

Interim findings

Inclusive Business Strategies in Africa

This project explores how Dutch and local businesses in six East African countries (Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Mozambique) can achieve inclusiveness with the involvement of non-market actors such as national governments, NGOs and local stakeholders. Three parallel quantitative surveys were conducted among more than 500 companies to explore five dimensions of inclusive business (motivations for inclusiveness; business model components; societal impact and financial outcomes; internal and external constraints faced by inclusive businesses; and country-specific processes of trust and institution building). In addition, two case studies were conducted to understand how businesses can successfully innovate and implement products that address societal issues and create societal value. The research results were shared and validated in stakeholder meetings, during which policy messages were formulated. The following are the interim findings and policy messages.

Interim findings (surveys)

- The companies surveyed cited both intrinsic and extrinsic motivations for becoming inclusive. The respondents were divided on the issue of whether or not becoming inclusive is good for profitability.
- Financial performance appears to be positively associated with inclusiveness. Businesses that measure their social impact, win prizes for creating a positive social impact, or adapt their strategies to maximize social impact reported significantly higher financial returns.
- The survey found that foreign-owned firms are more likely to measure their social impact and win prizes for this, but differences between foreign-owned firms and local firms in this regard were not statistically significant.
- Context matters: there is a link between the 'institutional void' experienced by companies and the proposed 'partnering space'; the nature of this link was discussed in the stakeholder meetings. Frontrunner companies maintain the importance of partnering as part of their inclusiveness strategy.
- Context, which in this study is also measured in terms of 'trust gaps', has an important impact on inclusiveness strategies. The effects of context can be differentiated according to the size and nature of the trust gap towards the state, civil society and/or companies.
- The survey found that the three most common strategies for inclusiveness are: 1) product innovation or fair pricing, 2) employee development, and 3) value chain development.
- The most valued partners for inclusive businesses are members of value chains, local government agencies, and educational institutes.
- The most binding internal constraints are: shortage of financial resources, limited organizational capacity, shortage of skilled workers, and limited managerial knowhow.
- The most binding external constraints are: the low level of purchasing power of consumers, restrictive and unpredictable government policies, unpredictable regulation and inadequate infrastructure.

Interim findings (case studies)

- The case studies revealed that while technology enables businesses to create novel value propositions for inclusive business, in order to implement these effectively it is important that lead firms direct, guide and fund the entire process. The alignment of the interests of the lead firm and its partners through boundary spanning is crucial in this regard.
- Although maximizing social impact and commercial profit can lead to more inclusive systems, in some cases it can induce unequal power relations and, thus, affect the process of value capture and sharing among

stakeholders. The research identified mechanisms that can mediate tensions and complementarities between the social and financial goals of firms.

- Strong social networks and local embeddedness are instrumental in driving social innovation and can strengthen the innovator's social standing in the community. Where community bonding creates an impetus to internalize social issues, strong ties with institutional and business actors gives access to the diverse resources that are critical for implementing social innovations. Through processes of co-creation, community needs can be addressed in a locally-appropriate way, creating frugal innovations *with* those at the base of the pyramid.
- Cross-sector partnerships play an important role in the interface between local networks and business models when it comes to scaling inclusive innovations.

Policy messages

- **Inclusive finance:** In order to stimulate inclusive businesses, sustainable financing and revolving funds are needed, as well as grant-based financing schemes that specifically target inclusive businesses. Development banks that traditionally focus on large-scale projects and SME support can play a role in providing tailored solutions for inclusive businesses.
- **Food security and inclusive business:** Food security problems are not caused by lack of production, but by malfunctioning value chains – both local and international. The mixed role of governments, which often intervene in markets with negative consequences, is one of the key challenges to be addressed. In addition, there is a strong need for better market information to inform inclusive businesses in the value chain. There is also a need to develop the managerial capacity of businesses through trainings on combining their social mission with commercial profit.
- **Cross-sector partnerships:** Inclusive businesses operating in East Africa have to deal with institutional voids and trust gaps. However, these challenges also provide opportunities for partnering with other stakeholders. To fully leverage this partnering potential and build inclusive institutions to fill 'institutional voids', more supportive partnership policies are needed. Governments are advised to adopt policies that encourage and support public-private partnerships and build the partnership capabilities of societal actors, including NGOs and businesses. Managing expectations is crucial when it comes to inclusive business partnering and needs to address differences in interests and timeframes and work according to a collective vision on partnering for inclusive business. Change agents or gatekeepers within an organization are instrumental in this.

Knowledge products

- Lashitew, A. A. & Van Tulder, R. (2017). Inclusive business in Africa: Priorities, strategies and challenges, *African Dynamics Yearbook*.
- Lashitew, A.A., Muche, L. & Van Tulder, R. (forthcoming). *Business models for creating shared value? A business model perspective* (Submitted for publication).
- Van Tulder, R, Lashitew, A.A. & Lijfering, S. (forthcoming). *Making partnering work for food security in East Africa* (Submitted for publication at NJAS).
- Lashitew, A.A. & Van Tulder, R. (forthcoming). *Social innovation at the base of the pyramid: Understanding the emergence of hybrid practices*.
- Lashitew, A.A. (forthcoming). *Strategic entrepreneurship for societal value creation in base of the pyramid markets*.
- Lashitew, A.A., Y. Liasse & Van Tulder, R. (forthcoming). *Financial inclusion through mobile money: An innovation systems perspective*.



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