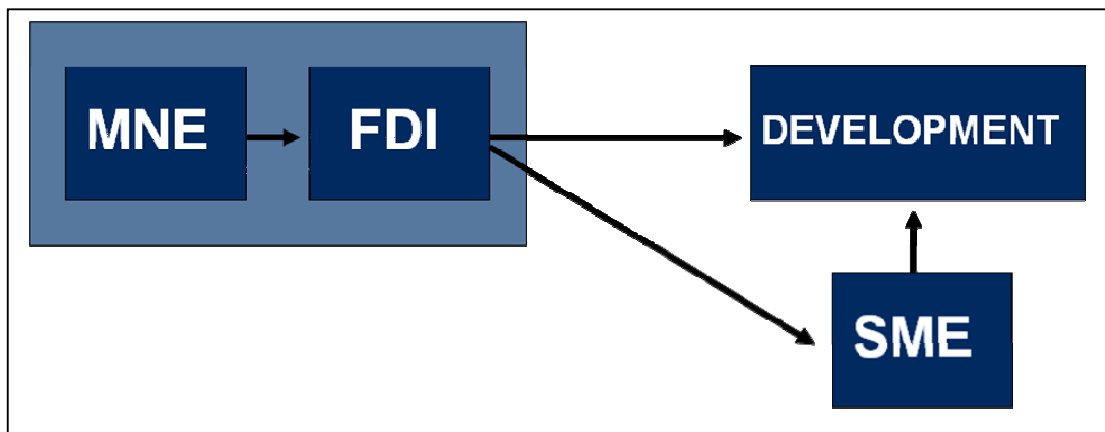


1. Introduction

Mainstream studies in International Business and International (development) economics generally take a macro-economic point of view and focus primarily on the impact of inward Foreign Direct Investment (FDI) on the growth of the economy ('development') as a whole. This approach abstracts from assessing in any detail the action of two types of corporate actors that particularly shape development. On the one hand, Multinational Enterprises (MNEs) which often represent a small group of investors in a country. Often, not more than a handful MNEs define up to 50% of the total FDI stock in most developing countries (Cf. Van Tulder with Van der Zwart, 2006; Unctad, 200*). This makes 'development' a small numbers game as regards the core international actors. The effectiveness of development policies, in particular the question to what extent an economy needs to be open towards FDI and trade or apply specific forms of regulation in order to be successful (Rodrik, 2006) depends on properly assessing the intended and unintended effects of MNE strategies. On the other hand, Small and Medium Sized firms (SMEs) play an important role in economic growth and development, through innovation, the employment they generate, their entrepreneurial capabilities and their contribution at large to the competitive position of clusters, regions and sometimes whole countries. In developing countries, more than 90% of all firms outside the agricultural sector are SMEs and micro-enterprises, generating a significant portion of GDP. For example, in Ecuador, 99% of all private companies have less than 50 employees and account for 55% of employment (WBCSD & SNV, 2007). Moreover, a competitive SME sector and private sector development is increasingly considered to be key to development. But SMEs often operate in the (global and local) networks of MNEs, which implies that the success of private sector development programmes need to take the interaction between MNEs and SMEs into account. The actual challenge for development studies (cf. Van Tulder, 2010) is, therefore, how to combine both the MNE and the SME perspective at the corporate level (Figure 1). This paper approaches this question from the perspective of MNEs.

MNEs not only can bring development through their direct investments, but also through the indirect effects of their investments, through their linkages with local (often smaller) firms. The effect can also be reversed, through employment displacement effects at suppliers, distributors or competitors, MNEs can have a negative short-term effect on development. This mechanism is also known as 'crowding' out which leaves the final assessment of what contribution to development MNEs make a matter of longer term and very complex assessments. But what assessment do MNEs themselves make of this relationship? Do they try to address SMEs in such a way that the link with development is more direct and more positive, or do they leave it to 'the market' without any effort to engage in what nowadays is becoming known as 'inclusive business' strategies?

Figure 1 From Factors to Actors in development studies





This paper focuses on how the largest multinational enterprises engage small and medium sized enterprises in their inclusive business strategies, either as suppliers, distributors, customers, innovators or as a target of their CSR policies. By doing this, this paper brings an 'actor perspective' back into the study of development. This paper explores the implicit or explicit strategies of the one hundred largest companies in the world towards SMEs as mentioned in their annual and CSR reports. This approach takes stock of the 'narratives' developed by MNEs as an expression of their intended and (perceived) realised strategies (Cf. De Wit and Meyer, 2010). Formulating and implementing strategies in a complex world is always surrounded by major uncertainties, but the extent to which MNEs take an inactive or a more active approach is often illustrative of the wider strategic realities firms are facing (cf. Van Tulder, 2009). As such the statements used in this paper to document strategic intent comes close to documenting the business models of these companies.

The paper continues as follows. Section two considers how the link between development and FDI has been treated in mainstream development literature and concludes that it is becoming increasingly important not only to deal with passive and direct effects of MNE activities in host (developing) countries, but also to address active and indirect effects. Studying the role attached to SMEs by MNEs provides an operationalization of the latter. Some business models are more 'inclusive' than others, as will be elaborated in section 3. This section explains the different approaches or general business models MNEs can adopt towards development. Section 4 then elaborates this more in specific for the inclusion of SMEs in these generic business models. MNEs can take an inactive, a reactive, an active or a pro-active attitude towards inclusive business in general and SMEs in specific. Section 5 reports on the methodology and the general results of an exploratory, systematic, study amongst the 100 largest MNEs in 2006. Section 6 discusses the more specific results along the five roles played by SMEs in inclusive business strategies and considers to what extent specific 'countries of origin' and specific sectors have a more or less active (inclusive) approach towards SMEs. Section 7 draws some first conclusions for policy makers and business strategists.

2. Multinational Enterprises and Development

The relationship between Foreign Direct Invest (FDI) and 'host country' development generally represents the relationship between 'inclusive business' and 'inclusive growth' (Meyer, 2004). Recent thinking argues that for an understanding of that relationship, the various mechanisms through which MNEs can have an effect on development in particular have to be taken into consideration. For example, the creation of local backward linkages is often seen as very beneficial for local firms, as these linkages may enhance their sales and access to markets, and enables them to benefit from technology transfer and training of the MNE. However, there are many other mechanisms that play a role and need to be addressed when evaluating the host country development consequences of foreign firms, foreign investments and partnerships of MNEs with local firms. Examples of such mechanisms include technology transfer through labor migration or demonstration effects; competition and market structure effects; the sheer size effects of investments; and forward linkages. These have all been identified in the economic and business literature as the economic growth consequences of FDI. This also calls for a more active approach of MNEs in development: both as key partners in the process of societal transformation (Stiglitz, 1998), and in activities related to Corporate Responsibility activities such as implementation of environmental, health and safety management systems at their production sites, as well as engagement in philanthropic projects (Table 1).

Table 1 Mechanisms through which MNEs affect sustainable development

Type of effect	MNE role		
	Passive	Active	
Direct (at MNE site)	Size effects (for capital base, employment, environment)	EH&S practices, labour conditions	INCLUSIVE BUSINESS 
Indirect (beyond MNE site)	Competition, technology transfer, linkages, alliances, income distribution	Philanthropy, public private partnerships, supplier conditions	
 INCLUSIVE GROWTH			

Source: based on Dunning and Fortanier, 2007

In Table 1, the type of effect is positioned on the vertical axis, and the role of the multinational enterprise on the horizontal axis. The type of effect captures the conventional distinction between the direct effects of an investment, which occur solely at the site of the MNE, and the indirect effects, that occur at firms related to the (activities of the) MNE. For example, the workers that an MNE employs itself constitute the company's direct employment effect; whereas the employment an MNE creates at a local supplier due to increasing demand for this supplier's products, constitute part of its indirect effects for employment. The second variable, the role of the multinational, distinguishes between active (purposeful) and passive roles.

Passive effects

Passive effects of an MNE for host country development are those effects that occur through 'standard business practice'. They are relatively well documented, especially for the economic dimensions of development. *Direct* passive effects occur when an investment by an MNE adds to the host country's savings and investment volume, and thereby enlarges the production base at a higher rate than would have been possible if a host country had to rely on domestic sources of savings alone. FDI may thus build up sectors or industries in which local firms have not (yet) invested in, or enlarge the scale of existing farms, plants or industries. Positive direct effects may also lie in salvaging and recapitalizing inefficient local firms (Lahouel and Maskus, 1999), thereby assuring that the scale of production at least does not decrease. Direct passive effects can be measured rather easily: it is the net increase or decrease in output and productivity, employment (quantity and quality), and pollution, at the site of the MNE investment.

The *indirect* passive effects are those effects of inward investment that are generally designated as 'spillovers' or 'multiplier effects' in the economic literature. For example, linkages with buyers and suppliers are an important means through which MNEs can impact upon economic growth, since it is unlikely that MNEs can fully appropriate all the value of explicit and implicit knowledge transfers with their host country business partners (Blomström et al., 1999). Many empirical studies have found evidence of the creation of both backward linkages (e.g. Alfaro and Rodríguez-Clare, 2004; Javorcik, 2004), and *forward* linkages (Aitken and Harrison, 1999).

In addition, an investment of an MNE changes the market structure of the industry. Such investments can stimulate competition and improve the allocation of resources, especially in those industries where high entry barriers reduced the degree of domestic competition (e.g. utilities). Fears are sometimes expressed that MNEs may also crowd out local firms, which does not have to be problematic if they are replaced by more efficient firms, but that could also increase market concentration to such an extent that resource allocation could diminish (Cho, 1990). From a political and social view point, it may also be seen as undesirable.

Finally, since MNEs are frequently key actors in creating and controlling technology (Markusen 1995, Smarzynska 1999), they can be important sources for spreading managerial skills, and expertise

on products or production processes – either intentionally or unintentionally – to host-country firms (Blomström et al., 1999). Macro-economic studies on the net-effect of FDI on host country development focus primarily on these passive effects and have remained rather inconclusive on their outcome. It has been found that the net effect strongly depends on such contingencies as the country of origin of the investment, the host country institutions, sector effects and the nature of the strategy of the multinational corporation itself (Fortanier, 2008).

Active Effects

The active effects of MNEs are receiving increasing attention. The active role of MNEs in fostering development can also be divided into direct effects – that occur at the facilities of the MNE themselves – and indirect effects – that occur externally.

Direct active effects encompass the environmental, health and safety, and employment practices of a multinational at its subsidiaries. Recent studies (Fortanier and Kolk, 2007) show that approximately 70 percent of the largest 250 firms worldwide are actively promoting workforce diversity and equal opportunity, good working conditions, and training. A similar number of firms address climate change issues and direct green-house gas emissions. Labor rights such as collective bargaining and freedom of association are mentioned by one third of all firms. In addition to engaging in CSR activities within a firm's boundaries, MNEs have also started to contribute to society in a more indirect way (i.e. outside their own facilities) through philanthropy and community investments, or through requiring their suppliers to adhere to social and environmental standards as well. A KPMG (2005) study showed that 75% of the largest 250 firms worldwide say to be involved in philanthropic activities; and almost 50% has an own corporate charitable Foundation. Schooling and educational projects are most popular to contribute to (66%, followed by health programs including HIV/AIDS relief efforts (40%). These corporate philanthropy activities signal the growing acknowledgement of the importance of 'social capital' and of civil society for the correct and profitable operation of business (Cf. Wood *et al.* 2006). Philanthropy is increasingly thereby represented as a vital aspect of (global) corporate citizenship. According to Zadek (2003) MNEs are entering the phase of 'third generation corporate citizenship' which represents a far more active and open approach to civil society than before.

When active (inclusive) business models reinforce the positive indirect effects that go beyond the direct impact of corporate activities (beyond the MNEs site), inclusive business and inclusive growth models are mutually reinforcing (shaded areas in Table 1).

3. Inclusive business models – a taxonomy

Whereas companies in the 1990s, did hardly have tools for inclusive business models available this rapidly started to decline since the early 21st century. First, measurements on the impact of MNEs activities on poverty alleviation became available. The Global Reporting Initiative (GRI) tried to link the core activities of businesses to the MDGs in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. Secondly, labeling represents another way companies can attempt to impact on poverty. Labels enable a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. Especially fair trade labels have started to serve as a means of communicating the corporate approach to poverty alleviation. Thirdly, codes of conduct, help corporations to level the playing field and promote standards that can overcome the lack of regulation in many countries on issues related to poverty (in particular on working conditions and minimum wages). Important developments have been in the form of the Ethical Trading Initiative (ETI) and the Fair Labour Association (1998), which sought to define for instance a 'living wage' and 'no excessive working hours'.

Fourthly, new business models have become available that approach the issue of poverty from either a positive or a negative side. The 'Bottom of the Pyramid' thesis (Prahalad, 2005) takes the

positive road. It advises companies to focus their resources on for billion 'forgotten' consumers and innovate in order to develop products and services that meet the needs of the poor. A major problem with the BOP strategy, however, is that part of the 'market' at the bottom of the pyramid is in practice already served by local firms and the informal economy. Multinationals therefore can crowd-out more local firms and local employment than they create. Two types of BOP strategies have to be distinguished therefore: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net (direct as well as indirect) effects of the strategy into consideration. A narrow approach has 'market substitution' effects, a broad BOP approach aims at 'market creation'. Only the latter approach can turn BOP strategies into a viable business contribution to inclusive growth.

Wilson and Wilson (2006) take the negative road and point at the threat to reputation and security of in particular international corporations if the 'issue' of poverty and the relationships with developing countries are badly managed. They include the 'country risk' argument from International Business theory. The claim is that there is a true new business model developing in some developing countries. Prahalad (with Krishan, 2008) later on build upon these same ideas to produce an even more generic model of innovation in which producers and communities (of users, suppliers and the like) 'co-create' systems that are claimed not only to be economically feasible, but also socially desirable.

Finally, partnerships are an important part of an inclusive business strategy. Austin (2000: 44) labelled partnerships between public and private parties as the "collaboration paradigm of the 21st century" needed to solve "increasingly complex challenges" that "exceed the capabilities of any single sector" (cf. Selsky and Parker, 2005). Since the 2002 World Summit on Sustainable Development (WSSD), 'cross-sector' partnerships have become important instruments for addressing problems of global development and reaching the Millennium Development Goals (MDGs), in which the contribution of companies is seen as crucial. All multilateral institutions that propagate 'inclusive business/growth' have identified meaningful cross sector partnerships as a prerequisite for active business models.

A taxonomy

The contribution of CSR strategies to align the interests of the poor and consequently lead to an 'inclusive business' model, depends on the circumstances and the concrete elaborations of business strategies in developing countries (Blowfield, 2005). The attempt to classify business models in terms of their drivers and dynamics goes back to Post (1979), who was the first to introduce the distinction (amongst others) between reactive and proactive strategies. With this distinction, he followed a 'stakeholder' view of the firm. Firms in interaction with increasingly critical stakeholders – represented by NGOs as well as governments - in this approach face the tension between a defensive (reactive) or an accommodative/preventive (proactive) strategy. All taxonomies in the tradition of the stakeholder theory of the firm largely introduce comparable distinctions. The resource based view of the firm adds 'intrinsic' motivations to the stakeholder view. Depending on their capabilities and own ambitions, managers manage the tension between an in-active and active attitude. These two types of tensions applied to two types of general strategies introduced earlier (passive/active) result in four specific CSR approaches with different procedural attributes in which the very CSR abbreviation also has four different meaning (Van Tulder et al, 2009). Table III summarizes key characteristics of the four CSR approaches together with an operationalization of indicators of inclusive business strategies, which links the macro economic modeling of firm strategies, to the strategic perspective and narratives of individual firms in this section.

Table 2 Four CSR Approaches towards inclusive growth

PASSIVE		ACTIVE	
In-active	←-----→ Active: go-it-alone		
	Re-active	←-----→ Pro-active:partnership	
Definition of CSR			
“Corporate <i>Self</i> Responsibility”	“Corporate Social <i>Responsiveness</i> ”	“Corporate Social <i>Responsibility</i> ”	“Corporate <i>Societal</i> Responsibility”
Main characteristics			
<ul style="list-style-type: none"> Legal compliance and utilitarian motives Efficiency Indifference Inside-in ‘doings things right’ ‘doing well’ 	<ul style="list-style-type: none"> Moral (negative) duty compliance Limit Inefficiency Compliance/reputation Outside-in ‘don’t do things wrong’ ‘doing well and doing good’ 	<ul style="list-style-type: none"> Choice for responsibility and virtue Equity/Ethics Integrity Inside-out ‘doing the right things’ ‘doing good’ 	<ul style="list-style-type: none"> Choice for inter-active responsibility Effectiveness Discourse ethics In-outside-in/out ‘doing the right things right’ ‘doing well by doing good’
<ul style="list-style-type: none"> Resource based view marketing/demand approach 	<ul style="list-style-type: none"> Shareholder view 	<ul style="list-style-type: none"> Capabilities view marketing and production: supply and demand 	<ul style="list-style-type: none"> stakeholder view
Approach to poverty alleviation			
<ul style="list-style-type: none"> No explicit statements on poverty We create jobs and employment (by-product of profits) Affordable products No code of conduct and low compliance likelihood No explicit support for labels No separate business model for poor 	<ul style="list-style-type: none"> Narrow BOP Creation of local employment used defensively Micro-credits as philanthropy Vague code and low specificity as regards poverty Support for Global Compact and modest support for GRI Dialogue vaguely mentioned 	<ul style="list-style-type: none"> Statement on moral unacceptability of poverty Definition of ‘decent wage’ Broad BOP Micro-credits as business strategy Technology and knowledge transfer Explicit support for MDG1 Support for GRI Specific codes on poverty and fair trade 	<ul style="list-style-type: none"> Separate (strategic) business model for the poor Explicit support for all MDGs Active partner-ships on poverty Explicit codes, strong support of GRI Technology and knowledge transfer specified for poverty high specificity and high compliance likelihood of codes Dialogues as an explicit tool
Link between inclusive business model and inclusive growth:			
<ul style="list-style-type: none"> No link 	<ul style="list-style-type: none"> Weak defensive link 	<ul style="list-style-type: none"> Weak positive link 	<ul style="list-style-type: none"> Strong positive link
Partnership approach:			
<ul style="list-style-type: none"> No partnership 	<ul style="list-style-type: none"> Disaster relief Sponsorship 	<ul style="list-style-type: none"> Micro-finance (narrow approach) Education/Literacy partnerships Health (HIV/Aids)/Water provision partnerships 	<ul style="list-style-type: none"> Community development Sustainable/fair trade/wages/taxes Financial sector development (broader than micro-finance)

An *inactive* approach reflects the classical notion of Milton Friedman that the only responsibility companies (can) have is to generate profits, which in turn generates jobs and societal wealth and can therefore be considered a form of CSR. This is a fundamentally inward-looking (inside-in) business perspective, aimed at efficiency in the immediate market environment. Entrepreneurs are particularly concerned with ‘doing things right’. Good business from this perspective equals operational

excellence. CSR thus amounts to 'Corporate *Self* Responsibility'. This narrow approach to CSR requires no explicit strategy towards poverty alleviation. It aims at the prime 'fiduciary duties' of managers vis-à-vis the owners of the corporation, which could imply affordable products, the growth of the corporation, paying taxes and job/employment creation, but only as indirect by-product of a strategy aimed at profit maximisation. When faced with the trade-off between job creation and efficiency enhancement (or share holder value maximisation) these firms will chose for the latter. The company is relatively indifferent towards the issue of poverty. The corporation stresses economic growth (general efficiency) and its general contribution to that as precondition for poverty alleviation, without further specification of its own contribution. The company is extremely passive towards including poverty related initiatives in its (core) business practices.

A *re-active* approach shares a focus on efficiency but with particular attention to not making any mistakes ('don't do anything wrong'). This requires an outside-in orientation. CSR translates into Corporate Social *Responsiveness*. Corporate philanthropy is the modern expression of the charity principle and a practical manifestation of social responsiveness. In this approach the motivation for CSR is primarily grounded in 'negative duties' where firms are compelled to conform to informal, stakeholder-defined norms of appropriate behaviour (Maignan, Ralston, 2002). The concept of 'conditional morality', in the sense that managers only 're-act' when competitors do the same, is also consistent with this approach. This type of firm deals with the issue of inclusive business primarily when confronted with actions of critical stakeholders, for instance in the area of 'working poor' (Wal-Mart) and in an effort to limit the negative influences of firm strategies on poverty or restore corporate legitimacy (Lodge, Wilson, 2006). Primarily in reaction to concrete triggering events – and often not spontaneously – these companies legitimise their presence in developing countries or in socially deprived regions by arguing that they potentially transfer technology, contribute to economic growth and create local job opportunities, but without specifying it in concrete terms or taking up direct responsibility. The company wants to reduce its vulnerability as regards the issue of poverty. Poverty becomes in particular an opportunity when the growth possibilities in the existing markets are declining. The bottom of the pyramid is narrowly addressed as a marketing opportunity. Support for guidelines like the UN's Global Compact – that was neither specific nor requires high compliance likelihood before the secretariat engaged in a major upgrade in 2008 – is the typical approach of a re-active CSR strategy (See Kolk and Van Tulder, 2005).

An *active go-it-alone* approach to CSR is explicitly inspired by ethical values and virtues (or 'positive duties') of the entrepreneur itself. Such entrepreneurs are strongly outward-oriented (inside-out) and they adopt a 'positive duty' approach. They are set on doing 'the right thing'. CSR in this approach gets its most well-known connotation – that of Corporate *Social* Responsibility. This type of firm has a moral judgement on the issue of poverty and tries to come up with a number of activities that are strategic (core activities) and/or complementary to its own corporate activities. Such firms for instance can define what 'decent wages' are and can come up with substantial philanthropy activities towards poverty alleviation in markets where it is not active. The re-active firm will primarily locate its philanthropy in the vicinity of its corporate activities (thus the growing attention for so-called 'strategic philanthropy'). The active company accepts (partially) responsibility for the issue of poverty in particular where it is directly related to its own activities and responsibilities. Poverty (the bottom of the pyramid) is explicitly addressed as a morally unacceptable issue for which perhaps entrepreneurial solutions exist. The (indirect) job creating effects of the company with its suppliers are also specified. In case this company embraces for instance micro-credits it is not only seen as a regular market opportunity or a PR instrument, but as a strategic means for reaching the real bottom of the pyramid for which concrete criteria should be developed to measure its effectiveness and create ethical legitimacy.

A *pro-active* CSR approach materializes when an entrepreneur involves external stakeholders right at the beginning of an issue's life cycle. This pro-active CSR approach is characterized by *interactive* business practices, where an 'inside-out' and an 'outside-in' orientation complement each other. In moral philosophy, this approach has also been referred to as 'discourse ethics', where actors

regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (cf Habermas 1990): ‘doing the right things right’ (or ‘doing well by doing good’). This form of Corporate *Societal* Responsibility (Andriof, McIntosh, 2001:15) shifts the issue of CSR from a largely instrumental and managerial approach to one aimed at managing strategic networks in which public and private parties have a role and firms actively strike partnerships with non-governmental organisations to come up with more structural solutions to poverty. The former CEO of Unilever, Anthony Burgmans, in this context equates ‘CSR’ with ‘Corporate *Sustainable* Responsibility’ – thus combining inclusive business and inclusive growth. Firms that aim at a pro-active poverty strategy are most open to the complex and interrelated causes on poverty and acknowledges that poverty can only be solved through partnerships and issue ownership of all societal stakeholders involved. This type of firms is also willing and able to see the problematic relationship between low wages and/or low prices with low economic growth which could hamper a more structural approach to poverty. A possible legal elaboration has been provided by Lodge and Wilson (2006) who introduced the construct of a “World Development Corporation” - a UN-sponsored entity owned and managed by a number of MNEs with NGO support.

As regards partnership, Table III also tries to classify the various types of partnerships that exist. The classification of the actual partnership approach strongly depends on the nature of the partnership, its relation to the core business of the corporation and the issue involved. In particular partnerships with NGOs for community development and those that change the institutional rules of the game in whole industries (aimed at fair trade, labor or fair taxation) are illustrative of the more active business models. Partnerships on education literacy, health issues are rarely part of the core business of a MNE, so represent at best active business models. In case of partnerships that were (temporarily) founded for disaster relief – in the case of ecological disasters like Tsunamis, earthquakes or hurricanes – the approach has to be qualified as ‘reactive’ at best. The same is true for sponsorship and even for most of the philanthropical partnerships in which the link with the core activities of a company are often non-existent.

The more firms consider inclusive business strategies as part of their core business/competencies, the more they also need to develop sustainable corporate stories. A sustainable story then become also part of a ‘sustainable competitive advantage’ and philanthropy becomes part of a strategic partnership with relevant stakeholders and not an isolated strategy. The latter is for instance the case when the inclusive business strategy is managed by a foundation that is relatively independent of the company, instead of part of the strategic planning of the whole company. In that case the poverty alleviation strategy becomes part of the search for a new business model that might contribute to a structural poverty alleviation approach.

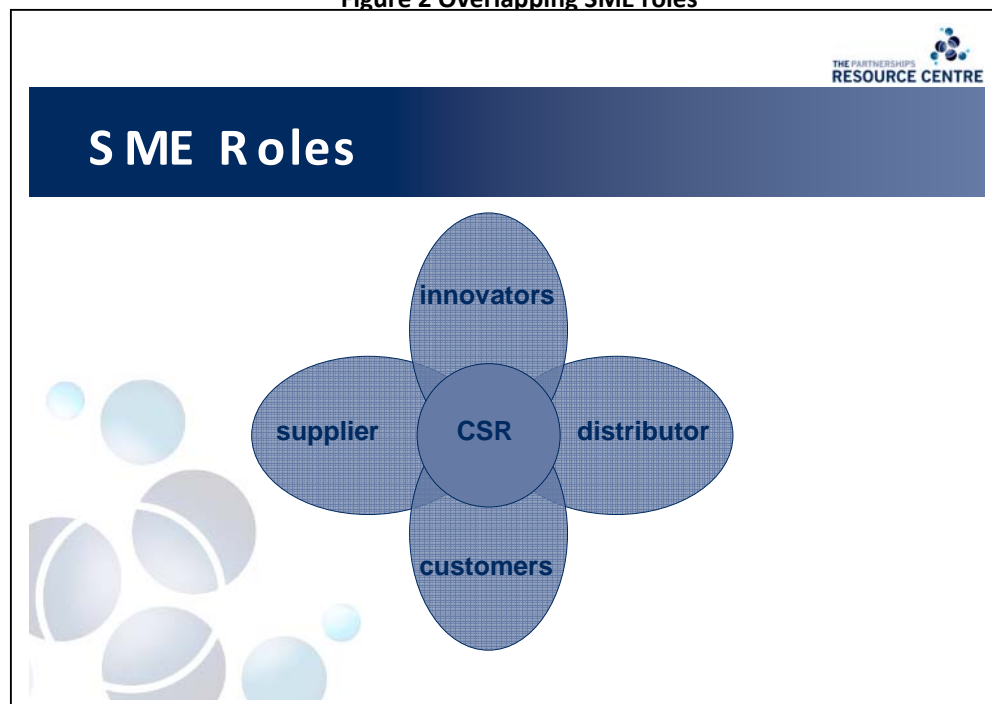
4. Possible SME roles in inclusive business models

As regards the position of smaller and medium sized enterprises in their inclusive business models, big (multinational) corporations generally take five roles into account. These roles guide the nature of the linkages with SMEs and can therefore be considered of vital influence on the resulting spin-off, spill-over or crowding out effects in regions and clusters. First and second, most SMEs function in vertical relationships with MNEs, in their (global) supply chains either as supplier or distributor – rarely as direct competitor. In general, these roles are strictly separated, because they develop up-stream and downstream under the influence of MNEs as the ‘core’ or ‘lead’ (director) company in global value chains (cf. Gereffi, 2005). Supply and distribution strategies represent the business-to-business (B2B) domain of MNE activity. In an open market these relationships are based on competitive pricing strategies, but value chains in most commodities are often governed through non-market principles for instance to guarantee reliable supply. MNEs actively shape the practices of SMEs through ‘global outsourcing’ and ‘offshoring’ strategies. Global sourcing is at the same time accompanied by local sourcing strategies (cf. Mol, 2009). In more inclusive business models, MNEs see these relationships

furthermore as co-production and co-consumption aimed not only at price, but also at quality and more sustainable product characteristics, which generally require a longer term relationship and a clear vision on 'localization' of supply chains (for instance as part of a greening strategy). By engaging suppliers and distributors into their investment strategy, MNEs can actively search to make the indirect effects of their investment socially responsible.

Third, SMEs function as customers in the Business-to-consumer (B2C) segment. By engaging customers of end-products into their inclusive business strategies, MNEs can help upgrading the end-consumption markets in developing countries. Both suppliers and distributing SMEs can at the same time serve as customers to the MNE. The fourth, and increasingly important strategy adopted by MNEs, is to see SMEs as innovators. Whereas in the past core firms mainly aimed at in-house innovation, the degree of outsourcing of innovation has increased as well. This is increasingly known as 'open innovation' which requires a particular type of relationship with SMEs for instance in the form of corporate ventures (Chesborough, 2002). In supply chains, innovative behavior of suppliers can lead to 'black box engineering' in which the supplier does the bulk of the innovation, which is supplied as 'tacit knowledge' in the final products. The more MNEs engage actively in innovative relationships with SMEs, the more this can be interpreted as a 'co-creation' relationship (cf. Prahalad and Krishan, 2008) which increases the relevance of the innovation for the people at the 'bottom of the pyramid' and thus makes the strategy more inclusive. Finally, MNEs can also directly target SMEs for CSR purposes. Different types of CSR strategies (see Table 1 and Figure 2) overlap with all the other SME roles. Engaging SMEs in the generic strategies of MNEs is arguably the most complex challenge.

Figure 2 Overlapping SME roles



Business models towards SMEs

With regard to the five roles identified, MNEs can also adopt an inactive, reactive, active and/or proactive attitude. Table 3 operationalizes relevant indicators to assess the business models adopted by MNEs along the general characteristics as discussed in the previous section. Every inactive strategy

either does not acknowledge the importance of SMEs as a separate category or adopts a market oriented approach towards SMEs. SMEs are seen as a cost-minimising factor and at most firms legitimise their existence by referring to number of jobs created amongst SMEs. An inactive or reactive approach to local job creation through SMEs, only looks at the positive direct effects, not at possible negative (crowding out) effects nor tries to assess the net (on-balance) effect. The latter arguably is a very difficult exercise in the first place. Reactive strategies acknowledge the importance of SMEs, but do this primarily for a variety of stakeholder related reasons: either because of government regulation, risk reduction, spread of liabilities or quality enhancement. For instance in the United States, government policy requires companies to engage ('actively') in supplier diversity programmes. Thus reference for instance to strategies that promote inclusion of small, local suppliers run by foreign minorities or women. Active strategies acknowledge the position of SMEs as supporter of the innovative strategies of the MNE and important partner in the direct business networks of a company. A more active form of inclusive business strategies in engaging SMEs in the distribution chain is for instance by using SMEs for the distribution of products/services in poor areas of limited access. Pro-active strategies look at SME as partners in indirect business networks as well which can contribute to solving societal problems and the future strategic position of the MNEs (for instance as regards the bottom of the pyramid). Local private sector development in an inactive or reactive approach is linked to the direct interests of the MNE – in particular in its supply and distribution chain – whereas in an active or pro-active approach the involvement of SMEs has wider and more independent aims and is related to wider societal or community development goals. Certification schemes and codes of conduct are other elements of inclusive business strategies that either do not or do take indirect and social effects into account. As regards SMEs as customers, an inactive approach merely considers them a separate segment of a marketing strategy. A more active approach tries to produce products and services that can solve specific needs of SMEs. A third way that Fortune 100 firms reported on SMEs as customers is specifically (but not uniquely) related to financial institutions, that refer to the provision of credit, (unsecured) loans, and microfinancing to help (micro) entrepreneurs set up their businesses.

Table 3 Inclusive business strategies and SME roles

MODE OF ENGAGEMENT OF SME IN THE VALUE CHAIN FOR SOCIAL DEVELOPMENT					
		INACTIVE ←-----→ ACTIVE			
			REACTIVE ←-----→ PROACTIVE		
POSITION OF THE SME IN THE VALUE CHAIN	SME as Supplier	<ul style="list-style-type: none"> * no statement on SMEs as suppliers * general statements on the use of SMEs as suppliers (business as usual) 	<ul style="list-style-type: none"> * local sourcing aimed at reducing costs + competitiveness * supplier diversity programmes (government requirement) * supplier development schemes aimed at quality and process optimization * provision of financing for local supplier development * assistance for suppliers to improve environmental, safety, and health policies from a risk aversion perspective * adoption of environmental and quality standards * assistance for supplier insertion in global value chains * SME supplier certification * search for Fairtrade suppliers only 'if customers' have interest * cross-sector partnerships used defensively 	<ul style="list-style-type: none"> * statements on buying from local suppliers as means to encourage local development - and as part of being a responsible company * focus of supplier and community development at the same time * SME supplier certification schemes specific to poverty - as part of core business -(e.g. strong support for Fairtrade and Rain Forest Alliance) * aim at fair and long term relationships with suppliers * assistance for suppliers to improve environmental, safety, and health policies from a local development perspective (e.g. HIV/AIDS programs) 	<ul style="list-style-type: none"> * cross-sector partnerships aimed at economic and social development * long-term partnerships with SMEs to contribute to economic and social development
	SME as distributor	<ul style="list-style-type: none"> * no statement on SMEs as distributors * general statement on creation of SMEs through franchising opportunities 	<ul style="list-style-type: none"> * development of reseller diversity programmes (to meet government requirements) * spin-offs SME stimulated through employees * narrow BOP approach 	<ul style="list-style-type: none"> * use of SMEs for the distribution of products/services in poor areas of limited access * setting up SMEs with vision of regional development * broad BOP approach – market creation through the involvement of SMEs 	<ul style="list-style-type: none"> * cross-sector partnerships aimed at economic and social development
	SME as customer	<ul style="list-style-type: none"> * no statement on SMEs as customers * business as usual with SMEs seen as separate customer / market segment 	<ul style="list-style-type: none"> * products and services developed to solve the specific needs of SMEs * emphasis on sustainability aspects such as eco-friendly packaging * narrow BOP 	<ul style="list-style-type: none"> * provision of credit, loans, and micro-financing for creation and development of micro, small and medium enterprises (financial institutions – core business) * broad BOP – market creation through the involvement of SMEs 	<ul style="list-style-type: none"> * involving SME customers in co-development
	SME as innovator	<ul style="list-style-type: none"> * no statement on SMEs as innovators 	<ul style="list-style-type: none"> * prospects of supplier involvement in product development (no social factor) 	<ul style="list-style-type: none"> * innovation in value chain through supplier programmes to involve small farmers (aimed explicitly at poverty alleviation) * promotion of local development by helping SMEs 'make the most of their skills' 	<ul style="list-style-type: none"> * co-creation / co-development with SMEs * SMEs as part of open/interactive innovation networks
	SME as CSR target	<ul style="list-style-type: none"> * no statement on SMEs as CSR target 	<ul style="list-style-type: none"> * general statements on firm's contribution to SME sector development * sponsorship of (or investment in) projects aimed at development of small scale farmers and SMEs (not related to firm's core business) * micro-financing as philanthropy * disaster relieve assistance to micro, small, and medium sized enterprises * support for microentrepreneurs (niche strategy) 	<ul style="list-style-type: none"> * assistance / support to micro and SME sector development in combination to local development in areas that are related to the firm's core expertise (e.g. training, sharing of knowledge and experience) * strong commitment to contribute to social and economic development of local communities through SME business development * support for microentrepreneurs (core strategy) * explicit reference to job creation at SME 	<ul style="list-style-type: none"> * cross-sector collaboration and partnerships aimed at local development * support for microentrepreneurs (in collaboration with NGOs and other stakeholders) * set up SMEs as part of social partnerships

5. Sample and general patterns

The set of firms targeted for this exploratory study has been the world's largest firms as represented by the top 100 firms of the Fortune Global list for 2006. We analyzed the content of these firms' CSR reports for the year 2005 or 2006, depending on availability, for their treatment of SMEs in general and for inclusive business strategies in specific. In case of lacking CSR reports, Annual Reports or websites were consulted. The concept of "SME" was taken broadly in this paper to include also micro enterprises. The reports were analysed on the basis keywords search, for the words 'micro', 'small', 'medium', 'local', 'SME', and 'SMB' (the latter did not reveal any hits). Firms were scored in three manners: first, by indicating the absence or presence of statements in the report referring micro, small, and medium enterprises, second, based on these statement how they position these enterprises in their value chain, and third, the level of engagement of micro, small, and medium enterprises within the value chain of these MNEs (based on the categorization in Table 4). The sample consists of firms that all have activities in developing countries and can therefore be considered interested in inclusive business strategies. In a previous empirical study (Van Tulder, 2009) it was found that at least 58% of this sample had developed some initiatives in terms of an inclusive business strategy. The question for this paper is to find out whether this has been accompanied by explicit statements on the importance of SMEs.

Witnessing the growing attention in the popular media and the business journals for the role of SMEs in sustainable development and as increasingly important part of the innovation networks of core companies (See Chesbrough, 2002; Prahalad, 2008) it comes as a surprise that only a minority (42%) of the 100 largest firms in the world explicitly acknowledges SMEs. This implies that the idea of SMEs as part of an inclusive business strategy has still to be operationalized. SME are primarily mentioned as suppliers or as target for CSR activities (Table 4). SME as distributors or innovators are marginally mentioned. Country of origin effects are present, which imply that Asian country companies consider SMEs only as suppliers, whereas European have the most diversified vision of SMEs (including the largest number both in absolute and relative share of firms that explicitly acknowledge SMEs as target for CSR strategies). There exist relatively clear sector effects as well. Only banking, petroleum and retail MNEs acknowledge SMEs in any meaningful manner. Banks have been the most explicit in targeting SMEs equally as customer and as CSR target - which in the case of microcredits for instance can be easily combined as part of a marketing strategy. Petroleum companies see SMEs equally as CSR target and as suppliers - which is an indication of their risk management strategies since suppliers are often located in politically fragile states. For motor vehicles, suppliers are also considered innovators, which builds on a long tradition in the car industry of 'black box engineering' and Toyotism (cf. Carrillo et al, 2004) in which networks of suppliers are considered an important part of the lean manufacturing business model of Original Equipment Manufacturers. It seems logical that car manufacturers built on this tradition to develop inclusive business strategies together with their most innovative – probably first tier – suppliers. Contrary to the car industry, the electronics industry considers SMEs in their business in a rather scant but diverse set of roles, with one major exception: innovation.

Table 4 Position of SMEs in the value chain of Fortune 100 Global firms, by region and industry

	SMEs as suppliers	SMEs as distributors	SMEs as customers	SMEs as innovators	SMEs as CSR target	no statements on SMEs
TOTAL (N=100)	21	4	8	3	22	58
Europe (N=52)	9	2	6	3	16	25
USA (N=30)	8	2	2	0	6	19
Asia (N=15)	3	0	0	0	0	12
Developing (N=3)	1	0	0	0	0	2
Banks (N=17)	1	0	5	0	9	5
Insurance and Securities (N=14)	0	0	1	0	0	13
Electronics, computers, telecom (N=15)	3	1	1	0	1	12
Petroleum refining (N=14)	7	0	0	0	7	5
Wholesalers, retailers, general merchandise, food, soaps (N=15)	7	2	1	1	2	5
Motor vehicles and parts (N=13)	3	0	0	2	0	9
Other (N=12)	0	1	0	0	3	9

The numbers under the columns 'SMEs as suppliers', 'SMEs as distributors', 'SMEs as customers', and 'SMEs as CSR target' refer to the number of firms that include a reference to one of these categories in their CSR or Annual reports.

The general pattern in terms of business models (Table 5) reveals that the most proactive inclusive strategies are built on the roles of SMEs as suppliers and as CSRs targets, whereas the least developed aspects of SMEs in inclusive business strategies relates to innovation and distribution. There exists a direct correlation between the level of attention for a specific SME role and a more active approach. This reveals a bias in reporting initiatives for activities that might contribute to a more positive image of the company in the media. Nevertheless, the choice of 'framing' and the 'narrative' related to the specific role attributed to SMEs in this exercise remains relevant and enables us to look for drivers of SMEs attention in the business models of MNEs.

Table 5 Mode of engagement of SMEs in the value chain of top 100 Fortune Global firms, for inclusive business

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS SUPPLIERS	80	16	7	3
SMEs AS DISTRIBUTORS	97	3	1	0
SMEs AS CUSTOMERS	95	2	4	2
SMEs AS INNOVATORS	98	2	2	1
SMEs AS CSR TARGETS	78	13	13	7

N=100; overlap in strategies possible

6. Drivers of SME business models

The classification of particular strategies as either passive or active, makes it possible to search whether the general patterns (Table 5) can be explained by specific factors, in particular country-of-origin or sector. This section first reveals a number of statements of MNEs that can be considered typical for an inactive, reactive, active or pro-active strategy on one of the five specific SME roles. This classification enabled a first count of prevailing business models for the whole sample and consequently a first explanation of possible patterns.

6.1 Suppliers

Typical statements for the approach of MNEs towards SMEs as part of their upstream inclusive business strategy are:

INACTIVE	<i>"Total provides work for a large number of suppliers, including both major oil service industry companies and small and medium-sized businesses located near our facilities. In 2005, we worked with nearly 100,000 suppliers" (Total CSR Report 2005: 18)</i>
REACTIVE	<i>"[...] Petrobras will be investing approximately R\$ 60 million by the end of 2007 in 35 projects for the development of new products and service suppliers, to enable imports to be substituted competitively. Through an agreement signed in 2004 with Sebrae (Brazilian Service for the Support of Micro and Small Enterprises) the Company is helping small and medium enterprises to insert themselves into the productive chain of the oil and gas sector, in 12 states. By the end of 2007, R\$ 6 million will be invested" (Petrobras Social and Environmental Report 2005: 67).</i>
ACTIVE	<i>"Buying from local suppliers is a particularly effective way for us to encourage development in the places where we operate. It directly contributes to the local economy, creates jobs and builds skills. We actively promote the use of local suppliers and contractors and train local companies to help them meet our standards, so they can compete for contracts"(Shell CSR Report 2006: 28)</i>
ACTIVE/ PROACTIVE	<i>"Nestlé has been working with the communities and dairy farmers with the aim of transferring technology. It is providing technical assistance to improve animal productivity, herd management and farm economics. With rural support programmes Nestlé has educated over 10 000 village women in dairy farming practices. Nestlé is developing software in collaboration with local organisations and the Swiss agricultural universities of Zollikofen to optimize the quality of milk and help reduce cost of production to encourage dairy farming as a sustainable cash crop" (Nestlé Community Report 2006: 8-9).</i>

The following pattern emerges (Table 6). Most firms have an inactive approach towards SMEs as distributors. European firms prevail in the subsample of (pro) approaches, whereas Asian and developing country firms relatively prevail in the subsample of passive approaches. Neither patterns, however, is dominant. The regulatory framework in Europe clearly impacts on these strategies as has been revealed in more general terms elsewhere (cf. Van Tulder with Van der Zwart, 2006 for a literature overview). Best practice examples of more active approaches can primarily be found in the retail sector (in Europe).

Table 6 SMEs as suppliers – strategies, by region and industry

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS SUPPLIERS	80	16	7	3
Europe (N=52)	44	4	6	3
USA (N=30)	22	8	1	0
Asia (N=15)	12	3	0	0
Developing (N=3)	2	1	0	0
Banks (N=17)	16	1	0	0
Insurance and Securities (N=14)	14	0	0	0
Electronics, computers, telecom (N=15)	12	3	0	0
Petroleum refining (N=14)	8	5	2	0
Wholesalers, retailers, general merchandise, food, soaps (N=15)	8	4	4	3
Motor vehicles and parts (N=13)	10	3	1	0
Other (N=12)	12	0	0	0

N=100; overlap in strategies possible

6.2 Distributors

Typical statements for the approach of MNEs towards SMEs as part of their downstream inclusive business strategy are:

INACTIVE/ REACTIVE	<i>"The leading franchiser in France and Europe, Carrefour is developing franchises and partnerships abroad with a network of 12 partner companies in 16 countries and territories. All formats, from the hypermarket to the convenience store, are open to franchising and partnerships, enabling individual investors and companies to belong to a retail banner. Access to franchising is facilitated for employees through a system of gateways. Carrefour is thus continuing to develop an entrepreneurial spirit, to support the creation of SMEs, and to foster the rise of a new class of company heads in many countries [...] Partnership SME is a specialized structure responsible for developing relations with SMEs in France. Its policy involves promoting the regional development of such companies, assisting them with contacts within the Group" (Carrefour Sustainability Report: 31, 34-35).</i>
REACTIVE	<i>"HP has a global policy and program to ensure that we offer under-represented businesses equal opportunities to become HP suppliers and resellers. This policy ensures that HP meets the diversity requirements of the U.S. Federal Government and the expectations of the public sector, corporate customers and consumers. In the United States, the main categories of businesses supported by our supplier diversity program are minority owned, women-owned and veteran-owned businesses" (Hewlett-Packard Global Citizen Report 2006: 59).</i>
ACTIVE	<i>"In rural areas far from the grid, the Access program fosters the creation of small energy service companies to supply electricity to families and small economic activities (Morocco, Mali, South Africa). In periurban areas (Capetown, Buenos Aires), Access uses low consumption technologies and equipment. In 2005, the number of customers connected to electricity through the Access program reached 29,500 (223,000 people), up from 16,138 (133,000 people) in 2004" (Électricité De France Sustainable Development Report 2005: 52).</i>

Examples of pro-active strategies in which MNEs explicitly approached SMEs as part of a co-creation strategy for inclusive business, could not be found. This is an indication first of the much lower importance of SMEs in the distribution strategies of MNEs. Large MNEs – with a quotation on the stock market – have received their power primarily due to their control over distribution chains, which are often wholly owned, which has clearly had a negative impact on the way they include SMEs as a potential partner in their distribution strategy (Table 7). The only exception comes from Europe in public utilities (electricity), which can be interpreted as a first indication of the growing need for partnerships with SMEs as well as with NGOs and governments in creating sufficiently expanded infrastructure in developing countries – in particular in fragile or failed states.

Table 7 SMEs as distributors – strategies, by region and industry

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS DISTRIBUTORS	97	3	1	0
Europe (N=52)	51	1	1	0
USA (N=30)	28	2	0	0
Asia (N=15)	15	0	0	0
Developing (N=3)	3	0	0	0
Banks (N=17)	17	0	0	0
Insurance and Securities (N=14)	14	0	0	0
Electronics, computers, telecom (N=15)	14	1	0	0
Petroleum refining (N=14)	14	0	0	0
Wholesalers, retailers, general merchandise, food, soaps (N=15)	14	2	0	0
Motor vehicles and parts (N=13)	13	0	0	0
Other (N=12)	11	0	1	0

N=100; overlap in strategies possible

6.3 Customers

Typical statements for the approach of MNEs towards SMEs as customers in an inclusive business strategy are:

INACTIVE	<i>"We serve small and mid-sized business customers worldwide by providing specialized advice, technology and services through our Smart Office Portfolio" (Hewlett-Packard Corporate Citizen Report 2006: 75).</i>
REACTIVE	<i>"SAM'S CLUB [business unit of Wal-Mart] plans to open over 30 new, relocated or expanded clubs in the fiscal year ending January 31, 2007. Our ongoing commitment to small business owners and increased attention to the personal needs of our Advantage Members will help us accelerate sales growth. We continue to build quality into our affordable luxury offerings. A new emphasis on sustainability, including eco-friendly packaging and organic products, is fast becoming part of our culture" (Wal-Mart Annual Report, 2006: 15).</i>
ACTIVE	<i>"Our consumer clients range from microfinance and mass retail consumers to high net-worth private clients, while our corporate clients range from small businesses to the world's largest multinationals. All these client groups are core to our strategy. [...] We provide microfinance loans at fair market prices. Microfinance goes beyond just business loans, as it aims to alleviate poverty and create positive social impacts in health, education and empowerment of women and communities" (ABN AMRO Sustainability Report 2005: 21; 47).</i>
ACTIVE/ PROACTIVE	<i>"In 2005, the Regional Banks invested more than e18 million in nearly 6,000 projects, mainly focused on enhancing the quality of life in the countryside. By encouraging company creation, they also take part in the economic development of such zones. Some noteworthy initiatives in the field of helping entrepreneurs take over or set up micro-businesses include unsecured loans, such as Crédit Agricole de Savoie's Prêts Tremplin or Crédit Agricole Centre Est's Crédit Agricole Création. Regional Banks also cooperate with the two networks that provide aid for company creation and economic insertion, the Association pour le Droit à l'Initiative Économique (ADIE) and France Active" (Crédit Agricole Sustainability Report 2005: 39).</i>

Only six european banks (some of them cooperatives or semi-state) are developing a more or less active strategy towards SMEs as customers, thereby adopting some of the BOP approaches as pioneered by Prahalad (2004ff).

Table 8 SMEs as customers – strategies, by region and industry

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS CUSTOMERS	95	2	4	2
Europe (N=52)	48	1	4	2
USA (N=30)	29	1	0	0
Asia (N=15)	15	0	0	0
Developing (N=3)	3	0	0	0
Banks (N=17)	13	1	4	2
Insurance and Securities (N=14)	14	0	0	0
Electronics, computers, telecom (N=15)	15	0	0	0
Petroleum refining (N=14)	14	0	0	0
Wholesalers, retailers, general merchandise, food, soaps (N=15)	14	1	0	0
Motor vehicles and parts (N=13)	13	0	0	0
Other (N=12)	12	0	0	0

N=100; overlap in strategies possible

6.4 Innovators

Typical statements for the approach of MNEs towards SMEs as part of an innovative and inclusive business strategy are:

INACTIVE/ REACTIVE	<i>"Suppliers, too, know how important proximity to a productive global company can be. Their collaboration with DaimlerChrysler goes beyond simply filling orders. For example, the company's Minority Supplier Program insures that a minimum percentage of the company's purchasing is fulfilled by minority-owned businesses. Top performing suppliers are integrated into the supply chain at an early stage and thus receive even deeper insights into the market and customer needs[...] Experts predict that the proportion of value-added attributable to suppliers will rise in the next few years, and that they will become even more closely involved in product development"</i> (DaimlerChrysler Sustainability Report 2006 part 1: 28).
REACTIVE/ ACTIVE	<i>"In 2005, Elasis- Fiat's research centre- continued to pursue its strategic goal of forging new links in the research/innovation system's value chain and of promoting local development. Within the framework of this activity, it participated with universities, private institutions and consortia in basic research and training, by continuing to work on the issues related to mobility and its environmental impact, and by cooperating with employers' associations and chambers of commerce in Southern Italy to help the area's SMEs make the most of their skills"</i> (Fiat Sustainability Report 2005: 79).
ACTIVE/ PROACTIVE	<i>"The 2005 'Make Poverty History' campaign identified increased trade as one of three key means of eliminating poverty – an aim we support. We source products from farms in 15 African countries. Sales of African products have increased consistently, helping our suppliers to invest in their businesses and add value to the local economy. For example, one of our Kenyan suppliers, Homegrown, has an innovative smallholder programme which enables over 1,000 small-scale farmers to reach our customers"</i> (Tesco CSR Report 2006: 27).

European retailers take the lead in this area with the most active approach, but over the whole in a very modest setting (Table 8). Too many companies have an inactive approach (either because they don't even mention SMEs as innovators or because they explicitly see only a marginal or relatively weak role for SMEs as part of their innovation network. The claim of open innovation (which would necessitate an active attitude of MNEs towards a large number of much smaller firms) has clearly not reached the ranks of MNEs for their inclusive growth/innovation strategies, which is remarkable since a prerequisite of Prahalad's BOP strategy has been the involvement of SMEs in innovation.

Table 8 SMEs as innovators – strategies, by region and industry

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS INNOVATORS	98	2	2	1
Europe (N=52)	50	2	2	1
USA (N=30)	30	0	0	0
Asia (N=15)	15	0	0	0
Developing (N=3)	3	0	0	0
Banks (N=17)	17	0	0	0
Insurance and Securities (N=14)	14	0	0	0
Electronics, computers, telecom (N=15)	15	0	0	0
Petroleum refining (N=14)	14	0	0	0
Wholesalers, retailers, general merchandise, food, soaps (N=15)	14	0	1	1
Motor vehicles and parts (N=13)	12	2	1	0
Other (N=12)	12	0	0	0

N=100; overlap in strategies possible

6.5 CSR target

Typical statements of MNEs towards SMEs in which they consider them as CSR target are:

REACTIVE	<i>"The actions undertaken by the Group to help rebuild and develop areas that were devastated by the tsunami that swept through Southeast Asia in early 2005 are a striking example of steadfast solidarity. Of the e2 million earmarked for this aid, more than e750,000 has already been distributed. The projects financed cover a wide range of fields, from rebuilding fishing fleets to setting up micro-loans to finance the revival of traditional industries" (Crédit Agricole Sustainability Report 2005: 39).</i>
ACTIVE	<i>"We are also working directly in Côte d'Ivoire to help small farms produce sustainably grown cocoa. Following a fact-finding mission in May 2005, we launched our first project at year-end and are anticipating the region's first sustainably produced cocoa in 2007 [...] In 2000, Kraft joined with other coffee buyers, multi-government funding agencies, and a local producer, the Tan Lam Company (TALACO), to support sustainable production in the Khe Sanh region. Our goals were to help the 2,000 farmers there who grow arabica coffee to improve quality, introduce sustainable agriculture practices, and improve living standards of farm workers through infrastructure developments and programs to support children's needs" (Altria Group CSR Report 2005: 12-13).</i>
PROACTIVE	<i>"In late 2003, we launched our first GSB [Growing Sustainable Business or Poverty Reduction] project in Madagascar, in cooperation with the government, for whom improving road safety is a priority. Funded at \$1 million, the three-year Program to Improve Petroleum Product Transportation in Madagascar (PATH) is designed to enhance the skills, safety, productivity and revenue of small and medium-sized carriers" (CSR Report 2005: 66).</i>

This reveals the strongest – not significant – relationships, in which American and in particular European firms established inclusive business strategies particularly aimed at SMEs (Table 9). This reinforces the World Bank's 'private sector development' schemes, which has been considered one of the most effective means of contributing to economic sustainability. The complete absence of SMEs as target of CSR policies in Asian and developing country firms is remarkable. Sector patterns – again – reveal the particular importance of banks and petroleum, but do not reiterate the active role of retailers that was part of the general pattern. The latter implies that the largest retailers might have a more active approach towards SMEs, but not in the area of CSR. This reinforces the claim of many NGOs around the world, which accuse big retailers of stalling progress in the value chain that is 'governed' by the retailers/wholesalers.

Table 9 SMEs as CSR targets – strategies, by region and industry

	INACTIVE	REACTIVE	ACTIVE	PROACTIVE
SMEs AS CSR TARGETS	78	13	13	7
Europe (N=52)	36	11	9	4
USA (N=30)	24	2	4	3
Asia (N=15)	15	0	0	0
Developing (N=3)	3	0	0	0
Banks (N=17)	8	7	4	2
Insurance and Securities (N=14)	14	0	0	0
Electronics, computers, telecom (N=15)	14	0	1	1
Petroleum refining (N=14)	7	4	3	3
Wholesalers, retailers, general merchandise, food, soaps (N=15)	13	1	2	0
Motor vehicles and parts (N=13)	13	0	0	0
Other (N=12)	9	1	3	1

N=100; overlap in strategies possible

7. First conclusions

This paper reported the first results of an exploratory study on the inclusive business models of MNEs. The literature is still in need of concepts and taxonomies, so the paper concentrated on developing a first taxonomy of different types of approaches. In order to operationalize these generic business models, the strategy towards smaller and medium sized enterprises (SMEs) was considered in detail. Five roles were identified for SMEs that either related to their position in the supply chain, or to their (potential) function towards the issue of development (i.e. what could make the strategy of an MNE qualify as 'inclusive'). The taxonomy has largely been validated, but the results are not yet very radical. There is a country of origin effect in that European firms are clearly amongst the leaders in experimenting with inclusive business strategies that include SMEs, but their number still remains limited. Sectors like banking and retail have developed the most interesting examples that are also spread over a large number of functions. This study can provide material for further studying leading (better-practice) cases in order to help policy makers and business strategists to develop better business models for inclusive growth. This is not a luxury. The area is still poorly conceptualised and empirically tested. The exploratory approach in this study – which comes with a large number of limitations – should help to bring this particular area of research further.

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