Academic paper

A new era of development: the changing role and responsibility of business in developing countries

Joris-Johann Lenssen and Luk N. Van Wassenhove

Joris-Johann Lenssen is a Research Manager at EABIS – The Academy of Business and Society, Brussels, Belgium.
Luk N. Van Wassenhove is Professor of Technology and Operations Management, the Henry Ford Chaired Professor of Manufacturing and Academic Director of the INSEAD Humanitarian Research Group, INSEAD, Fontainebleu, France.

Abstract

Purpose – *A new era for development is needed and business needs to play a significant role in this era. This paper aims to provide insights into the necessary conditions for such a new era of development and specifically the potential contribution of business and academia.*

Design/methodology/approach – *This explorative study is based on expert interviews and the summary of the discussion of the EABIS Colloquium 2011 (''Corporate Responsibility and Developing Countries'').*

Findings – *Innovative companies are moving from building ''shareholder value'' to ''shared value'' for all stakeholders; from ''quarterly capitalism'' to ''long-term capitalism''. They are also providing resources, open access systems and capital to entrepreneurs and communities to support technology and knowledge transfers. Companies that integrate future development concerns into their business model will be ideally placed to secure long-term licences to operate, develop loyal new consumer bases, and innovate in new market segments.*

Research limitations/implications – *The methodology only allows preliminary findings for now. More research (also on the ground) will be needed to identify the necessary strategies business has to adopt to play a potent role in a new era for development.*

Originality/value – *The paper is based on a rich set of data and combines these findings with the thinking of the EABIS Colloquium 2011. It can be the basis for future research.*

Keywords *Sustainable development, Governance, Corporate responsibility, Developing countries, Corporate governance, Social responsibility, Asia, Africa*

Paper type *Research paper*

Introduction

Profound shifts in geopolitics and economic power have taken place around the world during the last few decades. The rise in ''South-South'' trade has challenged the hegemony of western norms in commerce and business, and has raised fundamental questions related to the framing and application of transparency, governance and ethics within markets, sectors and institutions. As a consequence, while more business is being done in developing countries, there is little agreement about the current and future responsibilities of business in development. Issues related to food, health, poverty and education, as well as concerns about corruption and bribery, require urgent action since many nation states remain unable to tackle them adequately – or for that matter autonomously. If indeed the market norms of the recent past are being replaced by a more turbulent, volatile mix of conditions, and the orthodox parameters of development are being challenged and reshaped by new institutional interests (e.g. sovereign wealth funds), what will the future look like for the main actors involved? What will be the key dynamics in a new era for development, and what kind of collaborations will be required for the creation of sustainable and equitable development policies and strategies?

In a recent publication (Canuto and Giugale, 2010), World Bank Vice President Otaviano Canuto argued that developing countries will be engines of growth that may carry the world economy in the future, provided they have a clear strategy. The business contribution to this transformative shift may turn out to be the most important driver of a new era for development underpinned by the objectives of sustainable and inclusive growth. The market potential is huge: at the 2011 EABIS Colloquium (INSEAD, France), Unilever's Chief HR Officer, Doug Baillie, indicated that by 2020 70-75 per cent of the company's revenue will come from outside of developed markets (EABIS, 2011), fuelled by a global population increase of almost 1 billion people and consumers in urban environments rising to 4.2 billion. This highlights the enormous opportunities for companies to claim market leadership by helping developing countries to establish the socio-economic stability in the business environment, which will support these macro trends and growth strategies. A different role for business in development would certainly emerge from this. But how will this be defined in terms of parameters, objectives and responsibilities?

This new and enlarged role for business will require ''uneasy alliances'' with new partners in national and regional governments, local communities, NGOs and social entrepreneurs. We call these partnerships ''uneasy'' since none of the players in these tripartite models of development have experience in efficient and effective results-orientated collaboration. New knowledge and experience needs to be built through pilot projects.

This paper aims to provide insights into the necessary conditions for a successful new era of development and more specifically the potential contribution of business and academia. It will do so by combining the findings of five expert interviews with a reflection on the discussions around this topic during the 10th EABIS annual colloquium hosted by INSEAD in October 2011. After a short general introduction of the history of development so far, the paper explains the big challenges (in/to what?) and also offers a more in-depth analysis of issues specific to Asia and Africa, drawing both on inputs to the EABIS colloquium and content from the interviews. Afterwards the findings from the interviews will be discussed to answer the question around the contribution of business and also of business schools and academia.

Past phases of development and the need for a new era

Since the Second World War, global development has gone through a number of distinct (more or less successful) phases. In order to better understand the potential determinants for a new era of development, one must pause to consider the evolution and theoretical underpinnings of past models and approaches. It is particularly important to start from a macro-economic view and ''big picture'' perspective, as the definition of the role of business has changed over time, without necessarily being aligned with evolving paradigms of development policy and theory.

Before the 1960s development aid was mostly an instrument used by nation states for geopolitical purposes. The original mindset of ''development through economic growth'' was dominant until the end of the 1960s and continued much longer indirectly. However, blind faith in the trickle-down effects of globalisation (through the opening of new markets) unfortunately resulted far too often in the enrichment of elites and the relative impoverishment of general populations. Most developing countries were never able to establish a middle class, which could enable and support endogenous economic growth and a stable society. For many countries the sequels consequences of colonisation were too big to overcome by themselves (Annan, 1998, p. 411f.)

The next phase was based on the assumption that growth would follow the satisfaction of basic material and non-material needs of people. (Hoadley, 1981). But this ''basic needs strategy'' of the 1970s was ultimately a prolongation and reformulation of the old mindset of ‘‘development through growth’’, which – along with other causes like the growth slowdown in the industrial world caused by the 1973-1974 oil crisis – culminated in what has since become known as ‘‘the lost decade for development’’ in the 1980s. Simultaneously, the debt burden of developing countries grew exponentially to frightening levels (Easterly, 2001).

The emergence of the fundamental concepts of ‘‘sustainable development’’ in the 1990s signalled an important step change in thinking. In 2000 the 55th UN General Assembly took devastating stock of the lack of historical achievements. The ambitious Millennium Development Goals (MDGs) were formulated and adopted as a response and a call to collective action, setting out 60 specific outcomes to be attained by 2015 (United Nations, 2001). These ambitious goals were seen by many leading figures in development as a major milestone and the potential catalyst for the world to pursue the end of poverty and human deprivation through collaborative action.

> The end of extreme poverty is at hand – within our generation . . . [t]here already exist a bold set of commitments that is halfway to that target: the Millennium Development Goals . . . are bold but achievable . . . [t]hey represent a crucial mid-station on the path to ending extreme poverty by the year 2025 (Sachs, 2005, p. 25).

Since these more optimistic times, progress has certainly been made – as acknowledged by UN Secretary-General Ban Ki-Moon at the 65th UN General Assembly in 2010 – but much of it is bluntly considered to be ‘‘too little, too late’’ given the enormity and scale of the challenges being addressed. There have been success stories in some countries, but by and large we are clearly not on track to resolve the global problems of our age. Unsurprisingly, some are already talking about a new lost decade for development in terms of unfulfilled potential, missed opportunities and sub-optimal outcomes. As former UK Prime Minister Gordon Brown (Politics.co.uk, 2010) succinctly expressed matters during a committee meeting of MPs:

> I’m struck by the contrast between the potential for this decade and the probable outcome for this decade. We will not meet the Millennium Development Goals the way we are going. We will not meet the targets for Africa . . . we’re about ten to 20 billion pounds short per year.

Meanwhile, in the last ten years the world has witnessed a major global food crisis, the worst global financial crisis (and related unemployment levels) since the Great Depression, serious volatility in oil prices, increasing climate variability, accelerating loss of species and biodiversity, and grave warnings about the potential collapse of marine and terrestrial ecosystems. The economic cost of environmental degradation plus the extent to which climate change will impact current systems and hamper developments, have yet to be universally determined and agreed. Yet in-depth studies by agencies such as UNEP and the University of Kassel forecast that climate change and related issues such as water scarcity will hit developing countries the hardest in the coming century.

On the economic side of things, history to date has shown that more simplistic approaches like the neo-classical belief in efficient markets and trickle-down economics, and the NGO-induced blaming of multinationals for exploitation of developing countries’ resources, have been ineffective in responding to the real challenges. The lack of trust and cynicism shared between business, government and civil society – and more acutely by citizens towards institutions and their leaders – undermine a range of efforts to achieve progress. Even recent success stories, such as the widely hailed innovations of micro-credit and micro-finance, have had their longitudinal impact and value called into question, as well as the motives of new entrants to the sector.

A new era for development is needed because development indicators show little progress, while political instability and weak governance persist in many parts of the developing world. Multi-stakeholder governance initiatives have not yet fully brought the desired stability to fragile environments – societal and environmental – and the challenges of achieving sustainable development remain enormous. The time is ripe for a new approach with a much larger role for business to play (Alcamo *et al.*, 2007). The following section will summarize what we learned about the macro-level issues of such a new era before dealing with the role of business and business schools.

This paper draws insights from two types of inputs to answer the question: ''What is the role of business in a new era for development?'' The first source is a set of semi-structured expert interviews conducted with senior professionals from the area of development. These were selected using the ''judgment sample'' method which allowed a targeted selection of experts (key informant sample) deemed most useful to this study (Marshall, 1996, p. 523). The sample spreads over senior levels in academia, international business and consulting – corporate and public policy – from the EABIS network (see Table I). Due to the small scale of the sample, the qualitative analysis of the interviews was done along the common and different opinions (Gläser and Laudel, 2004). In the following parts of this article, interviewees will be referred to by their acronym (see Table I, e.g. PMC for Partner Management Consultancy) when quoted directly or indirectly.

In advance of the interviews the participants were given the four pre-designed questions (see list below) and a three page working paper to respond to in question one. Drawing from the above short historical overview of development phases, the working paper reflected a few initial conclusions about the potential role of business in a new era for development, and also was the basis of the call for contributions for the 10th EABIS annual colloquium (EABIS, 2011). Question two targeted the macro-level, namely the general framework of a new era for development. Question three and four focused on the potential role of business and academia at different levels within this conceptual framework.

- *Q1*. What are your comments on the background and propositions in the EABIS working paper ''A NEW ERA OF DEVELOPMENT''?
- *Q2*. What are the necessary conditions for a successful new era of development including governance?
- *Q3*. What could be the contribution of companies to support development and to strategically create shared value for business and society?
- *Q4*. Where and how can academia (business schools and universities) bring most value in supporting companies in pursuit of these goals?

The second source is the range of 100 + papers and presentations featured at the EABIS, 2011 Colloquium at INSEAD, whose central theme was ''The changing roles & responsibilities of business in developing countries''. The two regional perspectives are grounded in a summary of discussions at INSEAD and supplemented with comments taken from the interviews.

Challenges and conditions for a new era for development

The challenges remain prominent and the framework for a new era needs to address several cross-cutting global sustainability topics to provide the basis for change. Four main macro-level issues emerged during the interviews.

> [The first topic would be the dramatic growth of] population, like India will have six people working per one student or one pensioner [. . .] which is a great advantage [. . .]. Globalisation was a success story for Asia and has to become inclusive for the African continent and all nations, which are not profiting today (CMIC).

Table I Synopsis of interviewee profiles

Interviewee	*Senior African Academic*	*Partner Management Consultancy*	*Director Non-for-profit Consultancy*	*Director Multinational Health Company Trust*	*Chairman Multinational ICT Company*
Acronym	SAA	PMC	DNC	DMHCT	CMIC

Democracy and social growth based on sustainable economic principles is being demanded by more people, as evidenced by the Arab Spring (CMIC). Many current and recent emerging economies – such as Brazil, Turkey, South Africa, Russia, India, China and South Korea – have experienced impressive economic and social growth and lifted large numbers of their people out of poverty. Globalisation has to become inclusive and a success story for the developing world.

> Number two, [. . .] is the big issue around the basic supply of energy and resources like fresh water and electricity and the gap between the rich and poor [. . .] (CMIC).

The provision of basic public goods was clearly identified as a critical basis of sustainable development and plays a significant role in attempting to bridge the growing disparity between rich and poor – which has increased in terms of per capita income to US $40,000 per annum in the developed world compared to US $1,000 per annum in Asia and sub-Saharan Africa. Half of the world's population continues to live on less than US $2 per day and the World Bank (2010) indicates that only 45 out of 84 countries are on track to meet poverty reduction targets and the Millennium Development Goals on eradicating poverty.

> [. . .] the third is the multi-polar world which slows collaborative action for all decision making and even for [. . .] achieving the millennium development goals. This is really something which we need to have in mind (CMIC).

Governments, IGOs and NGOs, and especially companies have to elaborate collaborative strategies to be implemented at the global, national and local levels which will set the stage for this new era. This notion of a shared, partnership-based approach to development is seen as part and parcel of international collective action towards the future of sustainable development.

The potent mix of these four global sustainability challenges means that the new era of development will require the involvement of all leading actors to make globalisation inclusive and a shared success. With this in mind the United Nations Rio + 20 Earth Summit took place in June 2012, focusing on the key themes of cooperation, green economy in the context of poverty eradication, and institutional frameworks for sustainable development and transformation (United Nations, 2012). This presented the latest opportunity for global leaders to come together and commit to action to define and invest in new pathways toward the core objectives of sustainable development, securing a reasonable standard of living for the global population whilst preserving our ecosystems and resources.

But the power and effectiveness of these big global conferences are increasingly questioned and their outcomes frequently cause disillusionment.

> [At] Rio I lost some faith in national governments with national agendas and national electorates. [. . .] Business is going to have to play a much, much greater role than it has done before. Multinational companies have incredible reach to consumers and customers and can address through their extended value chains some of these issues (DNC).

It becomes more and more clear that we should count less on governments to solve the complex problems of development. Ultimately, sustainable and inclusive development requires continuous progress in the way public authorities, non-state actors and private companies cooperate at local, country, regional and international level. Such collaboration needs to be based on public-private partnerships, a clear division of tasks and transparent and shared accountability through consequent norm-setting.

Insights from the EABIS Colloquium: regional focus on Asia

The remarkable pace and scale of growth in Asia has been accompanied by significant challenges. The Millennium Development Goals seem to have been reached in many parts of Asia (PMC, CMIC), but it is often forgotten that the region is still home to the highest number of poor people in the world, despite the acceleration in economic development in recent years. Some of the key mountains, which Asian countries must climb, both now and in the future, are:

- *Sustainable manufacturing and sustainable sourcing*: the resources required to meet Asian consumption and energy requirements are significant. If manufacturing in Asia is modelled in an unsustainable way, it will have a global impact on resource supply and demand, energy generation and distribution, and market pricing of a host of other interdependent commodities, especially in agribusiness.
- *Water and food scarcity*: the increase in Asia's total population and the subsequent pressure it exerts on limited natural resources such as water pose a significant risk to societal development. China provides perhaps the most notable case study, through increased desertification in the west of the country and recent shortages in historic northern rice-growing areas. This last point underlines the interdependency of water scarcity and food production, which threatens to be one of the most vital challenges to Asia in the twenty-first century.
- *Quality of life*: for many people in Asia, quality of life declines as the economic divide widens. Women continue to be systematically neglected, particularly in countries like India.
- *Bribery and corruption*: across Asia, bribery and corruption remain commonplace. As a symptom of poor governance, it impedes development by undermining the rule of law and weakening institutional foundations upon which economic growth depends.

Since the economic liberalisation and fast growth during the 1980s, China has rapidly expanded its political and trade relations with, as well as physical presence in, the resource-rich (both mineral and agricultural) developing economies of South East Asia and Northern Africa. In many cases it has brought benefits as the growth and success of corporations from China has increased foreign direct investment (FDI) in many developing countries. It has also inspired corporations from Brazil, India and the likes towards acquisitions and mergers in the global market.

Insights from the EABIS Colloquium: regional focus on Africa

Among the key characteristics for Africa are its demographic growth and young population: 50 percent of Africa's people are under 20 years of age, and it is foreseen that in 10-15 years' time the continent will have a work force greater than China. Anticipating that resource-driven growth in indeed harnessed as a vehicle for equitable wealth creation and societal development in individual states, the rise of a new and well-educated middle class will sooner or later challenge current governance structures as well as the traditional manner in which companies from rich countries understand their future contribution to overall development in Africa (DNC):

> The first condition [for a new era of development] is that Western companies and governments start to listen. We must stop saying and pretend that [they] think what Africa should do to develop (DMHCT).

The legacy of colonial state structures remains and trade patterns persist even after 50 years. There needs to be a shift in thinking towards what is good for business and what is good for each and every one of the 54 countries on the African continent (SAA, PMC). In most of these countries, professional capacity-building, physical infrastructure, legal framework, government and banking all need deep reform. There are too many regulatory hurdles for investors and (especially small) businesses. African governments as well as trade partners like the European Union slow down growth, but there is also insufficient access to trade finance (SAA and PMC).

As of today, it should also be noted that there are relatively few large African multinational companies. Small and medium sized enterprises are an essential part of each nation's economy. Their current and future success will likely form the backbone of a stronger, growing middle class of well-educated Africans who may drive demand for wide-scale political change (PMC). As with Asia, of course, it is important to avoid falling into the trap of a homogenous view of the continent – the linguistic, cultural and political differences among regions imply that each country may require a different development plan. Within this context, business needs to look at Africa not as somewhere where they extract or dump, but as somewhere to invest and grow (PMC, DMHCT).

The role of business in the new era for development

Problems of poor governance, corruption and fragile institutions remain in many developing countries and need to be tackled in order to move the development agenda forward. An interesting question is how business – both international and domestic – can help to engineer institutional change at the local level. How might business contribute (more) to this new era? There are challenges, but more importantly, all interviewees share the belief that there are (market) opportunities and that business will need to play a more potent role in development in the future (SAA, PMC, DNC, DMHCT and CMIC). Different answers were given around the motives and mechanisms, as well as the best partners to achieve this involvement of the private sector. Several action themes and conditions emerged through the interviews as key enablers of a new era of development and the future role of the private sector in it. The following section summarises the discussion.

First, companies need to work more effectively with political bodies and regulators to enhance the quality of governance and the institutional environment in developing countries. Co-creating regulation is vital in this mix. The establishment of level playing fields – plus the elimination of market distortions and the management of anti-competitive activities – will encourage long-term investment from business and create competitive advantage; but within the constraints of the public interest (e.g. EU/Africa Union strategic partnership on public and corporate governance) (SAA, PMC). Good governance can be promoted by business through good corporate governance as a top down approach (PMC, CMIC) but the main changes needs to come from the inside of the countries as a demand of the society. ''Good governance in Africa must come from the Africans'' (PMC).

Second, business should seek alliances that drive development (DMHCT). Specific Multi-Stakeholder Governance Initiatives need to be taken to new levels of serious engagement, accountability and management by objectives, beyond the mere signing of a voluntary code of conduct. Such codes require transparency throughout the whole value chain thereby raising environmental, social and governance performance standards (''ESG'') across the board and gaining public trust. Initiatives like EITI, EICC, Kimberly Process and Equator Principles need to be assessed with respect to their initial goals, real outputs, effectiveness, strengths and weaknesses. All three ''pillars of society'' – government, civil society and private sector – are equally affected by development issues. Business is well positioned to encourage and engage in collective action through trilateral and public-private partnerships. Collaboration is necessary to address the phenomenal challenges that accompany the development agenda. Platforms facilitating Private-Private-Partnerships need to be established (SAA). While the majority of single initiatives are small and not market-driven (DNC) these platforms (education, health, nutrition) could be the space where businesses and NGOs or social enterprises can come together based on the identification of market opportunities and the public good. One cited example is Coca Cola sharing its distribution channels with other sector leaders in Africa to support the circulation of medicine and other health-related products (SAA, DNC).

Third, business should focus on longer-term perspectives and investment plans which constructively embrace the notion of societal development (PMC) and go beyond the so-called big market opportunity, which may disappear in the short-term (DMHCT).

> But as a business, if we want to go for an area of development, we need to know that we're entering for the middle and long term, that approach goes beyond the so-called ''big [market] opportunity'' (DMHCT).

By doing so companies will participate in the upgrading and modernization of economic, social and political life, i.e. be good corporate citizens who fully deserve their license to operate. They will be the ones which capture market share in the biggest existing markets in years to come, while leveraging societal challenges to innovate in business model design and new products and services and – potentially – create entire new markets.

One of the best ways for multinational companies to contribute would be to gently embrace small and medium-sized enterprises in their supply chains, help them acquire management skills and provide access to markets. Business should not only strive to reduce negative and enhance positive impacts of the value chain, but also invest in local health and education programmes as sources for an enabling business environment. This is not about generic corporate social responsibility (''CSR'') or philanthropy, rather a strategic investment geared to creating shared value, which in turn can provide longer-term risk mitigation on the firm's human capital by technology and knowledge transfers.

> I think that the best one and one of the ways for multinational companies to really contribute in my view is to actually gently embrace small and medium-sized enterprises [. . .] And help them to deliver the management skills and, and provide them with access to markets (PMC).

Regrettably, in many developing countries there is still a dearth of leadership. In some cases, this is a legacy of colonialism or conflict, whilst in other cases it is due to poor education and/or health systems in the country. By investing in local people, businesses can help build capacity and develop intellectual capital by training institutional leaders and managers as well as entrepreneurs, thereby creating wealth and economic development for shareholders and community. Investing in SMEs and the ''informal sector'', which makes up the majority of the economy in many developing countries, also helps to build capacity. This should not be an isolated activity but rather be incorporated into a business's supply chain. Buyers are looking to secure local suppliers providing they are organized to deliver goods in sufficient quality and quantity and at a good price. Large corporations can help make this happen through investment and dissemination of technology.

Fourth, business in the new era has an unparalleled capacity to lead in delivering the technological, financial, entrepreneurial and social innovations for twenty-first century development. Our current production and consumption systems have reached unsustainable levels. Business is uniquely and solely equipped to drive radical change in behaviour and use of resources and technology. Technology – such as cloud computing, mobile telephony and higher yield crop seeds – can provide direct market access in Africa while reducing costs and improving efficiency for those seeking said access and inclusion (SAA, PMC, DNC and CMIC).

Fifth, business schools and the wider academic sector can work more closely together with business by providing strong thought leadership and setting direction for where business needs to go (DNC). Academia can be the neutral broker between the public and the private spheres but can also act as a convener of coalitions and platforms for private-private partnerships (PMC, DNC) while creating space for out-of-the-box thinking and knowledge sharing (DMHCT). The necessity of new business models for the future era for development will also require a new type of leader – one that is capable of working in a multicultural environment, is entrepreneurial, and comfortable with uncertainty and risk (DMHCT).

Business schools need to engage with the business community to understand what qualities are needed to teach tomorrow's leaders and to align their offerings with the business demand for shorter programmes. MBA curricula need to evolve beyond an instrumental, functional approach to training that is based on the way that business has been done and structured in the past. A more forward-looking, holistic approach is required to equip corporate leaders and managers of tomorrow with the anticipated skills, mindsets and awareness of macro trends that will shape the future business context in different parts of the world. These leaders need to feel comfortable across sectors, cultures and international borders (DNC). For business schools to achieve this, companies will have to provide more support and guidance on longer-term talent needs and management profiles. The mainstreaming of sustainable development will also depend on a greater number of academics being trained in the interdisciplinary frameworks necessary to teach the fundamentals of sustainable enterprise, including new business models, entrepreneurship and intrapreneurship, partnerships, inclusive growth, re-distribution, and responsible consumption.

Conclusions

Five main recommendations for business to develop into the major enabling actor in a new era of development became clear during the interviews: First of all business should strengthen the governance structures by working together with policy actors. The second recommendation was that business should seek alliances with other private or public stakeholders to create (business) opportunities. The third one was the creation of a long-term entry strategy for developing countries and the embedment of development challenges in the adapted business modelling. As fourth recommendation, business should shape the social and ecological environment through technology and knowledge transfer. And as last and fifth point, business should work with business schools and academia to build the leaders of tomorrow with the knowledge of the day after tomorrow. All interview participants were convinced that business will need to play a leading role to shape the new necessary era of development.

The data produced during this explorative study is rich and the comparison of the interviews has shown great overlaps, which allowed very detailed comparisons. These almost equal answers to the same questions show at the same time the limits of this paper. To draw more than preliminary conclusions future research needs to based on a larger – and, very importantly, more diverse – data set, given that all the individuals interviewed belong to the same network (EABIS). Case studies on a level beyond individual initiatives will become more important to deliver the necessary up-scaling and will deliver insights into the strategic integration of development challenges into business models to understand how companies need to operate on the ground in the extremely varied contexts of developing countries.

Some front-runner companies are already establishing market leadership and driving growth in developing countries by aligning their brand, services and products with a socially and environmentally responsible agenda. Innovative companies are moving from building ''shareholder value'' to ''shared value'' for all stakeholders; from ''quarterly capitalism'' to ''long-term capitalism''. They are also providing resources, open access systems and capital to entrepreneurs and communities in order to support technology and knowledge transfers. Companies which integrate future development concerns into their business model will be ideally placed to secure long-term licences to operate, develop loyal new consumer bases, and innovate in new market segments. Ultimately, this will be the major challenge – and opportunity – for sustainable business in a new era of development.

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About the authors

Joris-Johann Lenssen is a Research Manager at the Academy of Business in Society (EABIS). He holds a Diploma from the University of Marburg (Germany) in Political Science, Sociology and Peace and Conflict Studies. He joined EABIS in 2009 and is working on several projects related to corporate governance, business-government relations, global health and business in society. Joris-Johann Lenssen is the corresponding author and can be contacted at: joris.lenssen@eabis.org

Professor Luk N. Van Wassenhove's research and teaching are concerned with operational excellence, supply chain management, continual improvement and learning. His recent research focus is on closed-loop supply chains (product take-back and end-of-life issues) and on disaster management (humanitarian logistics). He holds editorial positions for several journals, including *Production and Operations Management*. He publishes regularly in *Management Science*, *Production and Operations Management*, and many other academic as well as management journals (like *Harvard Business Review* and *California Management Review*). He is the author of many award-winning teaching cases and regularly consults for major international corporations. In 2005, Professor Van Wassenhove was elected Fellow of the Production and Operations Management Society (POMS). In 2006, he was the recipient of the EURO Gold Medal for outstanding academic achievement. In 2009 he was elected Distinguished Fellow of the Manufacturing and Services Operations Management Society (MSOM), and received the Lifetime Achievement Faculty Pioneer Award from the European Academy of Business in Society (EABIS) and the Aspen Institute. Professor Van Wassenhove is the incoming President of the Production and Operations Management Society. In 2011 he was elected a Member of the Royal Flemish Academy of Sciences and he holds the Francqui Chair at the Université Catholique de Louvain. Before joining INSEAD he was on the faculty at Erasmus University Rotterdam and the Katholieke Universiteit Leuven. At INSEAD he holds the Henry Ford Chair of Manufacturing. He also created the INSEAD Social Innovation Centre and acted as its Academic Director until September 2010.