ccrs Center for Corporate Responsibility and Sustainability
at the University of Zurich

Universität Zürich[UZH]

Summary Report [1]

Zurich, June 27, 2019

CCRS Policy Workshop

Creating positive impact through local embeddedness

The potential contribution of Multinational Enterprises (MNEs) to inclusive growth

Tuesday, May 28, 2019, 1:30 – 6:00 p.m.
ETH Zurich, Rämistrasse 101, Semper Aula (room HG G 60)

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[1] The executive summary was written by Isabelle Schluep, Philipp Aerni and Constantine Bartel. Contact: annette.schmid@ccrs.uzh.ch

Executive Summary

Over the past two decades, multinational enterprises (MNEs) have invested substantially in due diligence and compliance procedures in order to minimize the risk of corruption, human rights offenses and environmental damage in the regions where they operate. In addition, almost every Swiss based MNE has signed up to one or even several of the numerous general and industry-specific global standards on corporate responsibility and sustainability. However, all these efforts have had hardly any effect on the predominantly bipolar framing in the public debate on business and human rights. **The debate in the media largely revolves around well-known MNEs that have been caught exploiting loopholes in existing national and international regulatory systems to make profits at the expense of people and the environment. But is their behavior representative for their respective industry? And what about positive examples?** Are there also MNEs that have contributed to better environmental management and improved labor and educational standards in the regions in which they invest? And does a focus on the return on investment per se exclude the possibility that a MNE subsidiary generates positive external effects for the local economy?

The CCRS workshop held on May 28, 2019, addressed these questions. In this context, it **challenged the popular bipolar framing of "people versus profit"** because profits may be in many aspects a precondition for a company to invest in the long-term. The crucial question therefore is how profits are being used by an MNEs. If they are invested in the creation of new markets that are good for business and good for sustainability they may essentially ensure the "future"-ability of their company as well as the environment in which it operates.

In this context, the potentially negative external effects of MNE investments/operations must be weighed against their potentially positive external effects. These **positive effects for society and the environment may be generated through a corporate commitment to local embeddedness**, which is of key importance in **enabling** especially low income countries to achieve **the UN Sustainable Development Goals (SDGs) through inclusive and sustainable growth**. Yet, how can such positive external effects resulting from a principled embeddedness approach be captured, measured, and compared?

The workshop tried to answer this question by **taking stock of** existing ways that companies do **impact valuation**, especially in low income countries, and by discussing some of the new tools and approaches developed at CCRS on **how to measure and compare** not just the intended but also the unintended positive externalities resulting from **a corporate commitment to principled embeddedness**. The unintended positive effects for the local economy are often not discussed in CSR reports as they are merely regarded as spillovers of core business investments.

In addition, participants of the workshop discussed the challenge to communicate positive impact resulting from a new and more **balanced narrative** about the role of global business in enabling sustainable local change. There was a general agreement that **there needs to be a new understanding of how economic ecosystems evolve and how they may become engines of inclusive and sustainable growth** in order to obtain a more differentiated view of the impact of MNEs in the regions in which they invest/operate. **MNEs may not be able to achieve net-positive impact in low income countries without the support of local and international stakeholders**. A crucial factor are the institutional framework conditions. They often tend to discourage long-term and embedded investments. There is a need to provide more incentives for MNEs, governments, the local private sector, civil society as well as local academia to engage in fruitful long-term cooperation rather than mere confrontation.

Welcome address by Michael Hengartner, President of the University of Zurich

Professor Michael O. Hengartner reflected in his welcome address on the current polarized debate on business and human rights. In his opinion, **the UN Sustainable Development Goals can only be achieved by 2030 if business and civil society find a way to effectively cooperate in efforts to address the global environment and social challenges**. In this context, academia may play the role of a mediator. He mentioned numerous research activities and initiatives in the area of sustainability and corporate responsibility at the University of Zurich. As president of the foundation board that supervises CCRS, he also praised the interdisciplinary and practice-oriented approach that the associated institute of the University of Zurich is pursuing through its comprehensive assessment of the local impact resulting from Foreign Direct Investment (FDI).

Introductory notes by Philipp Aerni, director of CCRS

In his remarks, Philipp Aerni addressed the problem of the current definition of impact investing as a sub-category of socially responsible investing. The consequence of such a categorization is a tendency to measure impact only with regard to particular CSR goals, or, more recently, the different SDGs of the United Nations. Yet, **the impact of a company's core business in a particular region may go far beyond of what is measured within the context of CSR**. Rather than embellishing thick existing CSR reports with an additional chapter on positive impact, an MNE should tell more about its history, its operations in the local context and the positive externalities created through its scalable innovations and its ability to integrate formerly excluded communities into new markets through its commitment to local embeddedness.

MNEs should also learn to admit that they will never be able to provide public goods on their own. Moreover, their activities will always be error prone because enforcing third party compliance, especially in low income countries, is very challenging; and identifying and quickly responding to offenses committed by employees or local contractors requires a functioning system of surveillance that cannot be enforced by the company alone. Besides managing and reducing such risks, one has to be aware, however, that **a company does not create value by merely avoiding risk but by taking the deliberate risk to invest in innovation and the creation of new markets.**

The extent of the positive impact of FDI for the local environment and society also depends on the willingness of civil society and government to work with the private sector on sustainable solutions that are scalable, meaning that the resulting products and services are **not just sustainable but also affordable** in the respective regions. It is in the long-term interest of an MNE to create value not just for itself but also the important local stakeholders. These s**takeholders** may not just **care about** the taxes a company pays and the jobs it creates, but also to what extent it contributes to a more innovative local economy that also respects labor rights and the environment. Therefore, **local engagement strategies must be part of the overall investment strategy rather than a separate CSR activity**, reported separately in a CSR report.

In his new book[2], Aerni points to the fact that the current polarized public debate on business and human rights in affluent societies tends to see business merely as a potential threat to human rights and discards **the possibility that a responsible business may also help enhance local access to human rights**. There are of course well-documented cases of companies that could not care less about human rights and the local environment. However, there are hardly any Swiss MNEs who have not invested in the compliance with international social and environmental standards as outlined by the Global Compact, the Principles for Responsible Investments, the Equator Principles, the UN Principal Guidelines on Business and Human Rights or the OECD Guidelines for Multinational Enterprises. Many MNEs are also committed to public-private partnerships, as envisioned by the UN

[2] Aerni, P. (2018). Global Business in Local Culture. The Impact of Embedded Multinational Enterprises. Springer Briefs in Economics.

SDGs. All this may not prevent that even within these companies some employees seek their short-term interest in defiance of all compliance and due diligence standards. But, the costs of not complying have increased substantially for individuals within the company as well as the company as a whole.

The current framing of “people versus profit” in politics does not, however, allow for a more differentiated view. In fact, it leads to the implicit assumption that international trade and FDI are equal to theft and exploitation of the poor. Yet international business investments are **not a zero-sum game**. Quite the contrary; they may have the greatest positive impact in low income countries, **especially if such investments are committed to a principled embeddedness approach**. Aerni discusses this approach as well in his book as a value of corporate long-term investments in low-income countries.

What is principled embeddedness?
Principled embeddedness represents a holistic commitment of a company to adhere, on the one hand, to the law of the respective country, the signed commitment to CSR industry standards and its code of conduct, irrespective of the country in which it invests. On the other hand, it is engaged in the local economy and community with the purpose of not just managing prosperity and sustainability within the company but helping to spread it in the region where it invests. This commitment is in the long-term interest of the company since it needs to invest not just in the local human capital but also the local social capital stock in order to ensure its long-term license to operate.

The crucial question is how to challenge the cherished black and white narrative in the public debate and how to eventually replace it with **a more constructive and positive narrative that emphasizes the need for cooperation rather than confrontation**. In this context, Aerni refers to a new tool developed at CCRS that would allow MNEs to capture the extent and quality of the local embeddedness of their subsidiaries. It would assess to what extent subsidiaries contribute to the build-up of a local and sustainable economic ecosystem that is not just connected to global value chains but also generates new local companies that serve local markets.

The challenge of communication is that the **presumed motives of corporate entities often matter more to the public than their effective and measurable performance**. An effective communication therefore requires a discussion about the motives of doing business. In this context, one needs to realize that the primary motive of an entrepreneur may often not be the material reward in the form of profit but the desire to be an independent agent of change in a particular field. Moreover, in most countries, a utility maximizing individual may prefer to seek a well-paid job rather than take the risk of becoming a self-employed entrepreneur. After all, employed people tend to be on average better off over a life time than self-employed people who rarely succeed in becoming wealthy founders of successful new companies. Moreover, even within large companies where the ability of an employee to be an agent of change is limited, the profit-motive intersects with numerous other motives.

Even if the primary responsibility of a company is to generate profits, as the Nobel-prize winning economist Milton Friedman argued, such **profits cannot be realized if a society ceases to trust the respective company and deprives it of its license to operate**. In this context, a culture of openness towards curious stakeholders and an active interest in a critical third party opinion may be in the self-interest of the company.

Aerni concludes his talk by arguing that the **SDGs of the United Nations represent a unique chance to reframe the current polarized debate** because they recognize the importance of private sector involvement in addressing the global sustainability challenges. Through their commitment to principled embeddedness, MNEs contribute to inclusive growth (SDG), and the build-up of vibrant economic ecosystems that may eventually become drivers of economic empowerment and sustainable change.

Introductory notes by Isabelle Schluep, head of sustainable impact at CCRS

Isabelle Schluep explained in her talk how CCRS got involved in research on corporate embeddedness. In 2014, Chiquita was in search of an academic institution that could help the company find new ways to better value its sustainability performance. It liked the suggestion of CCRS to look at sustainability from an angle of local embeddedness.

The assessment of the extent and quality of embeddedness encompassed a self-assessment by the company including hard data; **a perception survey** among the most relevant local stakeholders, and **an expert panel** that assessed not only the performance of the respective subsidiary of the MNE, but compared it with its competitors.

A research proposal was eventually approved and financed by the commission for technology and innovation (CTI) and besides Chiquita companies such as Syngenta, Nestlé and the rating agencies BHP Brugger and Inrate joined in. **Master students** mainly from the department of agricultural sciences at ETH Zurich **conducted the case studies of the selected subsidiaries of the three MNEs involved in the project** as part of their master thesis.

Based on the insights gained from the field research, an approach was developed on how to assess the extent and quality of corporate local embeddedness. However, the approach proved to be time and resource intensive, and it was not possible to compare performance among peers. CCRS addressed these shortcomings by developing a **prototype of an online platform called *Key Embeddedness Indicator* (KEI)**. It is largely based on a self-assessment by the subsidiaries of MNEs involving different measurable indicators designed to capture the value of local embeddedness via local suppliers, local sales, local employment policies, local venture capital, contributions to local social and environmental projects, and so on.

The **next step** would be **to tailor the generic KEI prototype to the materialities of different industries**. In order to do so, collaboration with interested companies is indispensable. The tool would allow the comparison of results among subsidiaries within an MNE and across peers. Future work would include the development of new indicators to better capture (unintended) spillovers/externalities from core business activities and to balance negative against positive impact, or, in other terms, **to better compare the footprint with the handprint of a company**. The KEI platform could also include a feature where former local employees of the MNEs are invited to speak about their positive and negative experience of the respective company and how it impacted their lives. It could also be combined with an external assessment through a stakeholder survey.

Feedback on the talks by Christoph Müller, Chairman of Inrate

Christoph Müller regards the approach of CCRS to capture the positive impact of local embeddedness and to balance it against the potential negative impact of a company's FDI as very pertinent and promising with regard to assessing the corporate contribution to the SDGs. However, the **rating** that his company has developed **follows a different methodology**. The SDGs may set a frame of orientation with goals and targets that can serve as a base for ratings, but they are not a substitute. Inrate provides index providers or asset managers with data that are meant to measure the net social and environmental impact of listed companies in a particular industry based on indicators that rely on widely accessible and therefore statistically relevant data about the rated companies. As a rating agency, **Inrate should refrain from adopting a bias that would tilt its assessment in favor of industry or in favor of its professional critics**. A tool that captures the value of an embedded company for the local society and environment is a sort of bottom-up tool that would hardly allow for an objective comparison.

Philipp Aerni responded to the critical feedback by pointing to the often **unintended existing biases of sustainability rating agencies in country ratings as well as industry ratings**. The sustainability performance of a country tends to highly correlate with a country's GDP, meaning that the more wealthy a country is, the more sustainable it is. However, developing countries with weak institutions and few public resources to provide for public goods may nevertheless perform well in terms of sustainability, taking into account their particular circumstances, the scarce means and the local context. But, since these **circumstances are not taken into account in global ratings, MNEs that invest in low income countries** with a low sustainability rating **tend to be downgraded** in their overall sustainability rating and may even face a loss of reputation.

Such ratings may, however, run counter to the overall goal of the SDGs, namely to incentivize companies to invest in the regions where their investments are most needed to fight poverty and improve environmental management. In other words, **existing ratings encourage MNEs to manage their wealth within the boundaries of the already wealthy and sustainable community, rather than spreading it to regions where their impact could be greatest**. A sustainability indicator that measures an MNEs contribution to local regional development may therefore be very helpful in addressing the existing biases of ratings.

Keynote address by Sabine Döbeli, CEO of Swiss Sustainable Finance (SSF)

Sabine Döbeli explored in her talk **the actual influence of sustainable finance on the strategies of companies to become more sustainable**. The underlying assumption is that by altering a company's impact, an investor may positively influence social or environmental parameters. The validity of this assumption has been investigated in a recent paper by Kölbel et al (2019)[3]. The results of the study indicate that investor **impact is most significant when exerted via shareholder engagement followed by the capital allocation impact and indirect impacts (via intermediaries that endorse, stigmatize or benchmark company activities)**. The company impact manifests itself in changing or scaling activities in direction of practices, products and services that have a more positive impact for society and the environment. Even if the preferences of sustainable investors lead to a change in asset prices, this may not necessarily translate into changes in corporate activities because many publicly traded companies are not dependent on external capital. So targeting smaller companies that depend on external capital may increase the impact of capital allocation. **Environmental, Social, Governance (ESG) data providers** should complement their assessments of company impacts with an assessment of investor impact in order **to encourage investors to actively engage with companies to improve their performance** rather than passively divest from sin stocks and companies with a low ESG rating while investing in companies that already perform well from an ESG point of view.

In this context, Döbeli points to the important impact of active ESG engagement policies. They led for example Royal Dutch Shell to tie the executive pay to carbon reduction targets.

She also pointed to the need to develop common impact metrics and welcomes a recently launched initiative called the **Impact Management Project**[4] (IMP). It is a forum for building global consensus on how to measure, report, compare and improve impact performance. IPM convenes a practitioner community of over 2,000 organizations (including UNEP, UNDP, GIIN, IFC, OECD, GRI, PRI) to debate and find consensus (norms) on technical topics, as well as share best practices. **Five dimensions of impact** have been defined by IMP: **What** outcome occurs? **Who** experiences the outcome? **How much** of the outcome occurs across scale, depth and duration? What is the enterprise's **contribution** to the outcome? What is the **risk** to people and the planet that the impact does not occur as expected? Finally, Sabine Döbeli discussed the impact management project matrix in the context of an investment portfolio of a Danish pension fund, bringing together the impact goals of the

[3] See the following publication: Kölbel, Julian and Heeb, Florian and Paetzold, Falko and Busch, Timo, Can Sustainable Investing Save the World? Reviewing the Impact of Investors on Companies (January 12, 2019). Available at SSRN: https://ssrn.com/abstract=3289544 or http://dx.doi.org/10.2139/ssrn.3289544.

[4] https://impactmanagementproject.com/

businesses being invested in and the strategies that investors use to contribute to impact. Over time, an investor can induce that portfolio to become impactful in the way that best suits its intentions and constraints.

Sabine Döbeli concluded that the discussion about impact has only just started and that we actually have to go beyond. Philipp Aerni noted that **banks could play a more active role by regularly informing their clients** about the latest empirical insights on investments that actually have a real sustainability impact in the economy and those that are closer to greenwashing in the sense that they passively pander to general public fears and stereotypes. Döbeli agrees and thinks change is likely to take place with institutional clients that develop their own ideas and want to reduce risk while earning positive returns.

Panel discussion

Constantine Bartel, who is an ***entrepreneur and co-founder of the African Technology Development Forum (ATDF),*** moderated the panel discussion. He introduced the audience to the topic and the panelists and invited them to briefly illustrate **how** they believe their company creates positive externalities for the regions in which it invests and operates. Moreover, he wanted to know from them how they assess **the potential of the CCRS embeddedness platform** to capture and communicate such positive effects as a tool of internal self-assessment as well as a way to weigh the negative against the positive external effects resulting from FDI.

Jens Diebold, Head of Sustainable Development at LafargeHolcim**,** described his company as the leading global building materials and solutions company serving masons, builders, architects and engineers all over the world. Group operations produce cement, aggregates and ready-mix concrete which are used in building projects ranging from affordable housing and small, local projects to the biggest, most technically and architecturally challenging infrastructure projects. As urbanization increasingly impacts people and the planet, the Group provides innovative products and building solutions with a clear commitment to social and environmental sustainability.

As an example of positive externalities that result from his company's business activities, Jens Diebold talked about the ***Disensa***[5] **project** which had started originally in Ecuador and has transformed into **the largest retail network for construction materials in Latin America**. The aim was to develop a distribution system that would ensure the provision of building materials to all areas where they are needed. "The Disensa concept offers self-builders and smaller contractors simple and easy access to LafargeHolcim's own building solutions as well as a wide range of other construction materials and services, including microcredit and technical help as well as complete kits for different phases of home building. The concept was developed in Ecuador as a franchise scheme where franchisees are able to source thousands of products via an IT system." This network brings value to communities and local masons, offers skill transfer, and most importantly builds entrepreneurs.

Urs Jaisli is Chief Compliance Officer and Head Corporate Sustainability Committee at Roche. His company represents a Swiss multinational healthcare company that operates worldwide under two divisions: pharmaceuticals and diagnostics. He also believes that **the greatest contribution of Roche to society is its capacity to innovate**. It reaches 127 million people worldwide through the medicine and therapies it developed, of which 30 are on the WHO essential medicines list. But, there are also other reasons why Roche ranked as the most sustainable healthcare company according to the Dow Jones Sustainability Indices for the past ten years. The company's approach to **stakeholder engagement** is very inclusive (including workers, and local communities impacted by the company's

[5] See: https://www.lafargeholcim.com/lafargeholcim-1000-disensa-store

activities) and very much concerned not just about minimizing the risk of human rights offenses but also enhancing access to essential human rights.

Urs Jaisli presented the case of Roche Colombia. He described how the team in Colombia implemented the human rights protection framework bottom up with the strong engagement and support of the headquarters.

Roche fully supports and implements the “Protect, Respect, Remedy” approach of the UN Guiding Principles on Business and Human Rights (including the right to data privacy). The company is equally committed to complying with the 10 UN Global Compact Principles; the Universal Declaration of Human Rights; and the Fundamental Labor Rights stipulated by the International Labor Organization (ILO)’s Declaration on Fundamental Principles and Rights at Work. Alas, these commitments hardly get any recognition in the current polarized debate on business and human rights.

Roche’s **CSR strategy** is **guided by a holistic approach** addressed by compliance and risk management measures with a preparedness to take risk to create value for the company and society through innovation and the creation of new markets.

Michael Cooke, Head of Health, Safety, Environment and Sustainability at ABB begins his statement with a reference to ABB’s current business transformation. The new ABB is a pioneering technology leader in digital industries including electrification, industrial automation, motion, robotics, and discrete automation. As such, the **company operates at the frontier of the fourth industrial revolution**. Cooke also believes that ABB’s greatest contribution to a future sustainable society is its capacity to innovate. **50% of ABB’s revenues are by now generated by its eco-efficiency portfolio**. The company has also substantially improved the sustainability performance of its operations and its stakeholder engagement.

As for its commitment to embeddedness, ABB tends to increasingly sell in the regions where it produces, and the trade conflict between China and the US is encouraging this further. Its embeddedness into the local economy creates many **spillovers in terms of capacity development, entrepreneurial infrastructure and technology transfer**, and, as such, the company contributes to SDG 3 (good health and well-being), SDG 4 (quality education), and SDG 11 (sustainable cities and communities).

Michael Cooke also points to the importance of the company’s **training programs**. ABB works closely with schools that teach subjects in the field of electrical, mechanical and automation engineering and technology. It also offers a number of opportunities to learn more about the activities first-hand and to gain practical work experience. ABB’s cooperation activities include: scholarship programs; internship opportunities; study trips and visits, among others. Michael Cooke mentioned specific schooling programs in Brazil and in India that also involve rural communities.

Urs Schenker, **Senior Sustainability Manager at Nestlé S.A.** started his statement by referring to Nestle’s *Global Youth Initiative*[6], launched in 2017. Nestlé believes that communities cannot thrive if they fail to offer a future for younger generations. Nestlé is therefore determined to help young people develop their skills so that they can find jobs or create their own businesses. Nestlé wants to help equip the next generation for employment and to become inspiring leaders in the company – successful agripreneurs, entrepreneurs and game changers, regardless of their field or level of expertise.

This will help build thriving, resilient communities and support the SDGs. Developing youth helps Nestlé’s business too, because young people are the employees who will keep the company dynamic and competitive, the farmers who will grow the crops that are needed, and the entrepreneurs who

[6] https://www.nestle.com/csv/global-initiatives/global-youth-initiative/home; https://www.nestle.com/media/news/nestle-global-youth-initiative-launch

will help to reach new markets. Schenker illustrates this insight by a calculation on the value of its business that goes to Nestlé and the value that goes to society.

The **Nestlé Global Youth initiative** encompasses the entire value chain – from operations and supply to agriculture and innovation. By doing so, Nestlé is **supporting the ambition to help 10 million young people worldwide to access economic opportunities by 2030**, and thereby make an essential contribution to SDG 8 on the creation of inclusive growth and decent work.

Panel discussion with comments from the floor

Constantine Bartel opens the discussion with the question:

How can sustainability be brought into core business and how can impact be measured?

Peter Schenker from Nestlé thinks that "sustainability" is well entrenched in all fields of business for Nestlé. As for impact measurement, he thinks it is difficult to calculate a return on investment of **open-ended projects to invest in the young generation**. The agripreneur framework for example is long term oriented and the success rate of entrepreneurs is difficult to anticipate. However, there are many prior projects that indicate that such investments eventually bear fruit. Moreover, they **help to build up local social and human capital as well as an entrepreneurial infrastructure** that also serves other parties in the region.

Jens Diebold from LafargeHolcim agrees that it is also difficult for his company to capture and quantify the impact of the above- mentioned *Disensa* franchise network with all its external effects for the local societies. LafargeHolcim strives to build sustainability into its core business. This should be reflected in the organizational chart as well.

Michael Cooke from ABB refers to his company's **supplier development program as an example of integrating business into mainstream business**. The program is designed to improve the company's footprint. It assesses the suppliers with respect to safety, health, and issues related to the environment. In addition, ABB measures their profitability and growth and the timeliness of their work. All has to be part of a win-win situation.

Urs Jaisli from Roche agrees that "Sustainability is good business." At Roche there is **no "sustainability silo."** The company builds on the legacy of its past. Profits and the value created for society contribute to a win-win situation for all stakeholders in 90 countries and among 94,000 employees. The company chose a holistic approach to sustainability. The basis is innovation, a well-stocked product pipeline and a long perspective. Impact applies locally. In order to measure it, one has to keep it simple ("reduce it to the max").

Urs Jaisli believes, however, that companies need to **improve communication**. They need to become more open and transparent and learn to speak to each other as well as to its stakeholder in a frank way. Better communication is also required locally in the regions of operation. In order to compensate for one negative message a company has to send out about five positive ones. He mentions the scholar and bestselling author Hans Rosling[7] who emphasized that one should not forget to speak about the positive, and that the world is not as reckless and horrible as it is often portrayed. **If we continue to focus on risk only, we will miss opportunities**. Diversity inclusion and getting out of the ivory tower may be of core importance.

A question from the audience refers to a tendency of companies to merely report of what they already do. But could they not do more to help achieve the UN SDGs?

Michael Cooke from ABB agrees that **his company could do more but will it be** allowed to do so without incurring the risk of **running in conflict with regulation**? A dilemma in the ABB business of

[7] https://www.theguardian.com/world/commentisfree/2018/apr/11/good-news-at-last-the-world-isnt-as-horrific-as-you-think

renewable energy is that people wish to have **more solar and wind parks, but preferably not in their backyard**. There is also the **problem of political instability**. North Africa would be ideal to invest into solar parks and provide Europe with renewable energy, but, there needs to be more institutional certainty and a bigger commitment from Europe to make it happen. ABB also needs reliable partners to do more good. It **partnered**, for example, **with the International Red Cross** on a cooling system based on renewables to keep foods for refugees fresh. It has been a win-win venture. But, such examples are rare because all too often, NGOs and non-for-profit organizations are accountable to different constituencies and therefore have different agendas.

Jens Diebold and Michael Cooke agree that they could also collaborate more in the countries in which both companies invest. For example, LafargeHolcim and ABB could create a **joint positive impact** in India since both companies are involved in the build-up of infrastructure. Even though potential impact in general depends on external validation, it has to also be judged at the local level.

Urs Jaisli thinks that positive impact can be increased by **promoting a sense of ownership**. He illustrates this in the case of Roche Mexico where the local staff implemented the code of conduct in an autonomous way. It has retrieved a 95% satisfaction rate during the group audit.

Urs Schenker from Nestlé uses a concrete case of Nestlé Switzerland where the company is engaged in collaboration between stakeholders such as milk producers and the Swiss government with the purpose of reducing its carbon footprint. Nestlé pays a premium for **carbon friendly milk**. In addition, the company's long-term investment in the training of smallholder farmers in low income countries to test and adopt sustainable agricultural practices serves the sustainability of the local economy and simultaneously ensures durable access to high-quality supplies for Nestlé.

What prevents the subsidiaries of your company from becoming more embedded in the regions where they invest and operate, and what encourages it?

Michael Cooke regrets that investing in developing countries with fragile human rights situations renders a company more exposed to criticism from NGOs. Companies must increasingly prove that they are not directly or indirectly involved in human rights offenses committed by governments. This reversal of the burden of proof increases the costs of local embeddedness for a multinational company, since local suppliers are less familiar with global industry standards for social and environmentally responsible companies and accidents are more likely to happen even if a substantial amount is invested in training and technological upgrading. Moreover, **multinational companies may be able to change attitudes of local people but not governments**. ABB has a commitment to local production and workers are proud to work for a company that is perceived to be "indigenous" due to its long track record as a reliable local business partner.

Urs Jaisli agrees that corruption threats by governments in low-income countries and litigation threats in affluent countries hamper companies' preparedness to become more embedded in local economies, even though the impact may overall be very positive in terms of value for the company and value for society at large. Roche agrees internally that the company has to act always and everywhere in accordance with its CSR principles. However, **being compliant does not mean to impose rigid standards top down**. It must rather be understood as a joint journey with local partners toward a more sustainable local economic ecosystem. NGOs often do not care about these challenges and trade-offs that a multinational company faces when investing in low income countries. They could be great partners in helping to make the joint journey toward a higher degree of sustainability possible, but instead they often polarize and prefer confrontation to cooperation.

How could an online KEI platform help to re-frame the debate on business and human rights?

Michael Cooke is confident that ABB will support the further development of the **platform** because it **could** serve as an enabler to talk about different topics with stakeholders and to **provide a more**

balanced view on the risks and benefits of FDI. It could shift the discourse from “risk” to “opportunity.”

Peter Schenker agrees that it is important to show the contribution / impact of the companies on the well-being of society. Nestlé would be confident to perform well in an embeddedness assessment in view of its numerous local suppliers and the large investments in local capacity development. Rather than having a perfect measure for impact, Schenker believes that i**t should be an adaptive learning tool that serves as a foundation for discussion, communication and storytelling**. Solutions that help empower local people would be useful.

Jens Diebold sees the potential of an embeddedness platform to **shift the focus** from comprehensive ESG reporting, where a lot has been achieved already, **to active local engagement** that is most needed to enable sustainable and inclusive change.

Urs Jaisli sees the value in further developing such a platform. Roche is using a similar platform which helps to demonstrate how the embeddedness of its subsidiaries contributes to local sustainable change. Its direct local partners are aware of the value of embeddedness, however, it is also important to document it for a larger local constituency in order to **ensure the long-term license to operate**.

Philipp Aerni argues that one of the important motivations to develop the prototype of the KEI platform was the hope that the tool may help to bring more attention to the creation of local economic ecosystems that prosper because everyone contributes. It also raises awareness of the fact that it does not make sense to pitch global big business against local small business. After all, there is strong mutual dependence. MNEs could not flourish without SMEs and the other way around. If they work together, they greatly contribute to inclusive growth and the creation of decent work.

Remarks by Karin Lenzlinger, President of the Zurich Chamber of Commerce

Karin Lenzlinger, who is also a member of the foundation board of CCRS, presented her views on embeddedness from the perspective of SMEs in the **Greater Zurich Area**. In this context, she referred to the **high degree of economic complexity in the region thanks to a healthy mix of innovative SMEs and MNEs** that provide the foundation of the globally networked innovation ecosystem of Zurich.

Karin Lenzlinger is very concerned about the public portrayal of Swiss MNEs in the profit-oriented global business that would pose a threat to local culture and human rights. In her view, the responsible business initiative (“Konzernverantwortungsinitiative”) that would require companies based in Switzerland by law to carry out appropriate human rights and environmental due diligence procedures would not recognize that most relevant Swiss MNEs are doing this already. Nearly all of them are part of a global initiative related to promoting and auditing such measures. Companies do so out of their self-interest because they have a reputation to lose. This is where she is very concerned about the initiative because it would make Swiss MNEs and to some extent SMEs potentially liable for the harm caused not just by companies under their control but probably also suppliers that fail do to proper due diligence. This is a risk, especially in low-income countries. She is particularly concerned about the reversal of the burden of proof because it makes it easy for potential plaintiffs to sue a company without much evidence. Even if the amended proposal of the initiative designed by Swiss parliamentarians would mitigate certain controversial aspects, it would still be very harmful because it still creates opportunities to blackmail Swiss MNEs to sue them for human rights offenses in low income countries. After all, a **large MNE may inform and train its employees worldwide on due diligence procedures but it can never control if all of them strictly follow this procedure**. The same applies to their local suppliers. Therefore, Lenzlinger thinks that this **popular initiative would contribute to further polarization and would signal to the Swiss public**

that international commerce is a zero-sum game in which one party wins and the other loses, which is not the case since trade is based on voluntary exchange and therefore benefits both parties.

Lenzlinger further highlights that small and medium sized enterprises (SMEs) face the same problems as MNEs. SMEs are confronted by scandals rather than by good news, as are MNEs. In her view, companies should communicate more about their core business activities as CSR reports are not widely read. Good examples would help to build trust. The KEI indicators could be such a basis for discussion and are heading into the right direction. Evidence based impact is needed. Dialogue could also foster the notion that trade enhances welfare and could pave the willingness to engage in new free trade agreements. Companies must build alliances with other stakeholders to improve public understanding of how companies operate and how the economy functions in general. In this context, Karin Lenzlinger refers to the different initiatives of the Zurich Chamber of Commerce. It organizes, for example, **camps for youngsters where they can participate in business online games** that teach how to manage a company and provide a better understanding of the business ecosystem.

At the end, Philipp Aerni pointed to the fact that efficiency gains through international trade are often small and difficult to communicate whereas the **welfare gains resulting from FDI** are often huge because they come with lots of spillovers in terms of knowledge/technology transfer and capacity development. **Knowledge** creates great value for society because it is **a non-scarce resource that increases in value the more it is used**. Alas, knowledge exchange is intangible and therefore does not show up in trade statistics.

Concluding remarks by Thomas Streiff

Thomas Streiff has been a partner at BHP Brugger & Partner since 2004. In his wrap-up, he points to the difficulty in measuring the contribution of embedded FDI to inclusive growth because it requires one to first discern the most **material** aspects (materiality). This information has to be well managed and must be thoroughly understood. In essence, the challenge is to assess the mass of available information and pick out the **indicators that most clearly signal the contribution to inclusive growth**. This requires a "reduction to the max."

Another point is the ambition the communicator has in terms of **reputation management** of the company, **with respect to stakeholders, to peers, or the industry as a whole**. In this context, it is important to identify the relevant stakeholders in order to deliver the right information. Then, one has to define **to whom** the company wants to communicate to. It should not be forgotten that the **company's employees are the best ambassadors** as they can act as internal role models. The combination of internal and external information also helps to identify potential gaps and serves as a basis for **discussion**. As such, an instrument that assesses the extent and quality of local embeddedness of MNE subsidiaries may be useful to spur a new debate.

Further links

CCRS would like to thank all the speakers and all of the panel participants for their excellent presentations and insightful inputs.

Roche https://www.roche.com/

LafargeHolcim https://www.lafargeholcim.com/

ABB https://new.abb.com/

Nestlé S.A. http://www.nestle.com/

Zürcher Handelskammer https://www.zhk.ch/nc/de/home.html

Swiss Sustainable Finance http://www.sustainablefinance.ch/

BHP – Brugger & Partner AG https://www.bruggerconsulting.ch/

University of Zurich https://www.uzh.ch/de.html

Inrate AG http://inrate.com/

Link to relevant CCRS Publications:

P. Aerni, Global Business in Local Culture: The Impact of Embedded Multinational Enterprises (Springer 2019)

https://www.springer.com/de/book/9783030037970?gclid=CjwKCAjw0tHoBRBhEiwAvP1GFfRCNLkpliTkQVmZN6hedckiGN4nEuo_t9N20_vhLOzPjWafRh7eaxoC7DQQAvD_BwE

I. Schluep, "Embeddedness": Einbettung von Firmen als Voraussetzung für Nachhaltigkeit (Austrian Institute Paper 16/2017)

http://austrian-institute.org/embeddedness/

ATDF Journal Special Issue on "Embeddedness and Sustainability of MNC's" (ATDF Online Journal 2017)

http://atdforum.org/1967-2/

P. Aerni, The Sustainable Provision of Environmental Services: From Regulation to Innovation (Springer 2015)

https://www.springer.com/de/book/9783319193441

P. Aerni, Entrepreneurial Rights as Human Rights (Cambridge Banson 2015)

https://www.researchgate.net/publication/280013575_Entrepreneurial_rights_as_human_rights_Why_economic_rights_must_include_the_human_right_to_science_and_the_freedom_to_grow_through_innovation