INCLUDE

Policy brief

Inclusive Business Strategies in Africa

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Introduction

This project explored how Dutch and local businesses in six East African countries (Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Mozambique) can achieve inclusiveness with the involvement of nonmarket actors such as national governments, NGOs and local stakeholders. Three surveys were conducted among more than 500 companies to explore various aspects of inclusive business approaches and their social impact. In addition, two in-depth case studies were conducted to understand how businesses can successfully innovate and implement products that address societal issues and create societal value: one on inclusive Health (Philips Life Centres) and one on inclusive finance (Safaircom). The research results were shared and validated in five stakeholder meetings, two executive training and two closing conferences in Africa and The Netherlands. The following are the general findings and policy messages.

Survey findings

• The surveyed companies cited both intrinsic and extrinsic motivations for becoming inclusive. The respondents were evenly divided on the issue of whether or not becoming inclusive is good for profitability.
• Foreign-owned firms report better inclusiveness performance than local firms, though most of these differences were not statistically significant. Across industries, business-to-consumer industries such as agribusiness, education and banking have higher inclusiveness performance than business-to-business industries such as logistics, transportation and housing.
• Financial performance appears to be positively associated with inclusiveness. Capabilities of *customer-orientation*, *local embeddedness*, and *active stakeholder engagement* have positive and significant effect both on social and financial performance.
• 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) value chain partnerships and 3) employee development.
• The most valued partners for inclusive businesses are members of value chains, local government agencies, and educational institutes. The most commonly targeted constituents (beneficiaries) of inclusive businesses are women, micro-enterprises, and children and youth.
• 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.

Case study findings

• 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 and stakeholder findings

• ***Strengthening value chains***. (Business) organizations have high interest investing in social inclusion issues if these are linked with their value chain activities. This way, they can address social issues such as youth unemployment and gender inequalities while also enhancing their own financial performance. Sector specific policies that foster social inclusion through value chain development (e.g. contract farming, input provision) can be fruitful. This not only extends inclusion but also boosts sectoral performance by strengthening upward linkages with suppliers of raw materials and downward linkages with distributors.
• ***Strengthening entrepreneurship training***. Shortage of skilled workers is a critical constraint for organizational performance. The vast majority of small and medium size enterprises (SMEs) also have limited awareness on inclusive business practices. Strengthening vocational training institutes and business incubation centers can make a significant headway towards addressing this issue. One aspect of such training can be how to leverage information and communication technologies to create novel and inclusive value propositions. An example is the use of mobile phones for providing financial services, which has successfully expanded financial inclusion in many developing countries
• ***Financing plus development*****.** Shortage of financial resources is the single most important internal barrier for growth. For a sustainable inclusive business strategy, external funding needs to be matched with other forms of support – such as capacity development, tax benefits and other incentives to empower SME's with pressing financing needs and enhance their productive and employment capacity.
• ***Co-creation and partnerships–*** Strategies of co-creation are useful for identifying locally appropriate innovations that address specific needs of communities in Africa. Especially cross-sector partnerships play an important role in the interface between local networks and (international) businesses when it comes to scaling inclusive innovations.
• ***The importance of assessing 'partnering space':*** For this project we developed a new macroeconomic diagnostic tool, based on literature on institutional voids and trust gaps. The survey helped us in defining the size and nature of the institutional void and related trust gaps, which highlighted how these gaps can constitute an opportunity for inclusive businesses. Institutional voids (related to weak administrative contexts) are pervasive in many East-African countries, but create opportunities if approached by inclusive business strategies that involve partnering processes. The void becomes a 'partnering space'. In particular the stakeholder meetings proved this to be a viable concept: even in countries with sizable trust problems (lacking legitimacy of governments for

instance). The question of how the concept of 'trust gap' related to 'partnering space' triggered a constructive discussion on how to build up trust and contribute to inclusive development.