



HUMAN-CENTRED BUSINESS MODEL

A HOLISTIC APPROACH TO A SUSTAINABLE BUSINESS ECOSYSTEM

LJD LAW,
JUSTICE and
DEVELOPMENT

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The Human-Centred Business Model (HCBM): *A Holistic Approach to a New Model for Doing Business*

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1. Background and Justification

The single-minded pursuit of profit maximization is by far the primary objective of corporate entities and other business structures. However, there is a growing recognition that actions taken by businesses and corporate entities to achieve profit maximization often negatively impact communities, cities and regions, both where the company is located and in remote locations the world over. These actions can, and often do, infringe upon basic and globally-agreed social, environmental, ethical and human rights principles.

Across the world, regulators, industry and public interest groups are struggling to identify alternative, more sustainable models of doing business. This quest is supported by a wealth of entrepreneurial practices and ‘experiments’ aiming to address these specific concerns.

Many entrepreneurs are voluntarily moving towards a more sustainable way of doing business, as an answer to a growing market of consumers and investors more and more sensitive to the impact of business on the social and natural environment in which they operate.

There is substantial public and private sector interest in improving options for doing business in a more sustainable way. Along with cooperatives and not-for-profit enterprises, recent initiatives are particularly targeted to for-profit enterprises (although not limited to them): social and environmental reporting; disclosure of non-financial statements; the ‘triple bottom line’ and the BCorp movement; the ‘creating shared value’ concept (CSV); and corporate social responsibility practices (CSR) are all examples of aspects of a potentially more responsible and sustainable methodology. However, these variations are still fundamentally profit-centric; they operate under the widely-held understanding and justification that socially-responsible policies ultimately result in higher profit margins. Furthermore, despite the broad effort to develop a harmonised set of fundamental principles, a lack of coordination has limited their collective impact. While many of the existing initiatives offer guiding principles, suggest best practices on corporate governance, or provide ‘socially-sensitive’ financial instruments, they do not include, nor do they develop, a framework or any sort of holistic, comprehensive approach that incorporates corporate governance solutions, fiscal policy, financial mechanisms, procurement policies, and other basic business needs.

The concept of the Human-Centred Business Model (HCBM) derives from the conclusion that an entirely new business ecosystem is needed for entrepreneurs sensitive to the social, ethical and environmental impact of their activities who wish to run an economically sustainable business.

The Model seeks to create an **alternative approach to doing business that potentially combines – on an equal level of importance – profit-seeking with the social and environmental sustainability** (including, for example, notions of decent work, respect for territorial and local community integrity, sustainable environmental impact, and attention to inheritance issues for future generations). The HCBM shifts social and environmental interests from ‘tertiary’ or ‘external’ interests considered solely through a lens of increasing profit, to primary corporate goals that stand alongside the drive for profit. In compliance with their administrative duties, managers of a HCBM business will have to strive also for its social and environmental impact. The Model will provide an additional way to bridge the gaps in the spectrum of business forms, from profit-maximizing enterprises on one side to not-for-

“The decadent international but individualistic capitalism, in the hands which we found ourselves (...), is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn’t deliver the goods. In short, we dislike it and we are beginning to despise it. But when we wonder what to put in its place, we are extremely perplexed” **J. M. Keynes, 1933**

profit organizations or volunteer associations on the other, passing through the above-mentioned possible other forms.

The Project seeks to create a practical business model that provides a real choice for entrepreneurs who are looking for an opportunity to conduct their enterprises in a sustainable manner.

2. The Model

The Human-Centred Business Model aims at developing an innovative – human-centred – business model based on a common set of principles based on economic, social, environmental and ethical rights.

The Model takes a holistic approach, offering a detailed model and guidance on relevant processes and procedures, addressing the entire context needed for a sustainable and competitive ‘business ecosystem’, including fiscal, financial, legal and regulatory regimes, procurement conditions, and stakeholders relationship, to ensure that Human-Centred Enterprises will not be at a disadvantage compared to for-profit businesses.

The Model’s framework will be built upon human rights and globally-accepted ethical and integrity principles, with substantial flexibility to allow it to be tailored to specific circumstances in both developed and developing countries.

Once complete, the Model, which will be available for voluntary adoption by entrepreneurs, will create a business ecosystem that will enable businesses and enterprises to focus equally on economic principles, human and social rights, and environmental sustainability, in respect of ethical and integrity principles.

The Project is structured around **six ‘pillars’** developing: (1) guiding principles, (2) the legal framework and corporate governance solutions, (3) financial mechanisms, (4) fiscal policy, (5) procurement policies, and (6) stakeholders relationship techniques.

Each Pillar is led by one or two partner organizations (see Annex A).

Pillar 1: Guiding Principles

Pillar 1 proposes and drafts the Guiding Principles (economic, human rights, social, environment, ethical, etc.) that all enterprises must include in their mission and bylaws if they wish to meet the definition of, and function as, a **Human-Centred Enterprise (HCE)**. The Guiding Principles will define the Model’s central requirements and shape the work and analysis conducted by the other Pillars; Pillars 2 to 6 will build upon the Guiding Principles, developing their own content and endorsing the applicability of the performance indicators in such a way as to be coherent with the work of Pillar 1.

The Model must include a pre-determined and fixed set of **mandatory principles common to all HCEs**. Ethical principles and integrity values are the basis of the guiding principles of the Model. To support them, their implementation will require the firm commitment of the senior management of the adopting enterprises and appropriate education for all shareholders.

However, in order to facilitate the adaptation of the Model to different legal, socio-economic and cultural environments around the world, it must be flexible enough to be applicable in almost any

economic sector of industry or activity. **Additional, optional and sector-specific principles** should be proposed for voluntary adoption.

Finally, while certain core mandatory principles will require immediate implementation by a HCE (e.g., non-complicity in human rights abuses; prohibition of child and forced labour; non-discrimination), other principles may be implemented over time or sequentially (e.g., preferencing technologies less harmful to the environment).

See the preliminary research documents of Pillar 1 for further details.

Pillar 2: Legal Framework and Governance

The objective of this Pillar is to assess national legal frameworks and develop a legal and corporate governance framework to enable the HCBM to be used in different socio-economic and legal environments, for a variety of purposes and activities, and for businesses of varying sizes.

Corporate governance solutions will focus on developing innovative techniques to ensure a more effective internalization of interests other than shareholder profit, including the interests of non-shareholder stakeholders.

Regardless of its adaptability, the governance framework must have characteristics that allow for a participatory, democratic, transparent, and accountable system of management, including meaningful involvement of stakeholders. Some already-existing business forms could ‘qualify’ as HCEs when in compliance with some of the rules provided by the Model.

See the preliminary research document of Pillar 2 for further details.

Pillar 3: Financial Mechanisms and Instruments

The objective of Pillar 3 is to assess the currently available financial instruments and identify innovative financial instruments that will ensure the financial sustainability of the Model. These instruments could be adaptation of existing instruments or development of new ones.

The Financial Pillar will build on the expertise and previous work of other initiatives and financial institutions to identify regulatory and business practice measures capable of bringing the market for sustainable and responsible investment to maturity. It will closely coordinate its work with Pillar 2, as the financial instruments are closely connected with the legal framework and governance of the human-centred enterprise.

Pillar 4: Fiscal Regime

The objective of this Pillar is to provide recommendations regarding options for favourable fiscal conditions resulting from positive HCE performance.

The Fiscal Pillar will build on existing techniques of using fiscal rewards and disincentives for business activities. Its methodology will include researching ways to reward positive corporate performance under the HCBM through fiscal policy, including the possibility of a reduced effective tax rate for participating entities. The effective tax rate for HCEs should depend on the results for each Guiding Principle (calculated according to the performance indicators developed by the Pillar 1). The fiscal regime could thus be linked to the performance, with indicators of a better overall performance, resulting in lower effective tax rates and/or penalties.

The system will not create market distortions, and will be developed specifically to counteract current distortions.

Pillar 5: Corporate and Public Procurement

The objective of Pillar 5 is to suggest mechanisms for granting preferential forms of public and private procurement to those entities in the supply chain that meet HCBM standards.

Procurement and supply chain policies and practices are an essential component of any business ecosystem. In order to effectively address social, economic and environmental concerns in the corporate sector, it is necessary to address business practices across the entire supply chain, in both private and public procurement. The aim of the mechanisms proposed would be to guarantee sustainable procurement, and to discourage potential suppliers or buyers from using any procurement contracts that contradict or impede HCBM practices and principles. This seeks to expand the impact of the Model beyond just the HCBM entities themselves, to the upstream suppliers and downstream purchasers of the HCE's products and services.

Pillar 6: Capacity Building and Mentoring Support

The objective of Pillar 6 is to research, develop and improve the relationship between HCEs and their stakeholders, including the implementation of innovative approaches for capacity building and mentoring support that will aid both developing and implementing HCEs.

This Pillar will consider ways to: (1) communicate the HCBM model and ignite changes in attitudes with respect to individuals, enterprises, institutions, societies and territories; and (2) interconnect and enhance the technical, organizational and communication skills of the persons who work in HCEs as well as strengthen the capacity of the HCEs' key stakeholders. Incorporating this capacity building and mentoring element within the HCBM will further support the sustainability and long-term impact of the Model.

3. Main Goals and Results

The overarching goal of the Human-Centred Business Model is to develop a sustainable and more equitable model of doing business instrumental to the pursuit of the Sustainable Development Goals set in Agenda 2030 that will advance inter- and intra-generational equity, shared prosperity and inclusive economic growth.

The Project will make its contribution by developing, validating and disseminating widely a new Model of doing business in a holistic perspective that will remedy the negative effects of the existing business models that contribute to a lack of economic growth, the exclusion of populations, the continuation of poverty, unfair distribution and the depletion of resources.

The Project is designed to have impact on many levels, from national and sub-national governments to enterprises, communities and individuals, and is expected to generate both direct and indirect results.

3.1. Direct Results

Globally, the HCBM will result in the creation of more sustainable and more equitable businesses and more integrated communities, as well as in the reduction of government costs resulting from inequitable, poor or unsafe working conditions and/or low environmental standards. Governments at all levels adopting the Model will then benefit from the 'internalization' of social and environmental costs, while also helping to reduce conflict between the general population and the business community.

Further, the Model will increase a more consistent and reliable long-term growth, taking account of environmental and social sustainability elements of economic growth.

Improved working, environmental and social conditions will benefit entrepreneurs, individuals, communities and governments at all levels (national, provincial, municipal).

Also, it is likely that entrepreneurs and governments will see reduced healthcare, safety and environmental costs.

Business partners along the entire supply chain, including suppliers and clients, will benefit from the Model's more balanced and holistic business approach.

An enterprise that has adopted the Model will be recognizable as a Human-Centred Enterprise (HCE); this will enable it to attract those consumers that are more sensitive to a sustainable way of doing business.

Clients/customers of HCBM businesses will benefit from being part of a socially and environmentally responsible supply chain.

Finally, local communities will have their voices reinforced regarding environmental, local and other issues.

3.2. Potential Indirect Results

The Model is likely to have several important indirect results. For example, non-HCBM enterprises having dealings or associating with those adopting the Model may be influenced to follow suit, particularly as the number of HCEs grows.

Enterprises deciding against migrating to the Model may nonetheless decide to assimilate several of the HCBM principles, even if only as benchmarks. Some may adopt certain selected elements (e.g., social/environmental/ethical principles and their respective performance indicators) while not adopting the entire Model.

The HCBM may also foster the well-being of individuals, society and the environment worldwide through education in a more sustainable way of doing business. More immediately, the families and communities of the workforces participating in a HCBM will directly benefit from their increased earning capacity and the resulting compensation.

4. Beneficiaries

The direct Project beneficiaries are national and sub-national governments, enterprises, communities and individuals who each will benefit from an alternative approach to doing business that combines – on an equal level of importance – the economic goal of for-profit entities with the wider integrity dimensions of social and environmental sustainability.

The HCBM will be an option for 'new' enterprises, as well as for existing social enterprises, cooperatives and non-profit entities. The model pays a special attention to Micro, Small and Medium Enterprises (MSMEs).

While it may not be easy for already established, non-closely-held for-profit enterprises to migrate to the HCBM (given that this would imply a significant modification of members' rights), one can assume that many enterprises, including large for-profit corporations, will be interested in testing the

Model through their subsidiaries for a variety of reasons. These could include improved or increased presence in a specific market; reputational concerns; learning; and adopting certain guiding principles for their core business.

It is hoped that the Model will stimulate some animated discussions among governments, academia and the private sector, and that these interactions will lead to improvements in the Model, permitting its better adaptation to specific legal-socio-economic environments.

5. Organizational Capacity: the Role of the OECD Development Centre

Because of the project's strong development focus and the multidimensional approach, the OECD Development Centre (OECD DEV) plays a dual role:

(1) as coordinator of the existing partners (respectful of the co-ownership of the project with all the partners that have so far contributed to the development of the project);

(2) and, as convener and facilitator among the several OECD Directorates and units that will be willing to join the project for its implementation phase.

In the implementation phase of the HCBM project, the role of OECD DEV is based on:

a) OECD DEV's institutional mandate to help developing countries and emerging economies find innovative policy solutions to promote sustainable growth, reduce poverty and inequalities, and improve people's lives. OECD DEV facilitates a policy dialogue between governments, involving public, private and philanthropic actors.

b) The project's innovative approach, its development focus, its multidimensional approach, its link to SDGs, and its relevance to the OECD agenda (including bribery and corruption, competition, corporate governance, employment, environment, (responsible and green) finance, sustainable development, entrepreneurship (CSR and social enterprises), health (workforce), gender equality (workforce), responsible business conduct and tax).

c) The knowledge co-generation character and the shared ownership with other international organizations, academia and stakeholders.

d) The HCBM holistic 'ecosystem' of doing business balances the objectives of profitability, [with?] social and environmental sustainability and integrity principles. Rather than seeking to replicate existing efforts and existing international legal instruments, the Model builds and leverages upon them. The OECD DEV has the convening power to attract governments, development players, academia and private sector to be part of this exercise with an active role.

e) OECD DEV has proven experience in managing large and multidimensional development projects.

f) The project is in line with the OECD DEV vision of Development in Transition (DiT), which embraces a movement to better design policies, practices and partnerships *both* at home and internationally. It seeks to build the machinery of a new international co-operation – a fresh multilateralism – fit for the purpose of promoting sustainable development for all.

ANNEX A: List of Partners, as of 10 October 2018

PARTNERS	REPRESENTATIVES
Project Coordinators and Facilitators	Representative (name-surname)
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