INCLUDE

Strategic Actors
November 2017

Final findings
Inclusive Business Strategies in Africa

The research project 'Inclusive business strategies in Africa' looked at 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 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 in-depth case studies were conducted – one on inclusive health (Philips Life Centres) and one on inclusive finance (Safaricom) – to understand how businesses can successfully innovate and implement products that address societal issues and create societal value. The following are the final findings and policy messages.

Final findings (survey)

- The companies surveyed cited both intrinsic and extrinsic motivations for becoming inclusive. The respondents were evenly divided on the issue of whether or not being inclusive is good for profitability.
- Foreign-owned firms reported better inclusiveness than local firms, although most of these differences were not statistically significant. Across industries, business-to-consumer industries (such as agribusiness, education and banking) had higher inclusiveness than business-to-business industries (such as logistics, transportation and housing).
- Financial performance appears to be positively associated with inclusiveness. The company's customer-orientation, local embeddedness, and active stakeholder engagement had a positive and significant effect on both 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 (which were held in various countries). Frontrunner companies maintain the importance of partnering as part of their inclusiveness strategy.
- The context in which the company is situated, which was also measured in terms of the 'trust gap', has an important impact on the inclusiveness strategy. The effects of context can be differentiated according to the size and nature of the trust gap between the company and the state, civil society and/or other companies.
- The survey found that the three most common strategies for inclusiveness are: product innovation or fair pricing, value chain partnerships, and employee development.
- The partners most valued by inclusive businesses are: members of value chains, local government agencies, and educational institutes. The most commonly-targeted 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 know-how.
- The most binding external constraints are: the low level of purchasing power of consumers, restrictive and unpredictable government policies, unpredictable regulations, and inadequate infrastructure.

Final findings (case study)

- 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 with that of 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 can provide 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.
- When it comes to scaling inclusive innovations, cross-sector partnerships play an important role in the interface between local networks and business models.

Policy messages and stakeholder findings

- **Strengthening value chains:** (Business) organizations have a high interest in investing in social inclusion, if linked to their value chain activities. In 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 on organizational performance. The vast majority of small and medium-size enterprises (SMEs) also have limited awareness of inclusive business practices. Strengthening vocational training institutes and business incubation centres can contribute significantly to 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 to 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 incentives to empower SMEs with pressing financing needs and enhance their productive and employment capacity.
- **Co-creation and partnerships:** Strategies for co-creation are useful for identifying locally-appropriate innovations that address the specific needs of communities operating at the base of the pyramid. 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 macro-economic diagnostic tool, based on the literature on institutional voids and trust gaps. The survey helped us to define the size and nature of the institutional void and related trust gaps. This provided participants in the stakeholder meetings with a framework for discussing the extent to which these gaps can actually be considered a problem or an opportunity. Institutional voids (related to weak administrative contexts) are

embedded and difficult to change in many East African countries, but create opportunities if approached with inclusive business strategies that involve partnering processes. The void becomes a 'partnering space'. The stakeholder meetings, in particular, proved this to be a viable concept: even in countries with sizable trust problems (lacking legitimate governments, for instance), the concept of a 'trust gap' related to 'partnering space' triggered a constructive discussion on how to build trust and contribute to inclusive development. More research needs to be done here.

Knowledge products

- Lashitew, A & Van Tulder, R (2017). 'Inclusive business in Africa: priorities, strategies and challenges'. In: Akinyoade, A, Dietz, T & Uche, C (eds) (2017) Entrepreneurship in Africa. Leiden: Koninklijke Brill, African Studies Centre, pp 71–95.
- Lashitew, AA, Muche, L & Van Tulder, R (forthcoming). Business models for creating shared value? A business model perspective (Submitted for publication to Long Range Planning).
- Van Tulder, R, Lashitew, AA & Lijfering, S (forthcoming). Making partnering work for food security in East Africa (Submitted for publication at NJAS).
- Van Tulder, R (2018). Getting all the motives right: bringing ICR to the next level. The Hague: Stichting Maatschappij en Onderneming (chapters 4 and 7 based on Inclusive business project).
- Van Lakerveld, A & Van Tulder, R (2017). 'Managing the transition to a sustainable supply chain'. Review of Social Economy, 75(3): 255–279.
- Van Tulder, R & Dietz, T (2017). 'Van Economische naar Duurzame Diplomatie – voorbeeld Afrika'. Economisch Statistische Berichten, 102 (4748), 168–171.
- Van Tulder, R & Dietz, T (2017). Een pleidooi voor Duurzame Diplomatie. African Studies Centre, ASCL Working Paper 136/2017; PrC Working Paper/2017.
- Van Tulder, R (2016). Duurzame Diplomatie in een wankelende wereldorde. Internationale Spectator, 5 (70), 1–5.
- Lijfering, S (2017). Inclusive healthcare innovation in Africa. A case study on the community life centres approach of Philips. Erasmus University Rotterdam, Working Paper.
- The Inclusive Business Team (2017). 'Inclusive business toolkit', a toolkit containing fact sheets on: mapping inclusive business models, leadership profiles, tipping points, inclusive business model CANVAS, policy framework for inclusiveness (prepared for final workshop in Nairobi).
- Lashitew, AA & Van Tulder, R (forthcoming). Social innovation at the base of the pyramid: understanding the emergence of hybrid practices.
- Lashitew, AA (forthcoming). Strategic entrepreneurship for societal value creation in base of the pyramid markets.
- Kiiru, J & Van Tulder, R (2016–2017). Country profiles for inclusive business: Ethiopia, Tanzania, Kenya, Rwanda, Uganda, Mozambique. ESAMI, Erasmus, NABC: working document.
- Lashitew, AA, Liasse, Y & Van Tulder, R (forthcoming). Financial inclusion through mobile money: an innovation systems perspective.
- Van Tulder, R & Lashitew, A (2018). 'Filling institutional voids through inclusive partnering strategies in Africa' (paper to be submitted to Journal of World Business).
- Lijfering, S, Lashitew, A & Van Tulder, R (2018, forthcoming). Developing inclusive business models in Africa: four case studies of frugal innovation. Partnerships Resource Centre at Erasmus University Rotterdam.

Contact

Prof. Rob van Tulder, research project leader, rtulder@rsm.nl

Weblink

http://includeplatform.net/research-group/web-development-research/