



Kennedy School of Government

CSR Initiative

International Business: mapping impacts & influence on development

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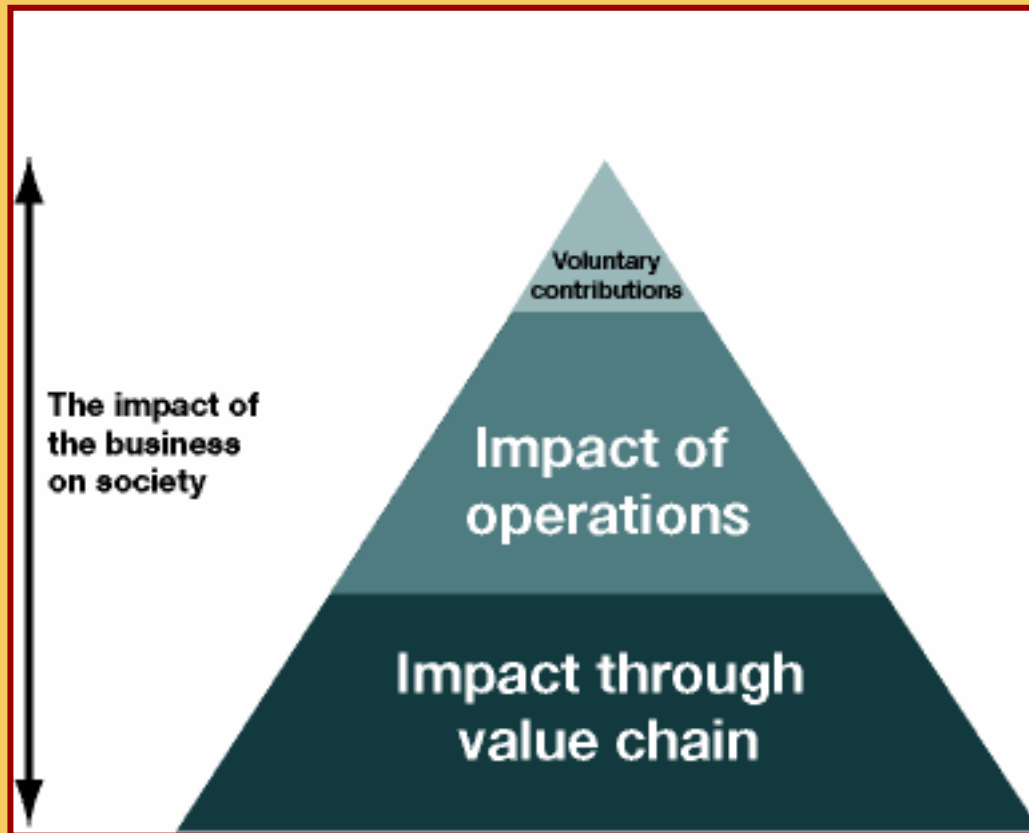
International business: mapping impacts & influence on development

- o based on a case study of Unilever Indonesia
- o a joint research project conducted by Oxfam GB, Novib, Unilever and Unilever Indonesia



The Impact of Business on Society

Framework for analysis



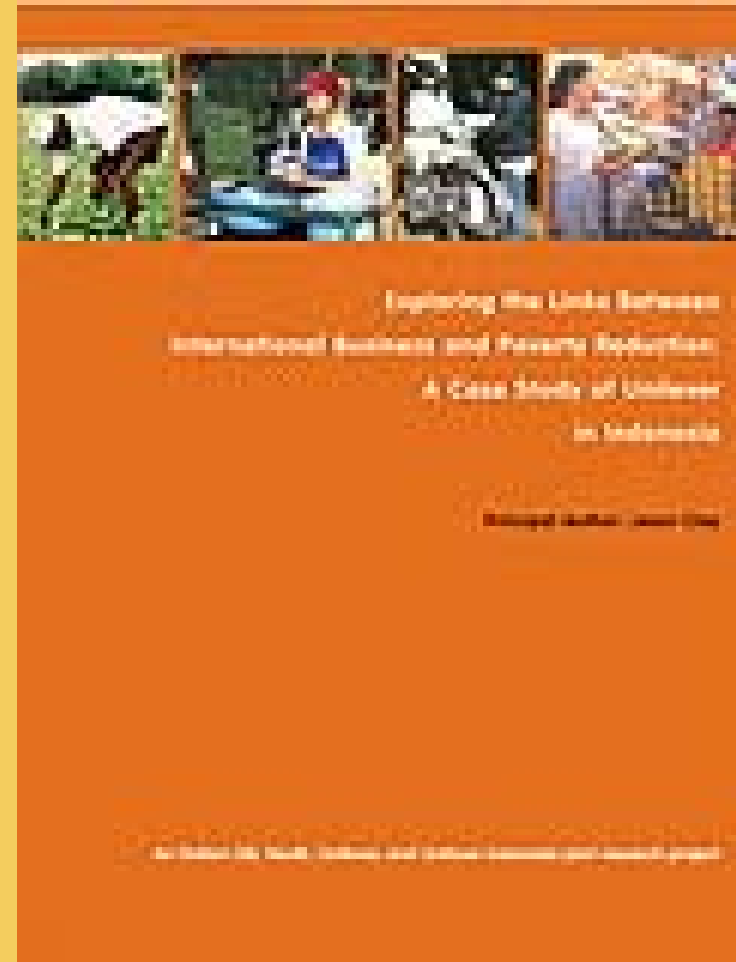
Background to the Case Study

Why the research project?

- o Shared interest in increasing contribution of international business to poverty reduction
- o UN Global Compact/MDGs

What is this report about?

- o a 'learning' project; not an audit of Unilever or UI.
- o The goal: to understand how wealth generated by a multinational company's local operating company can have positive or negative impacts on people living in poverty
- o To do this, we looked at UI's entire value chain from small-scale producer to low-income consumer to understand the points of entry and leverage to reduce poverty.



Indonesia in Context

- o Population 213 million (2002)
- o An economy in development
- o 1997-98 economic crisis
- o Unemployment 9.7% (2004)
- o Half the population live on US\$2 or less a day (2002)

Table 1: Percentage of people living in poverty in Indonesia (1996, 1999, 2002)

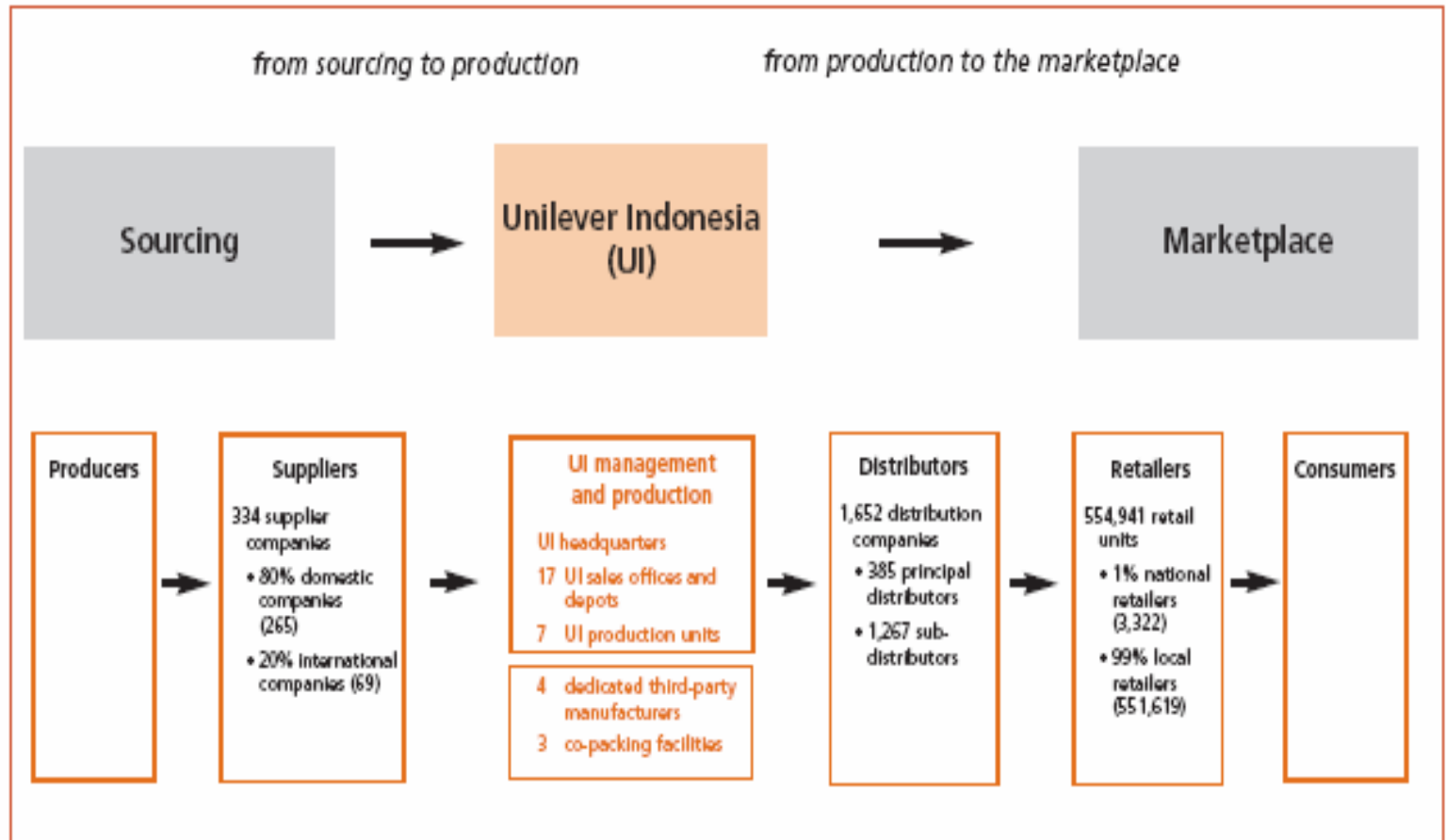
	1996	1999	2002
According to international poverty line of US\$ 2 or less/day	50.5%	65.1%	53.4%
According to international poverty line of US\$ 1 or less/day	7.8%	12.0%	7.4%
According to Indonesian government data, using a National Poverty Line (monetised at about US\$ 1.50/day)	17.5%	23.4%	18.2%

Unilever Indonesia (UI) in Context

- o Unilever Indonesia founded in 1933
- o 95% of Indonesians chose a Unilever product every week
- o Home and personal care products: 84% of total sales
- o Food products 16% of total sales
- o Employs around 5,000 employees (direct/contract)
- o Local production units, and local supply and distribution chains
- o Listed on the Jakarta stock exchange: 9.2 million shares locally held (15% of total)

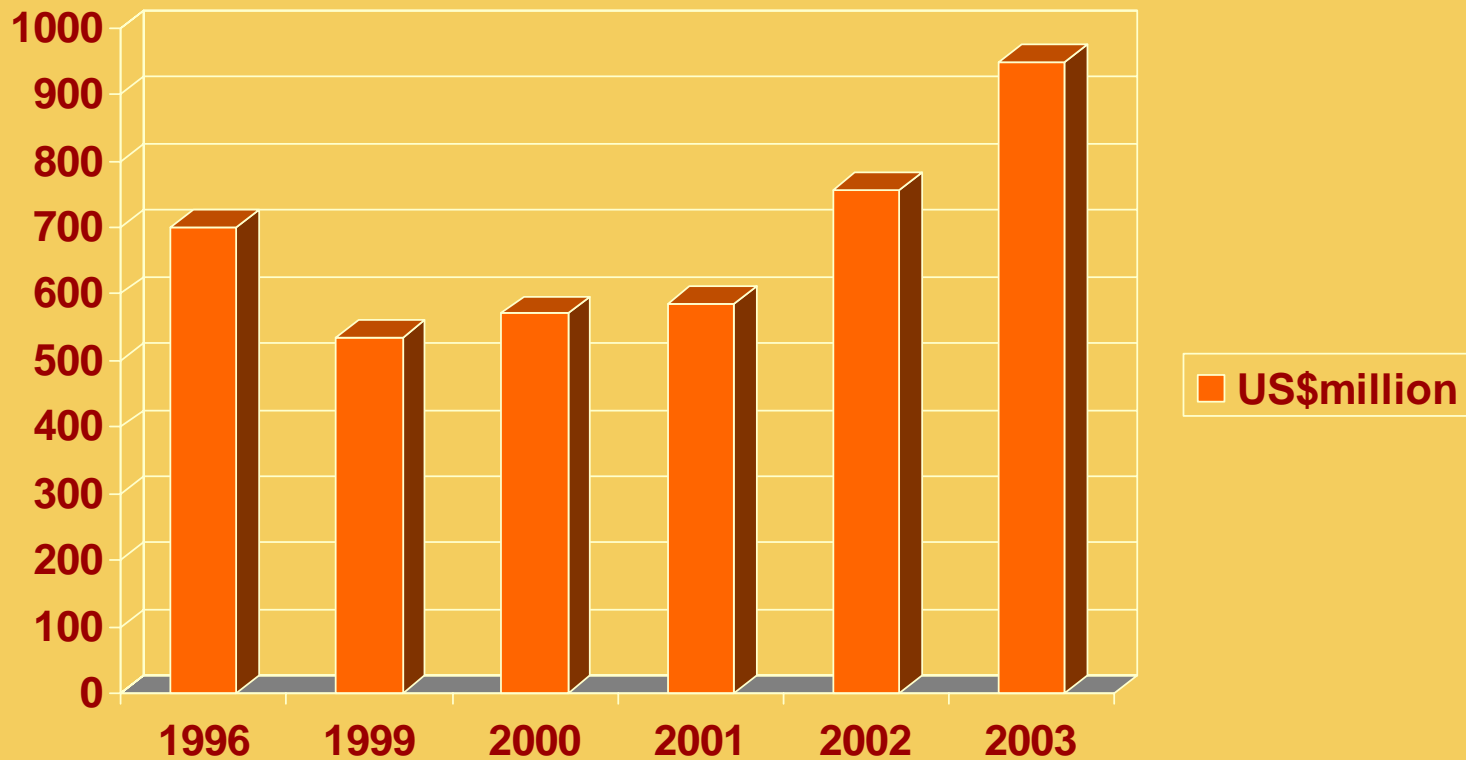
The UI Business

Figure 1: UI and its business partners: structure of operations from sourcing to marketplace



UI - A Growing Business

UI's sales revenue (1999-2003)



Impacts & Influence

- o UI's 'macro-economic' level impacts
- o UI's employment impacts
- o The value chain from supply to distribution
- o Low-income consumers in the marketplace

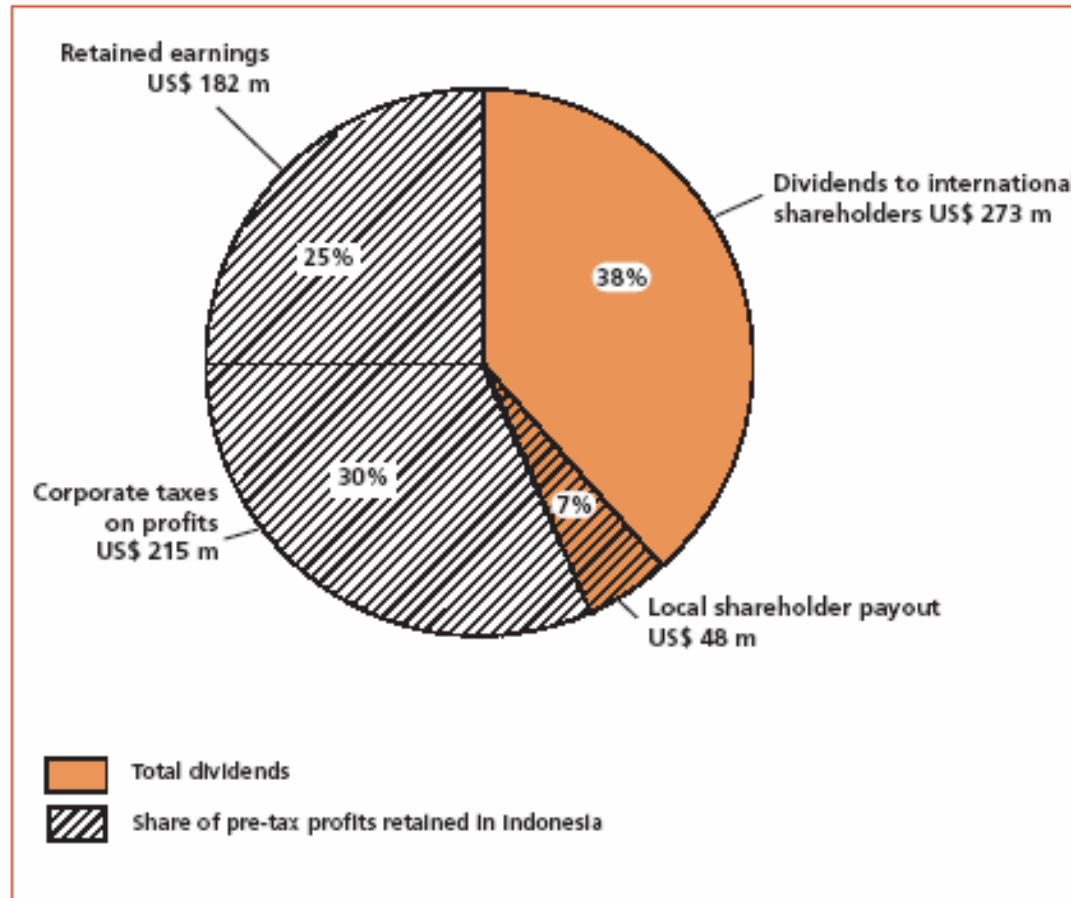
Impacts & Influence

- o **UI's 'macro-economic' level impacts**
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Impacts & Influence

UI's distribution of profits

Figure 2: Distribution of UI's total pre-tax profits, 1999–2003

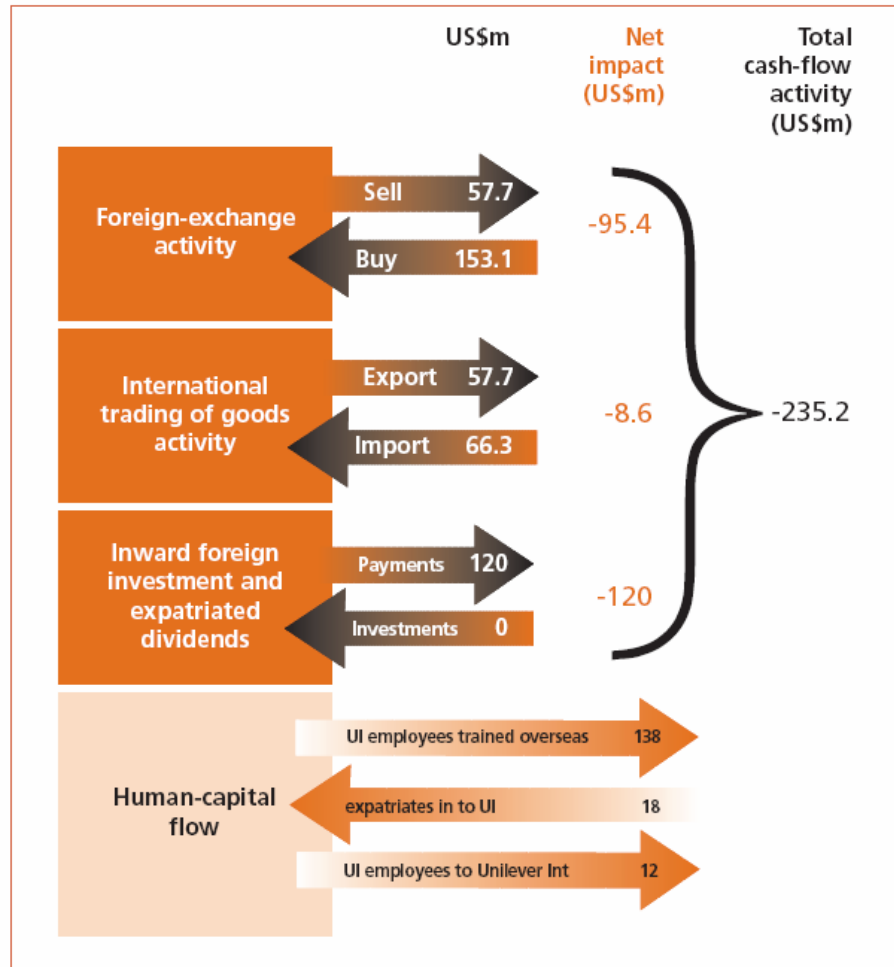


Source: UI Annual Reports, 1999-2003

Impacts & Influence

Foreign exchange, trade & human resource flows

Figure 3: UI's international foreign-exchange, trade, and human-resource flows at a glance, 2003



Source: UI internal data

Impacts & Influence

- o UI's 'macro-economic' level impacts
- o **UI's employment impacts**
- o The value chain from supply to distribution
- o Low-income consumers in the marketplace

Impacts & Influence

Employment

- o UI employs 5000 people: 60% direct employees; 40% contract workers
- o The closer workers are linked to UI the more they benefit directly
- o Pay, benefits & conditions for UI's direct employees are above required by law/in the top quartile of Indonesian companies
- o Contracting out employment may reduce a company's ability to monitor contract workers' or suppliers' employees' situation
- o UI labour-supply companies to observe legal requirements to transfer temporary employees to permanent contracts & to address concern of a female contract worker over loss of employment if ill or pregnant

Impacts & Influence

- o UI's 'macro-economic' level impacts
- o UI's employment impacts
- o **The value chain from supply to distribution**
- o Low-income consumers in the marketplace

Impacts & Influence

Supply chain

Direct suppliers

- o UI had 334 suppliers, spending approx Rp 3,591 billion (US\$ 419m)
- o 80% of suppliers are domestic, 20% are international
- o Top 10 suppliers by value are all Indonesian and account for 34% of purchases
- o Domestic suppliers provided 84% of goods and services
- o All UI suppliers required to observe Unilever's Code of Business Principles
- o UI maintains basic standards through negotiations, on-going dialogue, and a rolling three-year audit programme
- o UI supplier companies exceed legal regulations governing wages and benefits in Indonesia but pay and employment conditions' for suppliers' employees and contract workers were lower than those for UI's direct workforce

Impacts & Influence

Distribution chain

- o Complex distribution chain: two principal channels:
 - General Trade** (80% of sales) via 385 distributors and 1,267 SDKs who supply 550,000 small retailers 'warungs'
 - Modern Trade** (20% of sales)
- o + an estimated 1.8 million small stores and vendors purchase UI brands independently
- o The closer to UI that distributors and retailers are in the chain, the more likely they are to gain skills, knowledge, better prices & conditions, experience higher employment standards and incomes, and be able to build up business capital



Impacts & Influence

Estimated employment linked to UI value chain (2003)

- o More than **300,000** people (FTEs) make their livelihoods in UI's value chain
- o More than half this employment is found in the **distribution and retail chain**
- o Contribution of this employment to economic development and poverty reduction often overlooked

% of total employment linked to UI's value chain	Value-chain activity	Estimated jobs (FTEs)	% breakdown by category	
27.1	Raw-material sourcing	81,515	Cassava	44
			Palm oil	27
			Tea	12
			Coconut sugar	10
			Black soybeans	7
	Manufactured goods & other suppliers	24,000	Direct suppliers	33
			Indirect suppliers	67
8	UI operations	7,069	Direct & temporary employees	46
7.4			Contract workers	28
			3rd-party producers*	26
7.3	UI distribution operations	21,860	UI distributors	48
			UI sub-distributors	18
			Sales promotion teams	13
			Ice-cream hawkers	21
55.2	Retail operations	166,320	UI-supplied shops	1
			UI-supplied warungs	99
Estimated number of jobs (FTEs)		300,764		

Impacts & Influence

Estimated distribution of value generated along UI's value chain (2003)

- o Total value generated along the chain was estimated at **US\$633m: 1/3 UI - 2/3 in the chain**
- o The government receives (from UI alone) 26% of the total value generated
- o The value created by poorer people working at either end of the value chain is much lower than the value captured by those who are in direct interaction with UI

% of total value generated	Value-chain activity	RP billion	US\$ million	% breakdown by category	
4 ^b	Raw-material sourcing	232	27	Local raw materials	62
12				Imported materials	38
34	Manufactured goods & other suppliers	638	74	Direct suppliers	54
				Indirect suppliers	25
	UI operations	1,817	212	Advertising suppliers	21
				UI operating costs	69
				UI employees	26
				UI Indonesian shareholders	5
26	Taxes paid by UI	1,457	170	UI taxes ^c	100
6	UI distribution operations	332	39	UI distributors	93
				UI sub-distributors	7
18	Retail operations	955	111	UI shops and warungs	80
				Non-UI warungs	20
Estimated total value generated		5,431	633		

Impacts & Influence

- o UI's 'macro-economic' level impacts
- o UI's employment impacts
- o The value chain from supply to distribution
- o **Low-income consumers in the marketplace**

Impacts & Influence

Low-income consumers in the marketplace

- o 90% of poor Indonesians use at least one UI product each year
- o Average low-income family spends 5.7% of its average monthly outgoings on UI products
- o UI markets many of its products in small sachets. Although unit cost is higher, sachets are more affordable for consumers with limited cash-in-hand
- o Concerns about polluting effects of sachet packaging waste



Impacts & Influence

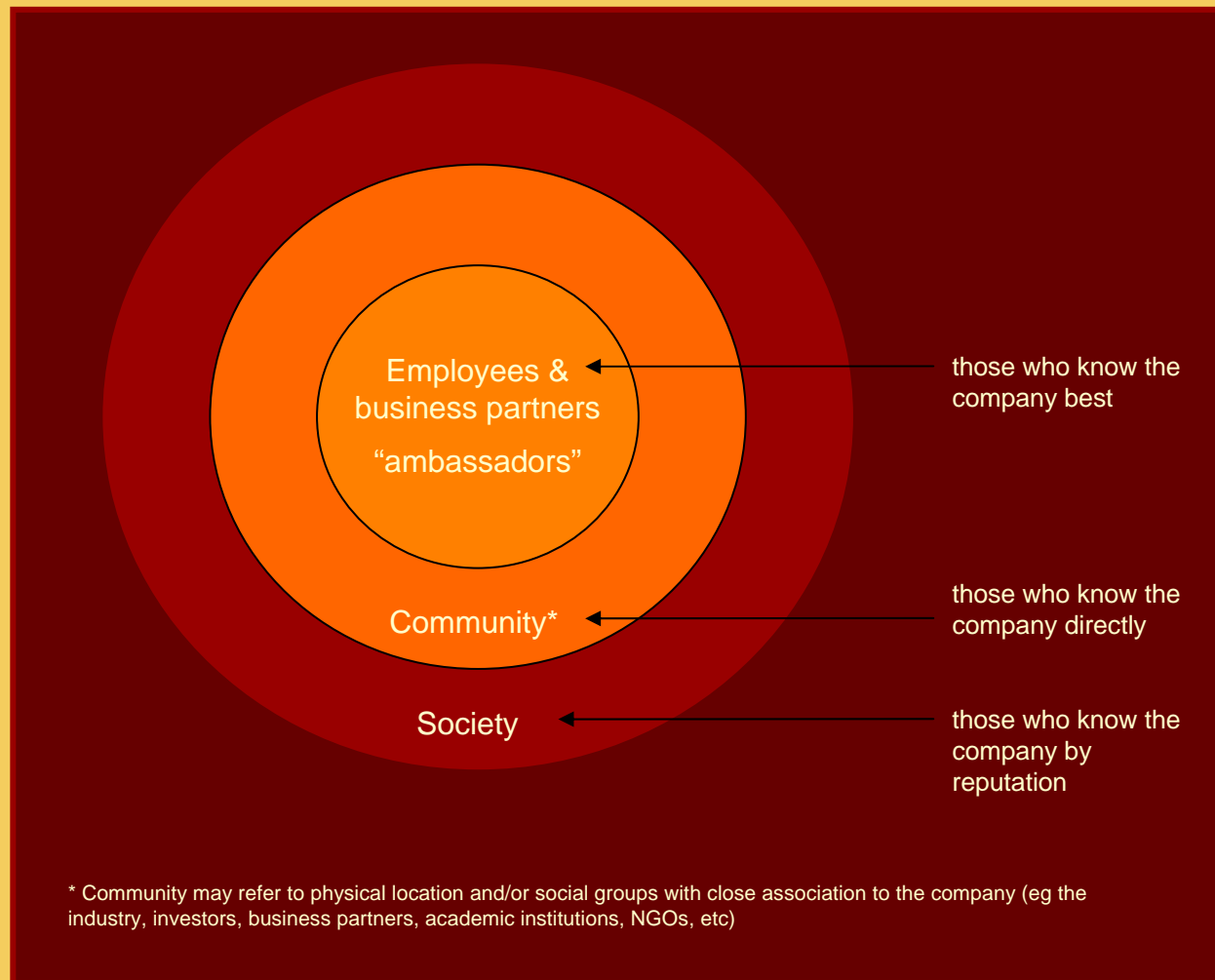
Low-income consumers: key insights

Marketing to people living in poverty can serve their interests if:

- o It gives them access to high-quality products that are good for health or well-being
- o It improves the value of their limited disposable income
product choice and competition lead to lower prices, or consumers are provided with better information about products
- o It increases economic opportunities by creating jobs in the distribution network or supply chain: in particular, jobs that provide working capital or new types of skill and opportunity
- o It spreads new technology or product ideas that local producers can adapt and use.

Impacts & Influence

Building trust through corroboration of responsible business practice





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