Inclusive Business Strategies in Africa – Final Research Conference
25 October 2017
Rotterdam, The Netherlands

Conference Report

Introduction

On Wednesday 25th of October 2017, Rotterdam School of Management hosted the Closing Conference for the NWO/WOTRO research project on Inclusive Business Strategies in Africa. The project has been going on for the past two and half years through a collaboration between Rotterdam School of Management (RSM), Eastern and Southern African Management Institute (ESAMI) and the Netherlands-African Business Council (NABC). The project involved implementing an action research programme that investigated how businesses can contribute to inclusive development in Africa, also called inclusive business models or Base of the Pyramid (BoP) strategies. The research brought together a large consortium of business organizations, knowledge institutes, NGOs, and government agencies from the Netherlands and six African countries namely, Ethiopia, Kenya, Mozambique, Rwanda, Tanzania, and Uganda. The main objective of the conference was to share the results from the research programme, and invite further reflection on the way forward. The project has been funded by NWO/WOTRO as part of the INCLUDE Knowledge Platform on Inclusive Development Policies, which seeks to generate evidence based knowledge for informing development policies. The audience included 30 participants coming from businesses, civil society organizations and knowledge institutes.

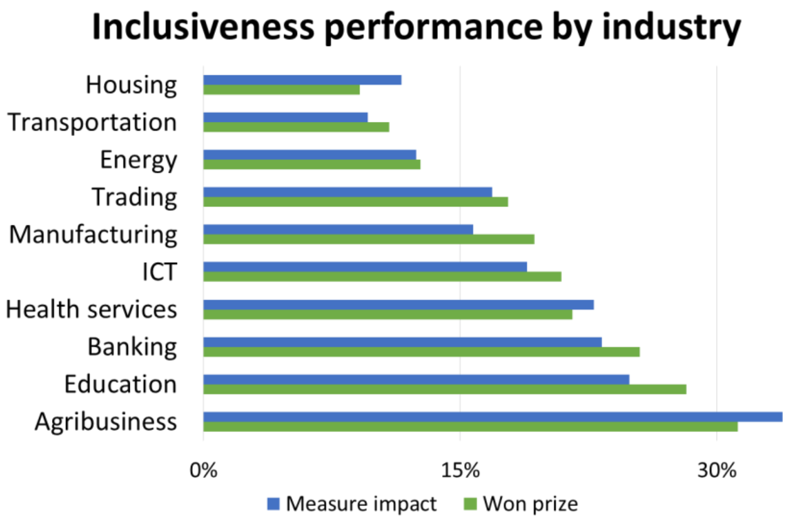
Opening the Workshop

Professor Rob van Tulder from Rotterdam School of Management opened the workshop by welcoming all participants and thanking them for their active participation during the research programme. He started by highlighting the major activities and achievements of the research project. He further added that the private sector has a crucial responsibility of contributing to the development agenda epitomized by the Sustainable Development Goals. Professor van Tulder also indicated that advancing social impact through market-based strategies is not an easy road due to institutional and market challenges that prevail in the African context. Nonetheless, he emphasized the relevance of moving the development policy discourse from trade to investment, and the need to explore BoP strategies for co-creating value with the poor to build capacities and increase incomes. He noted the complexities of implementing collaborative, inclusive business models, and underlined the need for more research that advances current knowledge using rigorous methods that combine multiple levels of analysis. He concluded by calling on participants to continue their engagement in implementing inclusive business approaches to meaningfully contribute towards social causes such as poverty alleviation and sustainability.

Research Findings

Subsequently, Dr Addisu Lashitew from Rotterdam School of Management summarized the major research findings from the project. He presented a selection of practice-relevant insights that were gained from analysis of case study and large-scale survey data. Citing exemplary inclusive business cases such as Safaricom's M-Pesa, Sole Rebels from Ethiopia and Ignitia from Ghana, Lashitew emphasized that inclusive businesses can be profitable, but the question is how to reach scale and achieve social impact in a reasonable timeframe. Given the low purchasing power of consumers in Africa, inclusive businesses would have to opt for a low-margin, mass-market strategy, possibly leveraging new technologies to reach mass markets. Lack of readily available market information and experience for risk assessment means that lengthy and robust piloting might be needed to clearly identify a marketable value proposition.

Secondly, Mr Lashitew highlighted the presence of notable heterogeneities across firms and sectors in taking up social causes. Industries such as agribusiness, education, banking and health services, which are characterized by business-to-consumer transactions, show greater inclusiveness performance (Figure 1), possibly due to their proximity to social issues through their customers. Industries where business-to-business transactions are dominant such as housing and transportation tend to lag behind, reflecting the need to take a value-chain based approach for incorporating social



and environmental issues within businesses.

Figure 1: Inclusiveness performance across industries

Lashitew emphasized that businesses need to build distinct capabilities in order to successfully addressing social issues through their commercial operations. Among others, he highlighted the importance of leveraging information communication technologies (ICT) such as mobile phones and e-commerce to build novel business models (e.g. M-Pesa). He also pointed out the role of building social embeddedness to address the unique institutional challenges of BoP markets, such as deficient regulatory and market institutions. He highlighted how being embedded in diverse networks and building social capital can help businesses access resources, build legitimacy and strengthen their internal commitment for addressing social causes through their commercial operations.

Finally, Lashitew presented a stylized model summarizing the three stages for transitioning towards an inclusive business model: decupling, instrumental and strategic phases (Figure 2). The decoupling phase is where a business addresses social or environmental issues through a relatively isolated foundation or corporate social responsibility department. Gradually, a business can advance to the instrumental phase where social issues become more integrated with commercial operations, but play only an instrumental role for enhancing financial performance. The final strategic phase implies a significant integration of social and commercial issues that makes social mission a strategic focus of the business. Lashitew indicated the presence of iterative steps in the progression across these phases towards a more integrated inclusive business approach.

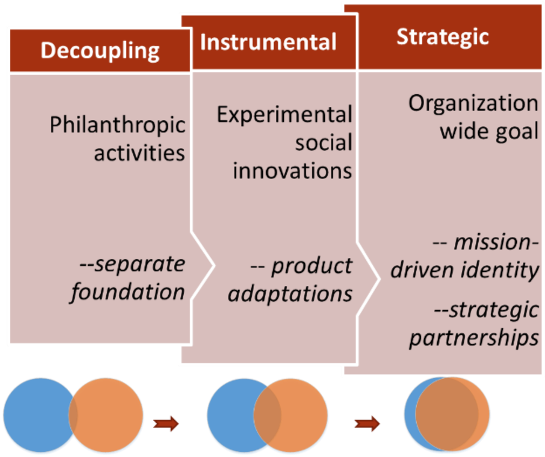


Figure 2: Phases of organizational change towards inclusive business

Subsequently, Professor van Tulder presented research results from a case study of Philips's Community Life Centres (CLCs) program. The CLC program seeks to enhance primary care in remote areas of Africa by providing locally relevant technologies and solutions. Professor van Tulder summarized how co-creation to develop locally suited technologies was encumbered by scaling challenges related to the low purchasing power of local communities, and the customization of the products. The case illustrated the replication dilemma involved in co-creation exercises, creating trade-offs between customization for meeting local needs and standardization to advance scaling.

The presentation of research findings was followed by a short plenary discussion on the feasibility of inclusive business approaches in Africa. Among other things, participants raised questions on the definition of inclusiveness (economic impact versus empowerment and voice), the challenge of creating a sufficient number of jobs, and the role of local governments in supporting inclusive businesses.

Panel discussion

The second half of the workshop was devoted to a panel discussion on various aspects of inclusive business strategies in Africa. Four experts with diverse and rich experience in inclusive business practice and research were invited as panellists. The panellists included Professor Ted London from the University of Michigan, who is an expert in business strategies for low-income markets and poverty alleviation. The other panellists were Mrs Marije Balt, who is the Director and founder of SpringFactor research & consultancy, Mr Frank Nagel who is the Director of Advisory Services at Rabo Development, and Mr Luc de Klerck, who is Program Manager at Philips Healthcare Africa.

The panel started by a round of reflections by the panellists, who highlighted their experiences and insights on implementing inclusive business projects in Africa. Mr Nagel recalled the agricultural roots of Rabobank, and the bank's deep commitment to its cooperative-based, developmental heritage. He shared Rabo Bank's experience in managing and co-owning National Microfinance Bank of Tanzania, which is a leading microfinance lender in the country. He shared the experience of creating financial sustainability while remaining focussed on providing micro-loans to individual and microenterprise customers. Mrs Marije Balk spoke of her experience in advancing youth unemployment in Africa and emphasized the need for creating new and better paying job opportunities for an increasing youth population. The youth in Africa are not necessarily integrated within the social and economic fabrics of their societies because of various cultural and economic barriers, which implies the need for designing distinct sets of policies for them. Mr de Klerck reflected on the challenges Philips faced in implementing the CLC program in Kenya and West Africa, and Professor London highlighted the need to professionalize the practice of business strategies for BoP economies. Better research and training, he reiterated, is required to avoid people making the same mistakes repeatedly.

Subsequently, the floor was open for participants to raise questions to be addressed by the panellists. Mr Peter de Ruiter from NABC asked the role of short term orientation in global financial markets in inhibiting long-term oriented value creation. Mr Nagel responded that there is still a lot of money available by financial markets for development purposes – the challenge is coming up with business opportunities that can address social issues profitably. This is complicated by the perception that doing business in Africa is too risky, and the presence of cumbersome regulation and bureaucracy that discourages investment. At the same time, he admitted that financial institutions give preference for more established businesses than upcoming social enterprises. Mr de Klerck noted Philips' willingness to take risk in Africa because of its aspiration to create new markets while simultaneously addressing social needs. He pointed out that Philips increasingly looks beyond its core operations, for example forming partnerships to distribute solar panels and implement CLCs in Africa.

Another question that was raised by a participant was on how to know that a business has failed. In other words, what is a good exit strategy and how do we know that it is time to leave? Another participant inquired how managers of impact funds can reliability measure social impact to be able to financially reward successful social entrepreneurs. Mr. Nagel concurred on the difficulty of measuring impact, and called upon researchers to provide more coherent and applicable impact measurement tools. Mrs Balt warned against exiting too early, as it takes a long time to become operational and profitable in Africa. Government subsidies cannot forever safeguard companies against failure, and sometimes an inclusive business venture might not be commercially feasible. Mr de Klerck indicated the difficulty of pursuing inclusive and sustainable business in spite of external demand from the European Commission and internal commitment within Philips. He emphasized that in his program Philips tries to do it alone. To run the CLC project in Congo, DRC, for example, they created their own NGO with the government. In Benin and the Central African Republic, they worked together with local businesses. Professor London interjected to point out the dangers of multinationals going it alone to create inclusive business in Africa. He pointed out the need for partnerships with genuine local actors, and the importance of an exit strategy that takes full responsibility for any adverse impacts that might have been created. He cautioned against simply running away in case of failure, and called for clearer prior thinking on how and when to leave accountably. It is also very important to have clear social and commercial goals from the outset by setting out measurable indicators that capture impacts in terms of changes in economic wellbeing, relationships, and capabilities of individuals involved as producers, buyers or traders of the business's products. Only when there is clear and attributable impact can we know our success or failure and the need to continue, adapt or exit. However, he also cautioned that impact measurement does not have to involve expensive and complicated tools such as randomized control trials.

The panel discussion was concluded by a final round of questions in which participants posed a large number of questions. These included questions on cross-cultural challenges of doing business in Africa, finding the right people and competences, the large informality of African markets, and how to ensure voice and representation while implementing inclusive business approaches. The panellists addressed these questions by drawing on their own personal experiences of running or coordinating inclusive business projects in Africa.

Closing reflections

Towards the closing of the conference, Professor Rob van Tulder summarized the key lessons from the research project and invited participants to share their feedback. A number of participants appreciated the value of the research insights and indicated their interest to learn more on the topic. NABC for example highlighted its intention to pursue inclusiveness by focussing on the theme of 'inclusive trade' that is aimed at smaller and medium sized enterprises. Students and other participants from knowledge institutes also revealed their keenness to conduct similar research within their own institutes.

Figure 3: Professor Rob van Tulder speaks to an attentive audience at the Closing Conference