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Inclusive Growth Beyond COVID-19

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A Wakeup Call and a Silver Lining

As countries around the world close non-essential businesses to reduce virus transmission and save lives, companies are reminded of how much a thriving society impacts business, how unsustainable corporate philanthropy can be, and the need for innovative new strategies.

In the face of these difficult truths, inspiration can be found as educators devise new ways to teach their students, businesses use video conferencing to connect their teams, and air quality continues to improve in large cities.

These reminders can serve as both a wakeup call and a silver lining.

> "We know that companies do not need to choose between social impact and their bottom line."

Strong Societies are Good for Business

Businesses of various types and sizes are suffering as authorities order citizens to stay home. While these measures are necessary to save lives in the short-term, they also avoid the long-term economic catastrophe we would endure if the entire population became infected. This situation amplifies the basic fact that economies are more productive when consumers have income, physical and emotional safety, knowledge, accessibility, and choice. Many of these factors are currently constrained; a simple trip to the market for food is unsafe at present (a reality that conflict-affected countries know deeply).

This pandemic and its economic consequences have also thrown into sharp focus the social inequalities that plague communities across the globe, from the disproportionate infection rates amongst African Americans, to food insecurity for informal laborers in India, and a dearth of ventilators in South Sudan.

Given these facts, it's practical to consider how much economic opportunity is lost due to fragile social systems and systemic inequality. These challenges are larger than any single company, but is the lost opportunity significant enough to prompt corporate investment?

Corporate Philanthropy vs. Business Continuity

A crisis can bring out the best in people and corporations. There are feel-good business stories of coffee chains providing free coffee to front-line workers, organisations donating personal protective equipment (PPE) to healthcare systems, and community funds being set-up or expanded. Realistically, each of these philanthropic efforts have limits. The free coffee is set to stop in May, PPE donations cease when existing inventory runs out, and community fund grants are often gifts-in-kind or drawn from the corporate foundation and not the company itself. There is still a place for corporate philanthropy, but it must necessarily fall second to business continuity.

The mining industry serves as a clear example of this limitation. Commodity prices have been falling since before the COVID-19 outbreak, but the decline is now more pronounced, making the business case for continued operation challenging for some mines. With less cash available and more acute local community needs spurred by the pandemic, mining operations are being forced to reconsider how they support their host communities and maintain the health and livelihoods of their workforce.

> "There is no better time to create stronger, more equitable societies."

Inclusive Growth is Scalable Impact

We know that companies do not need to choose between social impact and their bottom line. Inclusive Growth strategies are those that capitalise on opportunities to implement enduring, profitable, and scalable solutions that address business, social, and environmental challenges while benefitting vulnerable or underserved populations. Examples are plentiful. Some multinational chocolate companies are reimagining the cocoa supply chain to boost farmer income while reducing supply risk. U.S. healthcare giant Kaiser Permanente is investing millions of dollars in building housing for the homeless, addressing a key social determinant of health in the community and reducing burden on its hospitals. A global mining company is exploring opportunities to use the process of decommissioning a former mining site to restore the land, create profitable and sustainable agroforestry businesses, and reduce decommissioning costs.

No Better Time

In a recent publication in the Harvard Business Review, Palladium partnered with George Serafeim and Robert Kaplan to identify four principles for Inclusive Growth and supplemented that article by reflecting on the critical role of a "catalyst" in applying those principles within a business ecosystem.

With the building economic consequences of COVID-19, it seems there is no better time to apply Inclusive Growth strategies to help global economies recover, while creating stronger, more equitable societies in the process.

Inclusive Growth Principles in the Current Crisis

1. Be Bold | Ambitious goals need ambitious projects

"Necessity is the mother of invention," as the saying goes. There is no end to the needs this pandemic has spurred, from unemployment to treating the sick, and from food security to mental health. Research has shown that only 2% of corporate sustainability programs achieve their goals, and while the reasons cited for underperformance are wide-ranging, our analysis points to one main culprit: a lack of ambition. Companies simply tend not to think big enough.

As organisations emerge from the necessarily short-term focus on business continuity, how they reshape their strategies will matter. Will they retrench or will they see the market disruption as an opportunity? Will organisations think narrowly about adapting existing products or meeting adjacent needs of existing customers, or will they boldly take systems-level perspectives and consider the Inclusive Growth opportunities within their business ecosystems?

2. Collaborate | Partnership drives transformation

Communication is occurring as governments enforce emergency declarations, businesses lobby governments, supply chains modify their needs, and politicians pass legislation. Collaboration is also occurring as organisations come together to increase production of necessities, stand-up temporary hospitals, and find shelter for the homeless that allows for physical distancing.

Because Inclusive Growth strategies typically require system-level changes, a wide range of stakeholders need to be aligned and invested. The collaborative sentiment borne of this crisis has created an opportunity to build and sustain not just momentum, but purposeful relationships.

Car companies have welcomed partners into their new ventilator supply chains. Governments have forged new ties with the private sector through their shared social goals. Rather than returning to business-as-usual, each of these has established a foundation of mutual purpose on which to build post-crisis.

3. Unlock Capital | Sustainable growth requires investment

As corporations focus on continuity, many are working to become more risk adverse, constrain strategic investment, and retain cash if they can. Unfortunately, bold Inclusive Growth strategies require capital.

Governments, development banks, and foundations see how challenging the current situation is and are willing to spend money to help vulnerable people and businesses. Policy makers should encourage more Inclusive Growth-oriented strategies by making sustainability a requirement for grant money and subsidised loans to businesses. Businesses could well attract impact capital or grant funding with a compelling Inclusive Growth strategy that truly solves for a social issue highlighted by COVID-19.

4. Govern & Scale | Adaptive management is key to success

Effective governance may feel more acutely needed in crisis, but the reality is that no strategy ever progresses completely according to plan. Shared governance throughout the life of an Inclusive Growth strategy is key given the reliance on multiple stakeholders. The pandemic has brought about further innovation and acceptance of the tools and practices that allow for effective remote work and management.

When it comes to scaling what works, COVID-19 is also serving as a reminder of lessons that we already knew. Success requires that we listen carefully, understand cultural contexts, partner with local communities, be creative in the absence of typical infrastructure, and demonstrate a willingness to adjust the model.

Getting Started

From Palladium's client and observed experiences, Inclusive Growth begins with a catalyst. Just as the pandemic response requires a leader to convene the resources within each country, an Inclusive Growth strategy needs a trusted organisation that is willing to provide unbiased leadership, envision and champion change in traditional behaviour and relationships, engage and integrate system actors, raise the necessary funding, and hold all participants accountable for measurable shared outcomes.

This role can take several forms. For example, Kennemer Foods engaged the cocoa and banana ecosystems as a supply chain intermediary, and found an expanded catalytic role linking farmers with financing, service providers, and end-purchasers. The catalyst does not take on all the risk of an Inclusive Growth strategy, but does need to show a willingness to share in it.

In our present crisis, the catalyst for collaborative action against the virus tends to be clear in each country, spelled out by law or appointed by political leaders. For social issues material to a business ecosystem, that clarity does not often exist, and given the range of tasks required, a good catalyst can be difficult to find. We see this in our current food system, where over-supply in some places is mismatched with demand in others, resulting in both waste and shortages. A catalyst with the right relationships, governance, and access to finance could help remedy the situation.

Different types of catalysts can be effective in practice, providing they have the ambition, trust, fortitude, and foresight to do so. Whether you're an internal catalyst (such as Syngenta's sustainability team), an intermediary like Kennemer Foods (described above), or a third-party like Palladium, here are a few steps that can get you started:

1. Map your ecosystem – After clarifying what ecosystem(s) your organisation is part of, list out the various other actors, their roles, and their motivations. Arrange this information in a map that illustrates a broadly defined value chain.

2. Identify inefficiencies – Within the ecosystem map, highlight those transactions or actors that are inefficient and identify why this is (e.g., lack of access to capital, misaligned incentives, insufficient motivation, etc.). Articulate how the system could be changed to benefit all actors.

3. Start conversations – Engage other actors in the ecosystem to see how well the ideas you've identified resonate.

These initial steps are the first toward harnessing the promise of Inclusive Growth strategies for your ecosystem. We need Inclusive Growth solutions now more than ever as our world seeks to restore economies and societies to a stronger place than before the COVID-19 pandemic started.

Palladium is a global impact firm, working at the intersection of social impact and commercial growth. For over 50 years, we've been helping our clients to see the world as interconnected – by formulating strategies, building partnerships, and implementing programs that have a lasting social and financial impact. We simply call this "positive impact".

We work with corporations, governments, investors, communities, and civil society. With a global network operating in over 90 countries, Palladium is in the business of making the world a better place.

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