia and Papua New Guinea.

- **Drivers**: Brand, trust and reputation is the major driver for businesses to engage in activities that alleviate poverty.

- **Barriers**: There is a direct correlation between the activities businesses undertake that alleviate poverty and the barriers they face operating in developing countries.

- **Enablers**: Survey respondents selected a group of key enablers associated with good governance that correlate with the barrier of complexity of implementing in developing countries.

- A number of businesses have extended their skills and competencies to be able to meet the challenges of operating in developing countries – e.g., an Oil & Gas company running countrywide malaria programs, a Construction company running technical and further education vocational education colleges.

When asked which of their current business activities have contributed to poverty alleviation, Australian business leaders noted that creation of employment opportunities, education, infrastructure development and health programs were all areas of impact (see Figure ii). Employment and education are often tandem areas of focus.

Interestingly, these two activities do not just directly benefit those who work for the business, they also often support education and the creation of employment opportunities for other businesses that may have supply chain interactions with the company.

"Employing one person changes the lives of 15 to 20 others.”
Terry Davis, Group Managing Director, Coca-Cola Amatil

"We can’t always offer large numbers of jobs on our sites, so we help community people become more employable in a broader economy.”
Bruce Harvey, Global Practice Leader - Communities and Social Performance, Rio Tinto

"For every product we sell, we improve the living standards of five people, which is the [size of the] average household.”
Rick Hooper, CEO, Barefoot Power

Figure ii: Australian business leaders see employment opportunities as the most significant poverty alleviation activity undertaken by business in developing countries

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries?
[Respondents selected their top three choices]

- Employment opportunities: 43%
- Education programmes: 39%
- Infrastructure development: 39%
- Health programmes: 38%
- Supply chain practices: 21%
- New product offerings: 20%
- Human rights/anti corruption/ labour policies: 16%

Source: Accenture/BqMD Business in Development Survey 2012
The results differ by industry depending on the nature of work and priorities for each sector. For example, for Mining & Energy companies, education, employment and health activities were key to ensuring a skilled, healthy workforce and to support company staff and the broader community. For Banking, education to support access to new product offerings was the top priority that also contributed to poverty alleviation. Furthermore, in the banking sector, education is heavily focused on financial literacy for current and future bank customers – it improves business acumen but also increases demand for financial services and the addressable market for banking products.

**Countries of focus**

The Study showed that there is a strong correlation between AusAID’s focus in the Asia Pacific region and the countries where Australian businesses feel their operational and procurement activities have the greatest poverty alleviation impact. The greatest areas of overlap are in Indonesia and Papua New Guinea.

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**Figure iii: Areas where Australian companies and AusAID are active in poverty alleviation**

*In which countries do the majority of your activities that contribute to poverty alleviation take place?*

{[Respondents identified the top five developing countries in which their businesses operate]}

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The map does not represent all countries where AusAID is active, nor does it represent all countries where survey respondents have business activities.

Sources: Accenture/B4MD Business in Development Survey, 2012; Australia’s International Development Assistance Program 2011-12 Budget
Executive Summary

Business drivers

The Study found that the key driver for Australian businesses to undertake activities that contribute to poverty alleviation is brand, trust and reputation (see Figure iv). This is consistent with findings from a United Nations Global Compact (UNGC) global survey of CEOs in 2010, which revealed that of 766 CEOs surveyed globally, 72 percent cite brand, trust and reputation as the primary motivation in taking action on sustainability. The Banking sector identified brand, trust and reputation as the strongest driver, while respondents from Mining & Energy noted employee engagement and recruitment among the most important drivers.

Figure iv: The factors that drive business to engage in activities that alleviate poverty

What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?
(Respondents selected their top three choices)

- Brand, trust & reputation: 66%
- Employee engagement & recruitment: 38%
- Personal motivation: 30%
- Government / regulatory environment: 21%
- Consumer / customer demand: 20%
- Revenue growth: 20%
- Impact of development gaps on business: 16%
- Supply chain diversification: 7%
- Pressure from investors / other stakeholders: 5%
- Cost reduction: 4%

Source: Accenture/B4MD Business in Development Survey 2012

During the interviews, multiple business leaders referred to moral obligation. In many cases, it is business leaders who feel a strong sense of moral obligation that are most likely to identify synergies between core business activities and the potential to provide scaled and sustainable activities that alleviate poverty. Interview respondents did however clarify that there must always be a strong business driver as, without that, such activities are often seen as charity and are therefore not sustainable.

“Australian business has an obligation to get out there and do something, including transferring technical and commercial knowledge to people on the ground.”

Todd Saunders, General Manager - Australia, Sanitarium Health and Wellbeing

Barriers and enablers

In developing countries, businesses face a variety of barriers (see Figure v). A lack of education and health services, corruption, financial inclusion, and other socioeconomic barriers all hinder business activities. Overwhelmingly, Australian business leaders identified complexity of implementing programs (as it relates to engaging with the community and local issues, and engaging with developing country governments) and competing strategic priorities as the main challenges in undertaking such activities.

Figure v: Australian business leaders identified complexity of implementing programs and competing strategic priorities as the main challenges in undertaking activities that contribute to poverty alleviation

What barriers/challenges does your company face in undertaking activities that contribute to poverty alleviation in developing countries?
(Respondents selected their top three choices)

- Complexity of implementing programs in developing countries: 61%
- Competing strategic priorities: 53%
- Difficulty building a business case: 23%
- Difficulty in engaging with external groups: 18%
- Differing definitions of corporate social responsibility: 13%
- Lack of an effective communications infrastructure: 9%
- Lack of recognition from the financial markets: 7%
- Growing our business outside Australia is not a priority: 0%
- Employee resistance: 0%
- Lack of board support: 0%
- Lack of skills of knowledge of middle to senior management: 0%

Source: Accenture/B4MD Business in Development Survey 2012

When asked to identify enablers that would make doing business easier, businesses selected a range of areas where solutions were needed to alleviate some of the complexities of implementing programs (see Figure vi). The enablers they identified included reducing corruption, effective regulation...
and a robust legal environment within which to function. Education also featured highly.

Figure vi: Reducing corruption was identified as one of the main enablers for business to operate more effectively within developing countries

What enablers would help your company to operate more effectively in developing countries?
(Respondents selected their top three choices)

- Reducing corruption: 57%
- Education: 50%
- Effective regulation: 43%
- Robust legal environment: 35%
- Transport infrastructure: 23%
- Telecommunication infrastructure: 18%
- Health services: 13%
- Access to clean water: 5%
- Robust taxation system: 4%
- Electricity: 2%

Source: Accenture/Bluedao Business in Development Survey 2012

"Being a local company, we want to benefit the community. If we are not confident that the national and provincial governments can fully deliver health programs and we think we can help, we will get involved."

Peter Botten,
Managing Director, Oil Search
(which is based in Papua New Guinea)

"Construction is a people industry and a large employer for skilled, semi-skilled and low-skilled jobs. Depending on what the job is you have widely different skills required. We have a long history of running TAFE-equivalent, certified institutions within the countries we operate in to train locals using Australian expertise. We are not the only beneficiaries; it is the whole country that is benefiting from this program."

Hamish Tyrwhitt,
CEO, Leighton Holdings

Business engagement is increasing

To be successful in developing countries, Australian businesses have had to be innovative and expand their capabilities beyond their core competencies to address challenges to business growth. The companies that are thriving are those that have built meaningful, sustainable relationships in the communities in which they operate. The creation of employment opportunities, the introduction of health and education programs, infrastructure development, the advancement of human rights and labour policies, and establishment of inclusive supply chain practices are not only key in addressing socioeconomic barriers to participation and to further developing capacity, but they are underpinned by solid business drivers.

Seventy-three percent of survey respondents significantly agreed or agreed that the activities their businesses undertake that contribute to poverty alleviation in developing countries is increasing. Respondents felt that not only would stakeholders expect this of them, but that growth in these activities will largely be driven by business imperatives – i.e., the poverty alleviating activities they undertake will be important to their future growth because they also drive desired business outcomes.
Findings – Part 2: AusAID and business

Knowledge of AusAID:

- Australian businesses have limited awareness of the activities of AusAID, only 25 percent of consider AusAID as a partner today; however, 57 percent say they would consider AusAID in the future.
- The majority of survey respondents indicated they would like to better understand AusAID’s priorities in particular developing countries.

Engaging with AusAID:

- Where businesses have engaged with AusAID to date, it has been ad hoc.
- The time is right for AusAID to engage with business — Australian businesses have a positive attitude to conducting mainstream business activities that also alleviate poverty; executives are ready and willing to engage, identify and act on areas of mutual benefit in the countries in which they operate.
- For engagement to work there must always be a strong business driver; without that, activities that alleviate poverty are seen as charity and are usually not sustainable.
- There are a number of levels at which AusAID could engage with business, from that of an observer through to joint owner of a particular program.
- AusAID can build momentum through tangible outcomes that demonstrate value to business leaders and have poverty alleviation impact.

Knowledge of AusAID

To address barriers to business growth in developing countries, businesses indicated they were willing to explore new ways of partnering. While business leaders indicated limited awareness of the activities of AusAID in the countries where they operate, the majority identified AusAID as one of the key organisations that they would seek to engage with in the future (57 percent) (see Figure vii).

Figure vii: Overall, there is a move away from the traditional partners that business would consider using

Which of the following entities does, or would your business consider as a partner for undertaking business activities in developing countries? [Respondents identified all entities that apply]

<table>
<thead>
<tr>
<th>Entity</th>
<th>In the future</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>AusAID</td>
<td>57%</td>
<td>25%</td>
</tr>
<tr>
<td>Communities</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>Developing country governments</td>
<td>50%</td>
<td>46%</td>
</tr>
<tr>
<td>NGOs</td>
<td>50%</td>
<td>43%</td>
</tr>
<tr>
<td>United Nations / World Bank</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Business councils</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Department of Foreign Affairs and Trade</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Other companies</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Peak bodies</td>
<td>29%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Accenture/BaMD Business in Development Survey 2012

To facilitate engagement, business leaders indicated that they would like to better understand the priorities of the AusAID program and would welcome consultation by AusAID with business during the design of relevant aid projects.

Figure viii: Business leaders want to understand the priorities of the AusAID program and want AusAID to consult with business during the design of individual aid projects

What can AusAID do to make the Australian aid program more effective for business? [Respondents selected all responses that were appropriate]

<table>
<thead>
<tr>
<th>Activity</th>
<th>In the future</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consult with business on priorities in dev countries</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Consult with business during the design of aid projects</td>
<td></td>
<td></td>
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<tr>
<td>Provide information on business opportunities</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td>Provide a single point of contact to engage with AusAID</td>
<td>57%</td>
<td></td>
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<tr>
<td>Disseminate information about best practice</td>
<td>55%</td>
<td></td>
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<tr>
<td>Consult with business on the broad priorities of the aid program</td>
<td>52%</td>
<td></td>
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<tr>
<td>Support initiatives by dev country governments that improve the business environment</td>
<td>50%</td>
<td></td>
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<tr>
<td>Convene forums to share experiences</td>
<td>45%</td>
<td></td>
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<tr>
<td>None</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Accenture/BaMD Business in Development Survey 2012
Opportunity for AusAID to engage with business

Reflecting on the drivers, barriers and enablers identified by business as central to undertaking business activities that alleviate poverty, it is possible to identify where the opportunities might be for AusAID to engage with Australian businesses. This list aims to form a point of reference for consideration and discussion by AusAID and business. It is intended as a starting point only.

Figure ix: Potential opportunities for AusAID engagement with Australian businesses by industry sector

<table>
<thead>
<tr>
<th>Industry</th>
<th>Business enablers</th>
<th>Business barriers</th>
<th>Poverty alleviating activities</th>
<th>Drivers to activity</th>
<th>Potential opportunities for engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining &amp; Energy</td>
<td>• Effective regulation • Reduce corruption</td>
<td>• Complexity (government capacity - National, Regional, Local)</td>
<td>• Infrastructure</td>
<td>• Brand</td>
<td>• Government capacity building</td>
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<tr>
<td></td>
<td>• Education • Health services • Social stability</td>
<td>• Lack of infrastructure</td>
<td>• Government &amp; regulatory environment</td>
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<td></td>
<td></td>
<td>• Complexity (engagement with local communities)</td>
<td>• Education</td>
<td>• Employee engagement &amp; recruitment</td>
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<td></td>
<td></td>
<td></td>
<td>• Employment</td>
<td>• Moral obligation</td>
<td>• Secondary / tertiary education programs</td>
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<td></td>
<td>• Health</td>
<td></td>
<td>• Health programs</td>
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<td></td>
<td>• Small / medium enterprise development</td>
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<tr>
<td>Banking</td>
<td>• Reduce corruption • Legal environment • Effective regulation</td>
<td>• Complexity (government capacity)</td>
<td>• Government capacity building / governance</td>
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<td></td>
<td></td>
<td>• Lack of business case</td>
<td>• Financing Infrastructure</td>
<td>• Brand</td>
<td>• Government capacity building (financial regulation)</td>
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<td></td>
<td></td>
<td>• Complexity (lack of financial literacy)</td>
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<td>• Revenue growth</td>
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<td></td>
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<td>• Education of consumers</td>
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<td>• New products</td>
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<td>• Education</td>
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<td>• Brand</td>
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<td></td>
<td>• Revenue growth</td>
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<tr>
<td>Consumer Goods &amp; Services</td>
<td>• Reduce corruption (no child labour) • Education of producers</td>
<td>• Lack of infrastructure</td>
<td>• Education of producers</td>
<td>• Brand</td>
<td>• Small / Medium enterprise development</td>
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<tr>
<td>(Supply chain)</td>
<td></td>
<td>• Complexity (implementation and management of supply chain)</td>
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<td>• Revenue growth</td>
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<td></td>
<td></td>
<td>• Competing strategic priorities</td>
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<td></td>
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<tr>
<td>Consumer Goods &amp; Services</td>
<td>• Reduce corruption • Build distribution chain</td>
<td>• Complexity of implementation (customers’ access to finance)</td>
<td>• Education</td>
<td>• Brand</td>
<td>• Microfinance programs</td>
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<tr>
<td>(Sales)</td>
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<td>• Revenue growth</td>
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Six actions AusAID can take to accelerate business engagement

An important precursor to engaging with business is awareness of the needs, interests, goals and capabilities of potential partners, as well as their willingness to engage. Business leaders see the immense potential of combining efforts to achieve a shared goal – but are also aware of the practical challenges. Survey and interview respondents identified six areas that might assist AusAID in considering a strategic approach for effectively engaging with Australian businesses in order to maximise scalable and sustainable poverty alleviation outcomes in the communities in which they operate (see Figure X).

To be sustainable, business leaders emphasised that the poverty alleviation activities they undertake must be anchored to tangible business benefits, even if the business benefits only occur in the medium to long term. Finding common ground upon which to effectively engage with Australian businesses will require a strategic approach based on mutual priorities. The Business in Development Study 2012 provides a starting point for businesses and AusAID to explore ways in which they might engage to have a greater impact on poverty alleviation and sustainable development outcomes in developing communities.

"We need an overarching discussion as to what we are trying to achieve … what are the five or six things where there is an overlap between business and AusAID? Then work in smaller groups to take it forward."

Peter Botten, CEO, Oil Search

"If AusAID can be clear on what its top development challenges and opportunities are, and communicate them to us and other large businesses operating in the region, then in many cases the core capabilities of these operations could be very relevant in helping solve those challenges – as an example, in our case this could be our expertise in distribution into remote centres."

Terry Davis, Group Managing Director, Coca-Cola Amatil

The message from Australia’s business leaders is clear:

**Be strategic. Start small. But start.**

Figure X: Six recommendations for AusAID to consider

1. Be strategic
2. Be action oriented
3. Target established businesses
4. Make priorities transparent
5. Understand businesses
6. Match resources to level of engagement

‘Push open doors’ and target those sectors, activities and geographies that align with AusAID priorities

Establish activities with organizations as quickly as possible by starting small, then advertise success to build momentum

Focus on robust businesses with experience that have an established track record of delivery

Ensure business understands AusAID activities and priorities in their countries of operation

Frame engagement with business realities, then focus on core business activities and the right contacts

Determine the appropriate level of engagement in an initiative or program and ensure the level of resources allocated match the need