

## **Partnerships in Support of an Integrated Approach to Corporate Social Responsibility**

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# Partnerships in Support of an Integrated Approach to Corporate Social Responsibility

## South African Case Study



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**ABBREVIATIONS**

BCtA	Business Call to Action
BMU	Bundesumweltministerium (German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety)
BWI	Biodiversity and Wine Initiative
CC	Corporate Citizenship
CCC	The Coca Cola Company
CCPS	Centre for the Cooperation with the Private Sector
CI	Conservation International
CSI	Corporate Social Investment
CSM	Center for Sustainability Management
CSR	Corporate Social Responsibility
EC	European Commission
EU	European Union
ff.	following pages
FMCG	Fast Moving Consumer Goods
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GTZ	Gesellschaft für Technische Zusammenarbeit
IBLF	International Business Leadership Forum
IFC	International Finance Cooperation
LED	Local Economic Development
LTO	License to Operate
MDC	Manuel Distribution Centres
MDG	Millennium Development Goals
NGO	Non-Governmental Organisation
NPAT	Net Profit after Tax
SASSI	South African Sustainable Sea Food Initiative
SED	Socio-Economic Development
SME	Small and Medium scale Enterprises
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
WWF	World Wildlife Fund

## ABSTRACT

South Africa's emerging market economy is still going through an economic transition following its political transition in 1994 from an economically isolated Apartheid state to democracy. There remains extreme disparity in the distribution of wealth, with thirty to forty percent of the population unemployed. Trends over the last ten years show an increase in Corporate Social Responsibility awareness in South Africa which is underpinned by a commitment to social and economic transformation. In response to South Africa's development agenda, the focus of Corporate Social Responsibility (CSR) has steadily shifted to an inclusion of education, health, community and broader socio-economic development issues (KPMG & UNEP 2006).

Numerous publications and research have identified a variety of advantages that a comprehensive integrated CSR approach can bring to the South African business community. This integrated CSR approach is linked to the core business of a company. It is referred to as a more sustainable approach to CSR as it promises to generate social, environmental and economic returns. Nevertheless, many South African companies still understand CSR as mere Corporate Social Investment (CSI) which is characterised by philanthropic activities of business rather than being embedded in its core corporate strategies and activities (Triologue 2007). Many companies, therefore, address the immediate human needs of the poor at the base of the wealth pyramid (BoP), which are seldom linked to the core business of the company.

CSR, within the framework of this research, is understood as a "comprehensive concept referring to the way in which companies exercise responsibility and accountability for the economic, social and environmental impact of their business decisions and behaviours" (GTZ 2009:9). Research conducted indicates that there is a general vagueness concerning the CSR definition and approach itself, as well as the practices guiding stakeholder engagement in South Africa (GTZ 2009). The potential for companies engaging in partnerships with stakeholders to successfully foster a more comprehensive CSR-related core business approach is still far from being exhausted.

The study hypothesises that ***partnerships have the potential to significantly contribute to the integrated CSR activities of South African companies and to support the integration of CSR activities into companies' core business***. The research undertaken therefore analyses the potential contribution that partnerships can make to overcoming barriers to integrating CSR activities.

By analysing current CSR literature and ongoing debates, by interviewing experts and by conducting three individual case studies, the research identified successful partnership models that have the potential to support this integrated approach in the specific South African context. The three partnership models derived include: selling to the BoP supported by a business-business partnership; buying from the BoP supported by a business-NGO



partnership; and distributing through the BoP supported by a business to small and medium-scale enterprise (SME) partnership.

The research recognizes that South Africa has a supporting infrastructure for integrated CSR and other emerging market approaches; and that the legal CSR-related environment in South Africa has a strong influence on how CSR is performed and interpreted by South African companies. South African legislation also has a strong influence on how partners are selected.

The main findings of the research include that, through partnerships, company-internal hindering factors as well as external hindering factors for an integrated approach to CSR can be overcome in a variety of ways. Partnerships, for instance, can successfully address: a company's lack of market intelligence, particularly with regard to informal markets; a company's challenges with distribution due to insufficient infrastructure; a company's missing knowledge in terms of product development according to emerging market needs; and the company's challenges in financing their integrated CSR approaches. The research, therefore, also identified common success factors for these partnerships.

The research concluded by giving recommendations for partnerships supporting the three identified integrated CSR models: selling to, buying from, and distributing through, the BoP.

On the basis of the research undertaken, it is evident that the emergence of a core business approach to CSR and partnership building in support thereof, have the potential to enhance development impact in South Africa.

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I hope my research will make a contribution to building successful cross-sector partnerships for sustainable development in South Africa.

My special thanks go to my much-loved family and friends for their patience and consistent encouragement during my studies and research.

## 1 INTRODUCTION

*The first chapter will give a brief introduction to the research topic; describe the scope and implications of the research; and outline the research questions and methodology used, as well as the research limitations and challenges faced.*

### 1.1 Background

South Africa is a young democracy with one of the most liberal constitutions in the world. It is a multi-cultural and multi-ethnic country and has a population of approximately 49 million people (Index Mundi 2011). South Africa has been strongly influenced by its apartheid legacy which created a politically, socially and economically segregated society. As a consequence South Africa faces great socio-economic challenges.

Economically, apartheid and the impact of international isolation in the 90s have created characteristics of two parallel economies in the country. On the one hand the South African economy has the characteristics of a very developed economy comparable to that of developed countries, while the other less developed economy is characterised by, and confronted with, the key challenges of poverty, insufficient health care systems, HIV/AIDS and violent crime (Southall & Sanchez 2007). There remains extreme disparity in the distribution of wealth, with thirty to forty percent of the population unemployed and three out of four South Africans living on less than US\$ 3,000 a year (Gradl & Knobloch 2010). This expresses itself in a strong divide between the formal and informal sector in South Africa. Since 1994 South Africa has embarked on a development agenda and growth plan that seeks to develop South Africa into a nation that includes previously marginalised people into the mainstream economy (GTZ 2009).

Numerous publications and research identify a variety of advantages of an integrated approach to CSR to the South African business community (cf. Coetzer 2009a, Hamann et al. 2008, Southall & Sanchez 2007). An integrated approach in this regard relates to the core business of a company. It comprises CSR activities that are either aligned to, or part of, the core business of a company. However, the CSR approach of many South African companies<sup>1</sup> is often solely understood as a Corporate Social Investment (CSI) approach characterised by the philanthropic activities of the business rather than being embedded in its core corporate strategies and activities (cf. GTZ 2009, Trialogue 2007). These CSI programmes which are influenced by South Africa's development agenda predominantly address immediate human needs like education, skills development and health which are seldom linked to the core business of a company.

Research conducted indicates that there is a general vagueness concerning the CSR approaches and definitions themselves, as well as the practices guiding stakeholder and partner engagement. Most companies approached by the German Technical Cooperation (former GTZ since 2011 GIZ) during its 'Built-in or Bolted-on' study indicated that they do not

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<sup>1</sup> This term refers to South African companies, as well as foreign companies based in South Africa.

derive much value from stakeholder and partner engagement and do not consult externally on CSR decision making (GTZ 2009). Many potential benefits of cooperation with company stakeholders, which comprises not only partnership-based relations between market players but also relations with governmental and non-governmental organisations (NGOs), are therefore often overlooked and not utilized by South African companies.

With specific reference to the less developed parts of economies in various developing countries, Hart (2008) calls on businesses to see the poor as partners in co-creating business for mutual benefit. The World Business Council for Sustainable Development (WBCSD), the Netherlands Development Organisation (SNV) and the United Nations Development Programme (UNDP) have developed the Inclusive Business approach which constitutes a model that creates value for both business and society by providing products and services to, or sourcing them from, the poor. Hart (2008) argues that integrating the poorest at the base of the wealth pyramid (BoP) into business as consumers and producers will address the fundamental problems of poverty and sustainable development. Research undertaken, and worldwide Base of the Pyramid success stories like that of the Grameen Bank which provides microcredit loans to the poor (cf. Dowla & Barua 2009) and Coca Cola SABCO's Manual Distribution Centres (cf. Nelson et al. 2009), argue that this holds true.

In this way businesses can intensify their customer and supply relations in a vertical direction by cooperating along the value chain and by including the less advantaged into their value chain operations. At the horizontal level, cooperation can be beneficial within the same stage in the value chain between businesses that would otherwise compete with one another while lateral cooperation can be beneficial between companies from different sectors (cf. Thommen & Achleitner 2006).

## 1.2 Hypothesis of Research

According to Schaltegger & Petersen (2008c) partnerships<sup>2</sup> can contribute to strengthening business efficiency and competitive advantage. They can change public perception by raising awareness of ecological and social concerns, and improve the corporate ability to learn and act. They can be seen as an investment that contributes to company success. While CSR in South Africa has been widely researched, the existing literature covers the role that partnerships can play in implementing CSR only to a limited extent. Thus there is a need for research into the potential contribution partnerships can make to an integrated approach to CSR.

The ***hypothesis of the proposed research*** is that: Partnerships have the potential to significantly contribute to CSR activities of South African companies and to support the integration of CSR activities into their core business.

In testing the above hypothesis the key research question is: How can corporate partnerships assist companies with an integrated approach to CSR in South Africa?

Consequently, the research will answer the following sub-questions:

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<sup>2</sup> The terms partnership and cooperation will be used synonymously in the framework of the research.

- How is the “CSR landscape” in South Africa characterised? How is CSR understood and performed in South Africa?
- Which supporting and hindering factors for an integrated approach to CSR are already taken into account in South Africa in general and which can be identified for the three selected cases?
- What partnership models exist which support sustainability and the integration of CSR into the core business of South African companies?
- On the basis of the research undertaken, which recommendations for successful CSR partnerships derive from the selected case studies?

By analysing current CSR research, literature and ongoing debates, and by conducting three individual case studies, successful partnership models that have the potential to support a more integrated approach to CSR were identified. Moreover, the study demonstrates supporting and hindering factors to CSR and to forming successful core business-related CSR partnerships in South African companies.

### **1.3 Methodology of Research**

Socio-empiric research differentiates between quantitative and qualitative methods. The quantitative approach is primarily a number-based, deductive process using fixed response options to test pre-specified concepts, constructs, and hypotheses. Qualitative methods, in contrast, describe a situation from the point of view of those experiencing it. The latter methods provide more in-depth information on a few questions. Qualitative measures, therefore, rather focus on correlations of contents than on the aggregation of numeric data (Lamnek 1995). The present thesis applies a qualitative approach as the research focuses on a relatively new research topic for which little statistical data is currently available. The research aims mainly at the understanding of contents and correlations and not on the extrapolation of numbers. The following covers the qualitative methods which were used in this thesis.

#### **Desk Study**

A desk study is a secondary research method and “involves the summary, collation and/or synthesis of existing research” (Crouch & Housden 2003:19). It is often conducted before starting a practical study and covers research of relevant available facts and figures of the research topic. The objective of the desk study undertaken was to provide background information on contemporary concepts and terminology of CSR, the CSR landscape and current discussions on CSR in South Africa, as well as partnership approaches and their potential contribution to CSR in South Africa (chapter 2-4). It also gave insights into existing partnership case studies and research as well as organizations involved in such research to date. At the same time, the desk study formed the basis for the three case studies conducted as part of the partnership research. A desk study was preferred to build the foundation of this

research, as a baseline study would have exceeded the scope and timeframe for the study. The desk study consisted of literature and internet research.

### **Case Study Approach**

A case study is “an intensive analysis of an individual unit (e.g. a person, group, or event) stressing developmental factors in relation to context” (Flyvbjerg 2011:301). The case study approach was selected for this research as it offers a suitable model for deepening research into partnerships. Partnership case studies facilitate data on how complex partnerships are managed, built, reviewed, revised and sustained (Stott 2005). They have the potential to fill gaps in our knowledge as to how partnerships at the BoP function. According to Tellis (1997) it is an ideal methodology when a holistic investigation is needed. Case studies can explore what works effectively for a partnership and what does not – and as such can identify the benefits and hindering factors, risks and opportunities of the selected partnership cases. Therefore the case studies complemented the desk study. The case studies are outlined as follows: 1) description of the partnership, 2) profile of the researched company and its partner, 3) business case for the partners (including roles of partners), benefits and opportunities of the partnership, 4) challenges of the partnership, 5) key CSR benefits of the described partnership, and 6) conclusion. Evidence for the case studies was collected through semi-structured interviews with companies and their partners (see below, also cf. Yin 1994).

### **Interviews with Company Representatives and Experts**

The questions for company and expert interviews were developed in line with some general aspects that need to be considered in the development of surveys (Babbie 2001):

- Questions were clearly and understandably formulated. Each item was unambiguous.
- Double-barrelled questions were avoided, i.e. the researcher did not ask respondents for a single answer to a question when the question actually allowed for more answers and had multiple parts, like: “The government of South Africa should amend its BEE programme *and* preferably spend the money on education programmes“, as the respondent could agree to the first part of the sentence but disagree with the second part or vice versa or agree (or disagree) with both parts.
- Interviewees needed to be competent to answer the questions, e.g. held appropriate positions in the company interviewed for the case study. In addition, questions needed to be relevant to the interviewee, thus the questions covered issues of which the interviewee was aware.
- Negative and biased items (such as “don’t you agree with that?”) were avoided.

The questions were developed in an incremental way, as follows:

- 1) Development of a catalogue of questions that covered all relevant questions of the research on the basis of the desk study undertaken.

- 2) Development of detailed guiding questions for expert interviews and for case studies.
- 3) Per case study modification of questions according to information received from the desk study and expert interviews and adaptation to the respective sector.
- 4) Substantial shortening of guiding questions for company interviews.

Interviews with experts working in the researched field and from South African research institutions (identified in the desk study) were selected randomly, according to their availability during the limited timeframe of the thesis, while interviews with company representatives were held after selection of the respective case studies. Company interviews also depended on the availability of the interviewees.

### **Company Interviews**

The outcome of this process was a semi-structured, guided interview. This type of interview is a combination of the informal conversational and standard open-ended interview. This method was chosen as it offers the favourable opportunity to have a list of questions, a kind of checklist of topics that should be covered during the interview on the one hand, but be flexible and open to follow the dynamic discourse and new points the interviewee might mention on the other hand (cf. Lindlof & Taylor 2002). The method also supports research which has an explorative character as is the case with the present thesis. It enables the researcher to be flexible to explore certain questions in greater depth if this seems to be appropriate. There is no strict order in which the questions are asked, some questions may be skipped while others may be added (cf. Lindlof & Taylor 2002). The guiding questions were derived from the desk study undertaken previously and the related analysis in chapters 2-4 of the thesis. The items covered during the guided company interviews included, aligned to the outline of each case study: specifics on roles and responsibilities of partners, business case for the partners, CSR benefits of the partnership and challenges faced during project and partnership.

### **Expert Interviews**

The items covered during the expert interviews included: CSR in South Africa, promoting and hindering factors of Inclusive Business in South Africa, partnerships to support integrated CSR activities, benefits and challenges of partnership building for integrated CSR in South Africa. Expert interviews confirmed the validity of information researched through the desk study and added valuable information, mainly to chapters 2-4. They contributed to the formulation of guiding questions for the company interviews. The guiding questions were adjusted to the competency of the organisation the interviewee represented.

During the interviews the interviewees were given time for individual statements and judgements. A list of interviewees (both experts and company practitioners) can be viewed in Annexure 1. The responses of the interviewees were noted and summarised by the researcher. Based on the method of qualitative content analysis (cf. Mayring 2007), the interviews were analysed according to categories which corresponded to the items above.

This was possible as these items reflect the key aspects of research, presented in chapters 2-4: Corporate Social Responsibility (CSR), Integrated CSR and Inclusive Business, CSR in South Africa, and partnerships supporting integrated CSR activities.

#### **1.4 Limitations and Timeframe of Research**

The research has explorative pilot character, analysing the contribution that best practice partnerships can make to integrated CSR activities in South Africa. It is recommended that these partnerships are verified and monitored in a second step. The data collection, semi-structured interviews and write-up of the study took place between February and August 2011. The research was limited to a timeframe of six months according to the requirements of Leuphana University, Lüneburg. Further limitations worth noting include:

- Due to the limited timeframe and scope of the research itself the researcher was not seeking a representative sample. Instead, focus was given during selection of target businesses to some of those South African based companies that were already known and identified by the above desk study for engaging in CSR activities at the BoP. The research analysed those companies and partnerships which indicated initial interest in taking part in the proposed research and interviews.
- Much of the research could only be gathered from secondary sources. Integrated approaches to CSR and CSR-projects at the BoP in most cases involve a variety of different partners. For a comprehensive analysis of a partnership all partners involved would have had to be analysed and interviewed. Time constraints and availability of interviewees did not allow for interviewing all partners of the selected three examples of partnerships. The research therefore focused on analysing a limited number of partners per case study. Interviews with this limited number of partners were held depending upon the availability of interviewees which, ultimately, in most cases included companies only. The partnerships therefore were mainly viewed from the company perspective.
- Strategic joint monitoring and evaluation procedures were not implemented by the three researched case companies and their partners. Therefore the current research findings cannot be compared against a given assessment of a third party to further ensure issues of reliability and validity.
- There is no 'one size fits all' approach to partnerships and partnership work cannot necessarily be transferred to another without thorough analysis of the context in which it is implemented. Tennyson (2003), for example, indicates that each phase of a partnership has distinctive characteristics and the point at which evidence for research is collected will have an impact on the outcome of the research.
- Research process and challenges concerning data collection: the interviewed corporate contacts often had very limited time in their busy schedules. Interview time was therefore limited to 0.5 to 1.5 hours. The guiding questions therefore needed to be adjusted to the limited time given for the respective meetings. Follow-up questions were only possible in a few cases. Case study selection was also influenced by the availability of company interviewees.



- The semi-structured-interviews were transcribed as part of the research. Nevertheless, the transcript could not be added to the present study. The topic is partially subject to business secrets which needed to be protected. Interviewees were reassured at the beginning of each interview that the interview transcript would not be published. The interviews are reflected in line with the research questions asked in the case study section of this study (chapter 5.1 to 5.2).

## **1.5 Structure of the Study**

The second chapter of the thesis gives an overview of best practice, integrated CSR approaches and contemporary concepts and terminology which form a basis for introducing a definition of CSR within the framework of this thesis. The third chapter introduces the CSR landscape and current debates on CSR in South Africa. This chapter also includes promoting and hindering factors and gives an understanding on South African companies' motivation and potential to integrate CSR into their regular businesses in South Africa. Chapter 4 analyses and outlines the spectrum of possible partners in the stakeholder environment of companies. It describes the role and potential that partnerships can play in contributing to integrated CSR approaches of a company. Potential criteria for successful CSR core business-related partnerships are identified. In this context, chapter 5 covers three case studies on successful corporate partnerships. The discussion part in chapter 6 highlights the key findings to answer the research questions, validate the research hypothesis and derives recommendations resulting from the research for successful CSR partnerships.

## 2 CONTEMPORARY CONCEPTS AND TERMINOLOGY OF CSR

*The purpose of this chapter is to contextualise, illustrate and explain concepts and terminology of Corporate Social Responsibility (CSR) to provide a foundation and definitions for the following discussion. Chapter 2 is based on a desk study analysis of relevant literature and begins by deriving a definition for CSR from various terminologies. This is followed by an outline of the characteristics of a core business aligned and integrated approach to CSR. The chapter continues by giving an overview of best practice, integrated CSR approaches. In order to illustrate how core business-related approaches can be applied in business practice, and especially in emerging market economies like South Africa, the Inclusive Business approach will be presented in more detail at the end of this chapter.*

### 2.1 Definition of CSR

The concept of CSR has a long and varied history. Definitions for CSR are manifold and the discourse about the difference between CSR, Corporate Citizenship, Social Entrepreneurship, Sustainable Entrepreneurship and the like has resulted in a diverse range of definitions. A commonly accepted definition exists neither for CSR (which will be focus of this study) nor for Corporate Citizenship, and there are a variety of different concepts and approaches defining the complex and interdependent relationships between businesses and their environments (Carroll 1999).

However, there is one characteristic that many CSR definitions have in common which is that, at its core, CSR addresses concerns of the public regarding business and societal relationships (Carroll 1999). As early as 1953 Howard Bowen (1953:6), regarded as the father of CSR, defined the social responsibility of businessmen as their responsibility to “pursue those policies to make those decisions, or to follow those lines of action which are desirable in terms of objectives and values of society.”

The European Commission (EC 2001) defines CSR as a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment by integrating social and environmental interests into corporate activities and into the interrelation with its stakeholders. The EC definition thus goes a step further by integrating environmental concerns and the voluntary character of CSR into its definition. The World Bank’s working definition includes another component of CSR – that of development: “CSR is the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development” (Ward 2004:3).

Combining the characteristics of the definitions above, in the framework of this research CSR is understood as a “comprehensive concept referring to the way in which companies exercise responsibility and accountability for the economic, social and environmental impact of their business decisions and behaviours” (GTZ 2009:9).

## 2.2 CSR as Part of Corporate Sustainability Management

CSR is often referred to as part of Corporate Sustainability Management (CSM) which describes “a business approach designed to shape the environmental, social and economic effects of a company in a way that, firstly, results in sustainable development of the company and, secondly, provides an important contribution towards sustainable development of the economy and society” (Schaltegger & Burritt 2005:194). One of the main challenges of CSM remains the integration of environmental and social issues and management activities into the core business management processes and systems (Schaltegger & Burritt 2005). The integration challenge derives from combining the three CSM objectives: eco-efficiency, socio-efficiency and economic efficiency (cf. Schaltegger et al. 2007). Planning and developing social and environmental management activities parallel to economic business management activities, instead of integrating these activities in the core business, bears the risk of negligence in times of recession or ‘sidelining’ in times of economic growth (Schaltegger & Müller 2008). Corporate Social Responsibility herein seen as part of CSM (cf. Schaltegger & Müller 2008) faces the same challenge. Thus the question arises of how best to integrate social and environmental responsibility and management into conventional oriented business operations?

Hiß (2005) divides her approach to CSR into three concentric areas of responsibility (Figure 1). There is the inner area of responsibility referring to a company’s economic function and legal obligations. Hiß (2005) describes this inner part as compulsory CSR for a company adhering to requirements of the market and laws. The middle area of responsibility describes voluntary CSR activities within the value chain of a company which are not legally binding such as voluntary certificates or eco-labels and the outer area of responsibility comprises voluntary CSR activities outside the value chain. The outer area activities are not necessarily connected to the economic activities of a company and its core business, yet they can be aligned to the company’s business. These aligned activities comprise, for example, Corporate Social Investment (CSI) activities, philanthropy, and voluntary membership in sustainable business initiatives such as the UN Global Compact (UNGC) or the World Business Council for Sustainable Development (WBCSD).

Corporate Citizenship (CC) is often understood as the part of CSR that describes the responsibility of companies to act as good, socially-involved and integrated citizens in ways which go beyond their actual business operation (Loew et al. 2004). The CC approach comprises Corporate Giving (e.g. sponsoring), Corporate Volunteering (e.g. promoting voluntary engagement of staff members into CSR activities) and Corporate Community Investment/Corporate Social Investment (e.g. engagement in community activities at company sites), corporate foundations and others (cf. Schaltegger & Müller 2008).

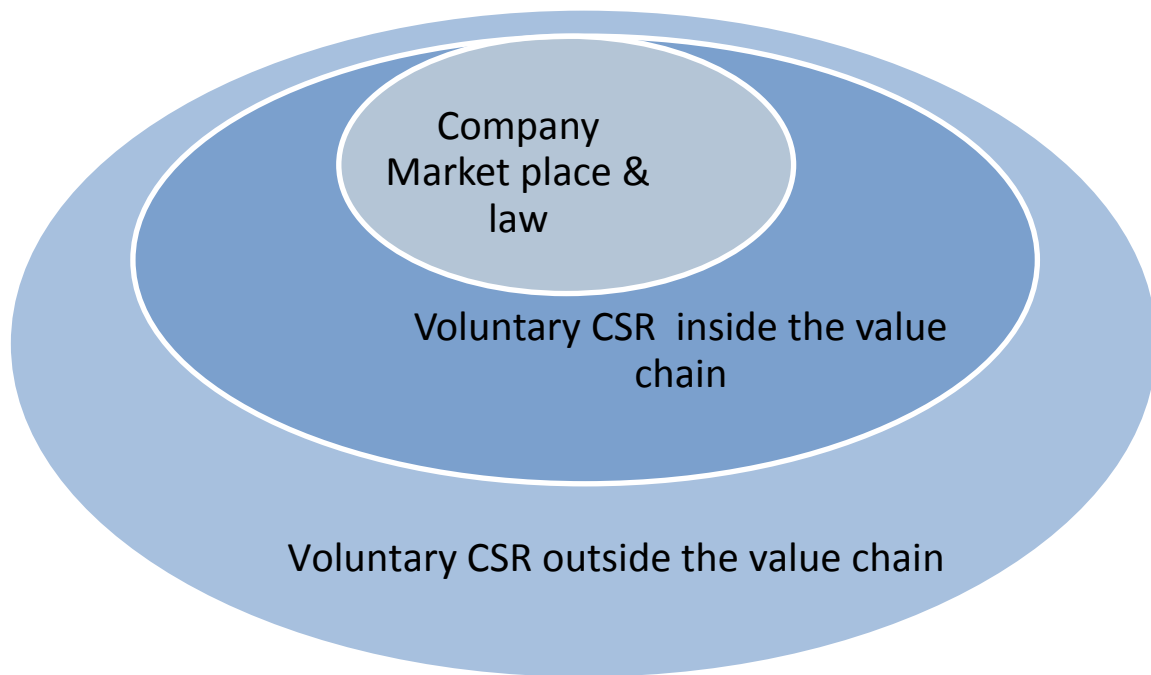


Figure 1: Three areas of responsibility according to Hiß (2005)

Contemporary literature on CSR suggests the integration of CSR into the core business of a company to ensure sustainability of its CSR interventions while harnessing core competencies of the business and creating win-win situations (cf. Porter & Kramer 2006, Weber 2007). These core business-related CSR concepts will be discussed in more detail in the next part of this chapter.

### 2.3 Core Business-related CSR Approaches

As Laszlo & Zhexembayeva (2011) argue, it will be difficult to change the essential purpose of business as a profit-making institution. And even though companies may have a social mission they will pursue profits as a primary goal as long as capitalist markets exist. They argue that a strategy that enables a company to gain profit, with sustainability activities embedded at its core business, supports greater responsibility when it uses market-based solutions to meet global and local challenges (Laszlo & Zhexembayeva 2011).

Porter & Kramer (2006:78 ff.) note in their discussion of “The Link Between Competitive Advantage and CSR”, that if companies integrated a social perspective into their strategic planning, CSR could contribute to social progress while at the same time being a source for competitive advantage. Applying this integrated and core business-related CSR approach, companies would use their own knowledge and resources to effectively contribute to alleviating social problems, noting that “the closer a social issue is to a company’s business, the greater is the opportunity to leverage the firm’s resources and benefit society”.

Ashley (2009a) suggests two different approaches in this regard which are based on the idea that companies should harness core competencies and business assets to leverage social development and not only give financial contributions. In the one approach core competencies of a business can be used more philanthropically to contribute in kind. These are aligned to the core business but are harnessed for impact outside the core business. These core competencies can comprise, for example, staff expertise, entrepreneurial talent, distribution networks, access to consumers, technology and physical resources, as shown in Figure 2. Table 1 below gives related examples of South African companies using core competencies for impact outside the core business. The second of Ashley's approaches uses core competencies for actual core business delivery. Both approaches use corporate resources more strategically. The latter approach is often referred to as an Inclusive Business approach which will be discussed in more detail in section 2.4.



Figure 2: Core competencies used for impact outside the core business (Ashley 2009a)

Table 1 demonstrates examples where companies use their unique resources to solve social issues outside the companies' core business through an aligned CSR approach. In this way social interests can be tackled with less investment cost than those that are completely detached from a company's core business and economic and social interests are handled in a more integrated way.

Table 1: Using core competencies for impact outside the core business, South African cases

Staff and expertise:	Mercedes Benz South Africa's skills training centre provides training in motor mechanics, electrical installation, welding and small-medium scale enterprises (SME) business skills training to marginalised, unskilled communities in the areas in which it operates.
Entrepreneurial talent:	Kumba Iron Ore, a South African mining company, established a small business hub to help establish and support small and medium sized entrepreneurs within the community in which it operates.
Distribution networks:	Woolworths, a South African retailer, is distributing its surplus food and clothes to charities and under-privileged communities.
Access to consumers:	In 2007 Cell C, a South African cellular operator, introduced the Girl Child Bursary Fund which raises funds through donations from customers 'sms-ing' the word 'GIRL' to mobile number 38606.
Technology:	Rand Water, a South African water supply company, is involved in the provision of water delivery systems and in identifying and eradicating water contamination in disadvantaged community areas. In addition, it provides water sector skills training to local community members.
Physical Resource:	Transnet, a South African Railway company, refurbishes old containers and uses them to provide safety and security infrastructure in under-resourced communities.

## 2.4 Inclusive Business at the Base of the Pyramid

Since the 2000s there have been CSR approaches that harness core business for enhanced development impact while maintaining or increasing the company's profitability. "Initial focus was on supply chains such as the 'linkage' programmes of the International Finance Cooperation (IFC) and multi-national investors to support the development of small and medium-sized enterprises (SME) around supply chains" (Ashley 2009a:2). More recently, attention has focused on millions of poor consumers (so-called Base of the Wealth Pyramid or BoP consumers) to access the goods and services of business (cf. Prahalad 2004).

UNDP (2008), WBCSD and Netherlands Development Cooperation SNV developed a so-called Inclusive Business approach that is defined as a "business model that creates value by including the poor in the value chain through providing products and services to or sourcing from the poor". UNDP, WBCSD and SNV are key players in the field of Inclusive Business and drive this approach globally. UNDP initiated the "Growing Inclusive Market Initiative" which promotes Inclusive Business Models worldwide (UNDP 2008). In 2008 eighty of the world's leading CEOs signed the 'Business Call to Action' (BCtA) committing their company to take action through their core business in a transformative and scalable manner that enhances growth and helps meet the Millennium Development Goals (MDGs) (BCtA 2011). The social enterprise approach takes the Inclusive Business approach even further

and harnesses markets for social deliverables. This approach is described by Mohammad Yunus (2008) as business that makes profits but reinvests them in the business whose primary purpose is to help the poor.

Thus the Inclusive Business approach (also referred to as logical evolution of CSR in developing and emerging market economies) takes core business-aligned CSR, as described above, even further. Many Inclusive Business ideas originate in CSR departments (cf. Southern Africa Trust & GIZ 2011). The matter of whether Inclusive Business is part of a CSR approach or whether it is more linked to a conventional business approach is a point of contention between experts (cf. Engel 2011, Schmidt 2011, Bhattarai 2011). It is certainly subject to how CSR is understood.

Within the framework of this thesis, Inclusive Business will be seen as an integrated approach to CSR and a business model that generates value for business and society by including the poor in the value chain by providing products or services to, sourcing from, or distributing through the poor.

An Inclusive Business approach applies business practices that allow a company to deliver its CSR obligations using its greatest strengths, skills and business knowledge while at the same time leveraging financial gains and development impact. This approach can help to overcome poverty and to create business opportunities by incorporating low income communities into a company's value chain and core business activities, while maintaining profitability and upholding the principles of CSR such as sound environmental practices, health and safety regulations, fair labour conditions, good governance and human rights.

Inclusive Business is emerging globally as a model with the potential to create win-win solutions to social challenges facing the 21<sup>st</sup> century. The target market at the Base of the Pyramid is enormous and growing. It comprises about 3.7 billion people that are largely excluded from the formal market<sup>3</sup> (World Economic Forum 2009). Inclusive Business offers companies a framework to integrate the principles of sustainable development into their core business activities while enabling the company to meet obligations to its shareholders and key stakeholders. It allows companies to support the improvement of community livelihoods through income generation, employment creation and skills development (Gradl & Knobloch 2010). It also helps the poor to become business partners. They may be included as distributors, employees, retailers, shareholders, owners and partners in joint ventures; or as consumers and suppliers of products and services. Thus this approach enables the community to participate productively in the local economy (UNDP 2008, Southern Africa Trust 2009).

Ashley (2009a) highlights that there is not just one way to adapt a company's business model (simply through the supply chain) but that a company's distribution and retail, research and development or dialogue with consumers and policy-makers are also ways of reaching

<sup>3</sup> This group is earning US\$ 8 or less a day comprising the BoP according to income levels. The US\$ 8 is in Purchasing Power Parities as defined by the World Resources Institute (WEF 2009).

the poor and making a development impact while generating business benefit. In this way, delivering greater development benefits, or social value, can contribute to building shareholder value. For companies value can, for example, include gaining access to new markets, developing new products and offering new services (Figure 3).



Figure 3: Selection of benefits to business from investment in Inclusive Business, according to Ashley (2009b)

Examples of Inclusive Business cases that support Ashley's argument feature in table 2 below. Inclusive Business models fall into three broad categories that integrate low income communities into corporate value chains: selling to, buying from and distributing through those at the BoP (Nelson 2007). In these core business models communities can take on the roles of consumers, employees, producers, suppliers, distributors, retailers and entrepreneurs. Through these Inclusive Business models social value is generated for communities at the BoP.



Table 2: Inclusive Business - Examples from Practice

Selling to the BoP and having development impact
<ul style="list-style-type: none"> <li>▪ <i>Vodafone's M-PESA</i> mobile money transfer in Africa and Asia is used by communities at the BoP for transferring very small amounts of money free of charge (cf. AFI 2010). In this way M-PESA provides access to financial services for the poor.</li> <li>▪ The <i>Grameen Bank</i> had disbursed about \$ 6 billion in small loans to about 7.4 million Bangladeshi micro-entrepreneurs, mostly women by 2009 (Yunus 2007).</li> <li>▪ <i>Unilever</i>, a multinational cooperation that owns many of the world's consumer product brands in beverages, food, cleaning agents and personal care, is selling products specifically designed for the BoP consumers. Unilever also seeks to provide a variety of health and vitality benefits through its products to low income groups (Kapstein 2008).</li> </ul>
Buying from the BoP
<ul style="list-style-type: none"> <li>▪ <i>SAB Miller</i>, one of the world's largest brewing and bottling companies, runs an enterprise programme that brings smallholders into the supply chain and sources regularly from smallholder farmers (SAB Miller 2008).</li> <li>▪ <i>Mondi</i> the largest paper recycler in South Africa supports local small and micro-entrepreneurs through buying waste paper from 3,000 suppliers via 117 offices. <i>Mondi Recycling</i>, a stand-alone unit of <i>Mondi Packaging</i>, has outsourced its waste paper recovery process to former employees. "Through an owner-driver scheme it established independent sorting and bailing companies that rely on a network of buy-back centres and further down the value chain a network of individual hawkers" (Coetzer 2010:3).</li> </ul>
Distribution through the BoP
<ul style="list-style-type: none"> <li>▪ The <i>Coca Cola Company's</i> bottling partner <i>Coca-Cola Sabco</i> makes daily deliveries to thousands of small shops in low-income communities through a system of Manual Small Distribution Centres in Africa and Asia owned by local entrepreneurs (Nelson et al. 2009).</li> <li>▪ <i>Abasco</i>, a Mexican subsidiary of the global cement company <i>Holcim</i> realised that selling cement in bulk through a chain of middle man drastically increases the prices. Thus Abasco opened local distribution centres in remote areas where cement can be purchased bag-by-bag while technical and safety advice is provided. Benefits to the local communities included facilitated access to building material at affordable prices (WBCSD 2005).</li> </ul>

The cases above show that there is a powerful social and economic case for Inclusive Business to generate win-win solutions for both business and society. Inclusive Business presents an opportunity to alleviate poverty and boost development in South Africa. "It is an important component of the sustainability agenda and an approach that offers companies a framework for integrating the principles of sustainable development into their core business activities" (Southern Africa Trust 2009:3).

According to Gradl & Knobloch (2010) the added value of Inclusive Business for a company can comprise: access to new markets, enhanced reputation and public relations (PR), employee retention and training, as well as innovation and the capacity for innovation. Added social value for the people at the BoP can comprise: meeting basic needs, productivity, income, empowerment and confidence, while the added value for partners supporting the development of Inclusive Business depends on the role that the partnership and each partner has. This can range from receiving financial gains to similar benefits to those the host

company is deriving, such as access to new markets, enhanced reputation, innovation and others. For government partners this can include, for example: improved social services, increased tax revenues and support for infrastructure development. Benefits of partnerships at the BoP will be described in more detail in chapter 4.3. Table 3 demonstrates benefits derived through Inclusive Business at the BoP by companies and communities.

Table 3: Benefits for companies and communities through BoP approach (WBCSD 2005:23)

The Poor as a Resource Pool		Poor Communities as Consumers	
Business Benefits	Community Benefits	Business Benefits	Community Benefits
<ul style="list-style-type: none"> <li>▪ Reduced labour costs</li> <li>▪ Shared risk</li> <li>▪ Local knowledge and capabilities</li> <li>▪ Better government relations</li> <li>▪ Fair trade branding</li> </ul>	<ul style="list-style-type: none"> <li>▪ Job creation</li> <li>▪ Capacity Building for local SME</li> <li>▪ Know-how and technology transfer</li> <li>▪ Improved investment climate and business climate</li> </ul>	<ul style="list-style-type: none"> <li>▪ New markets, revenue growth</li> <li>▪ Increased brand value, positioning to capture future market growth</li> <li>▪ Transfer product innovations to existing markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Greater access to quality products and services</li> <li>▪ Lower prices</li> <li>▪ Improved quality of life</li> <li>▪ Improved productivity</li> </ul>

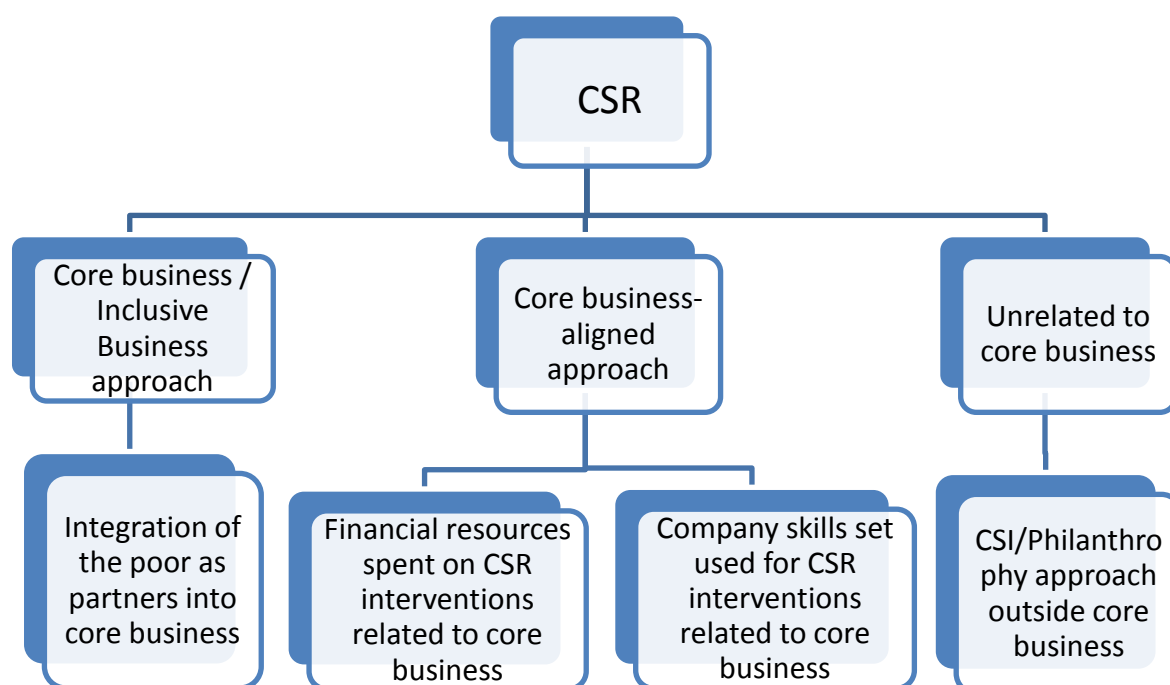


Figure 4: Approaches to Corporate Social Responsibility

## Chapter 2: Conclusion

The previous chapter has elaborated on a variety of different CSR approaches of which three approaches were discussed in more detail, namely 1) CSI/Philanthropy approach unrelated to core business, 2) the core business-aligned CSR approach and 3) the core business/Inclusive Business approach (Figure 4).

For the purpose of this research CSR is understood as a “comprehensive concept referring to the way in which companies exercise responsibility and accountability for the economic, social and environmental impact of their business decisions and behaviours”.

As discussed in this chapter, evidence suggests that the integration of CSR into the core business of a company can contribute to sustainability of its CSR interventions while harnessing core competencies of the business and creating win-win situations. An integrated CSR approach relates to the core business of a company. It comprises CSR activities that are either aligned to, or part of, the core business of a company. The Inclusive Business approach, which is often seen as a separate approach to CSR but has all the characteristics of an integrated CSR approach, has the potential to create a win-win situation for business and society (as well as for the third key stakeholders and partners). Inclusive Business therefore has been selected as a best practice, integrated CSR approach. This approach will be analysed in more detail in the following chapters in order to demonstrate how, and under which promoting conditions, this value-creating potential for business and society can be reached.

Despite the definition of CSR underlying this research, the general understanding of CSR in South Africa seems to be sole Corporate Social Investment, an approach that is not linked to a company's core business. Current CSR strategies in South Africa invariably do not focus the attention of management on value-creating opportunities. As a result CSR strategies tend not be integrated part of business strategies and corporate social engagement does not reach its full value-creating potential. Herein the questions arise as to what needs to be done to create a more holistic understanding of CSR and what role partnerships could play in this process? In order to answer these questions it is necessary to first look at the CSR landscape in South Africa and at the promoting and hindering factors, as well as the motivation of South African companies to integrate CSR into their regular business operations. This discussion will form part of chapter 3.

### **3 CSR LANDSCAPE AND CONTEMPORARY DISCUSSIONS ON CSR IN SOUTH AFRICA**

*The third chapter introduces the CSR landscape in South Africa. It will give background information on the social and business contexts of CSR-related partnerships in South Africa. Based on a literature review, as well as expert interviews, an analysis of promoting and hindering factors will give an understanding of South African companies' motivation and potential to incorporate CSR into their regular business in Africa. This will form the basis for the following analytical chapters which will look at partnership building as a potential promoting factor to an integrated approach to CSR at the BoP in South Africa.*

#### **3.1 CSR Regulatory Environment**

The CSR landscape in South Africa has been strongly influenced by its apartheid legacy and its inherent political and economic isolation. Historically, the dominant CSR concept was CSI in the form of early voluntary business initiatives that pushed for government policy changes during apartheid (Caraphina & de Jongh 2008). After the Rio Earth Summit in 1992, a stronger corporate response to the broader sustainability agenda was noticeable in South Africa. This response was influenced by the first reinvestments of big multi-nationals in the country, as well as by the movement abroad of the primary listings of several South African companies. The role of investors in pushing a CSR agenda has become more prominent ever since and has been influenced in the wake of CSR indices on major stock exchanges (cf. Hanks et al. 2007).

The South African CSR agenda has not only been informed by market drivers, but has also been strongly influenced by the country's socio-political mandate of nation building (cf. Alperson 1995). The call for business to contribute to nation building and development features in various public policy documents. In this regard the South African Government has gone further than many other governments to legislate social issues (Hamann 2008). The South African business environment and CSR agenda is therefore dominantly influenced by its social development agenda, while striving for environmental sustainability has only recently gained more attention through South Africa's hosting of the World Summit on Sustainable Development in 2002, the World Parks Conference in 2003, and the preparations for the United Nations Framework Convention on Climate Change's COP 17 in December 2011. The South African "electricity crisis", which is characterized by an electricity shortage caused by outdated electricity power stations and resulting higher electricity demand than supply, is also expected to contribute to an increased focus on environmental issues.

Since 1994 South Africa has embarked on an economic growth strategy that supports the inclusion of people who were previously disadvantaged into economic activities. In this context, the drive for corporate social and environmental responsibility has been influenced by the drive for Broad-Based Black Economic Empowerment (B-BBEE) which is unique to

the South African context (GTZ 2009). This approach is supporting the empowerment of a previously disadvantaged “black” South African population. B-BBEE or BEE<sup>4</sup> is implemented through a scorecard approach, an incentive scheme for which South African companies gain accredited points when adhering to BEE Codes of Good Practices (cf. Broad-Based Black Economic Empowerment Act 53 of 2003). These codes comprise criteria for black ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development (BEESA Group Initiative 2011).

For state-owned enterprises and for companies in South Africa that want to enter into business with the South African Government or parastatal organisations, scorecard compliance is mandatory. Also, transnational corporations have faced both pressure and incentives to make BEE part of their CSR agenda (Chahoud et al. 2011). In order to obtain 100% for the Social Economic Development (SED) element of the BEE scorecard, companies are required to spend 1% of their Net Profit After Tax (NPAT) or alternatively 0,125% of their total turnover on socio-economic development. In order to obtain 100% for the enterprise development component even 2% of a company's NPAT need to be spend on enterprise development (Triologue 2007). Various other legislations support the BEE effort, including the South African Skills Development Act, Preferential Procurement Policy Framework Act and Employment Equity Act.

Both SED and BEE have influenced how companies select focal areas, service providers and partners for implementation of their CSR programmes. The NPAT BEE scorecard requirement has certainly contributed to CSR in South Africa being mainly understood as Corporate Social Investment (CSI) as does the BEE Act 53/2003. The B-BBEE-related Code of Good Practice refers to CSI as “an enterprise's contributions to society and a community that are extraneous to its regular business activities and hence include initiatives in the areas of development, health, education, training, environment, arts and culture and sport” (Njenga and Smit 2007). In this sense the NPAT requirement allows gaining BEE scores for funding of SED and enterprise development projects that are not related to the core business and can lead to a “spending frenzy” on arbitrary social and environmental CSR activities. This practice applies to a majority of South African based companies and over the past years has contributed to developing a multitude of CSI projects that are not related to the core business. Many CSR activities thus constitute sole CSI.

In addition, there is a general perception that there is not sufficient linkage between BEE and CSR within South African companies (GTZ 2009). Many companies deal with both as separate entities requiring different management systems. Southall & Sanchez (2007) reflected in depth on the relationship between BEE and CSR in South Africa. They identified multiple gaps in the linking of BEE and CSR/CSI as well as contradictory approaches

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<sup>4</sup> Both terms, B-BBEE and BEE will be used synonymously in this research. The term B-BBEE became more dominantly used than that of BEE since the introduction of the B-BBEE Act 53/2003. Up to 2003 only a few black individuals had gained benefits from BEE activities. The B-BBEE Act 53/2003 tried to address these imbalances by broadening its empowerment efforts.

between the two. They argue that a stronger linking of BEE and CSR/CSI strategies could provide for a more integrated CSR approach.

Apart from BEE legislation, other regulations influencing South African companies' CSR programmes and CSR spending include:

- The King Code of Good Corporate Governance which sets out principles to promote good governance in South Africa: Now in its third edition it promotes the integration of responsible social, environmental, ethical and financial performance into core business practices. King III requires South African companies to report how they have positively or negatively affected the economic life of the community in which they operated during the year in review. They apply a so-called "comply or explain" approach that requires companies to publically explain if they choose not to comply with the guidelines as set out in King III (IODSA 2011). King III has been adopted by the Johannesburg Stock Exchange as a listing requirement and therefore constitutes a strong driver for integrated CSR.
- The Johannesburg Stock Exchange (JSE) which requires companies to adhere to social performance criteria if they want to be listed: The JSE measures the social, environmental and corporate governance of listed companies in the FTSE/JSE All Share Index in order to compile the Socially Responsible Investment (SRI) Index. Inclusion in the SRI requires a company to meet a number of criteria that show that they have integrated triple-bottom-line practices across their activities (cf. JSE 2011). This has influenced the sustainability debate among companies listed on the JSE and strengthened their social investment (GTZ 2009).
- Various BEE sector charters including the South African Mining Charter, the Financial Sector Charter, the Petroleum and Liquid Fuels Charter and the Construction Charter which require social spending as a license to operate (LTO) for these industry sectors. Amongst those is the local economic development (LED) programme which constitutes a core component of mandatory social and labour plans conditional for a continued license to operate in the mining sector. Most license-to-operate programme budgets are included in CSI budgets (Trialogue 2010).
- Non-commercial obligations like the financial literacy programmes for banks or connectivity programmes for community-level service delivery of telecommunication operators. By 2010 just over 21% of South African companies were obliged to implement social programmes as part of their continued license-to-operate (Trialogue 2010).

The regulatory environment has a strong influence on the different sectors and over the past years has led to more South African companies adjusting their social programmes to 'license-to-operate' requirements; to improving their CSI activities by developing CSI strategies; to reviewing CSI spending and increasing budgets; to restructuring their CSI departments and aligning CSI strategies more strongly with core business (Trialogue 2007). A survey conducted by Trialogue of 100 South African companies in 2010 revealed that 38% of interviewed companies think that their CSI programme was aligned to the company's core business or industry sector, 40% indicated that their CSI programme was aligned to

stakeholder communities within their geographical area and 22% stated that their CSI programmes were both aligned to core business and stakeholder communities (Trialogue 2010).

### 3.2 Focal Areas of CSR Interventions

The rationale for the CSR involvement of South African companies seems to be influenced by two key factors: 1) to address government capacity gaps and financial gaps that hinder service delivery in philanthropic initiatives, and 2) to address socio-economic development by providing opportunities and access to previously disadvantaged South Africans (GTZ 2009). The focal areas are therefore mainly selected according to the government's development agenda and less so according to internal business rationales. The CSR focal areas influenced by the South African government's development agenda and according to CSI spending in 2009/2010 included: Education (with 32.4% CSI spend), Health and HIV/AIDS (16% of CSI spend) and Community and Social Development (with 12.5% CSI spend) (Trialogue 2010). Other focal areas included Agriculture and Food Security, Environment and Enterprise Development (Table 4).

Table 4: Development focal areas according to CSI spend 2009/2010 (Trialogue 2010:38)

Development Focal Areas	% of CSI spent
Education	32.4
Health and HIV/AIDS	16.7
Community and Social Development	12.5
Agriculture and Food Security	6.9
Environment	6.8
Enterprise Development	5.6
Training and Capacity Building	5.2
Arts and Culture	4.6
Housing and Improved Living Conditions	3.5
Safety and Security	2.3
Non-sector specific grants and donations	2.3
Sports Development	2.2

In the 2009/10 financial year the top six industry sectors according to their CSI spending were mining and quarrying, financial services, retail and wholesale, state-owned enterprises, manufacturing, and the information and communication technology (ICT) sector (Trialogue 2010). It is evident from the above that these sectors are facing different legislative pressures to invest in society and their CSR/CSI programmes are aligned in different ways to their core business operations depending on the legislative pressure these sectors face.

It is worthwhile noting that regardless of their BEE scorecard, most of the 100 South African companies interviewed for the survey conducted by Trialogue (2010) ranked 'Moral

Imperative' as most important driver of their CSI commitment, followed by BEE codes, Reputation, Stakeholder Pressure, License to operate obligations and Industry Sector Charter.

### **3.3 Promoting Factors for Integrating CSR into Business Activities in South Africa**

While the above-described legislative environment is influential with respect to CSR/CSI spending and the selection of areas of emphasis for social spending, it hardly seems to have an impact on the integration of CSR activities into the core business of South African based companies. In fact, it must be noted that the public sector has not managed to effectively link BEE with the international CSR discourse which has also led to many companies developing different and often non-aligned management systems for both BEE and CSR (cf. Welzel et al. 2007, Fig 2007, Chahoud et al. 2011). Also, most management of South African companies are still not aware of the benefits that integrating CSR into core business activities can have (Thomas 2011, interview).

#### **General Promoting Factors for CSR**

According to the GTZ (2009) the groups of supporting and hindering factors for CSR researched in a study of sub-Saharan companies were almost identical. The study distilled nine key factors that, according to respondents, impact either positively or negatively on their CSR initiatives (GTZ 2009). Notably different from this list of influencing factors in sub-Saharan Africa to the list of the European Union (EU) Multi Stakeholder Forum (EU 2004) are the beneficitation and funding factors in the field of CSR projects within a social and environmental context (Table 5).



Table 5: Critical success factors of CSR in sub-Saharan Africa and EU (GTZ 2009, EU 2004 adjusted)

Sub-Saharan CSR Success Factors	EU Critical Success Factors
<i>Leadership and governance:</i> Senior managers and executives have a vision for, take a lead and are committed and supportive of CSR in their company.	Commitment from key people: directors, owners, senior management. Ensuring that values and vision of CSR approach are integrated into the business and culture.
<i>Policy framework:</i> The extent to which CSR policies are available and aligned with corporate objectives, value systems and core business considerations.	Integrating the CSR approach, tools and associated practices with the corporate strategy, core business, mainstream management processes and policies and everyday operational practices.
<i>Project management:</i> The extent to which CSR practitioners are integrated into a company's organisational structure and the skills they and their support staff have to manage CSR initiatives.	Setting appropriate goals or targets, related to the core business, developing a staged plan for achieving them, evaluating progress towards them and communicating this appropriately.
<i>Monitoring, evaluation and reporting:</i> The extent to which systems for monitoring, evaluation and reporting are in place and CSR practitioners are able and committed to apply these systems.	Communicating the approach, strategy, aims or activities in a transparent and meaningful way. Openness to improvement and learning.
<i>Stakeholder engagement:</i> Extent to which CSR staff is able to engage relevant stakeholders and/or partners in the CSR development and implementation process.	Engagement with external stakeholders – understanding their views and expectations, being open to learn from them, communicate well with them and build a trusting relationship.
<i>Staff engagement:</i> The extent to which staff is committed to support and participate in a company's CSR initiatives.	Involving employees and their representatives in developing and implementing CSR.
<i>Learning:</i> -	Sharing experiences, learning from and with peers in sector and multi-stakeholder initiatives.
<i>Accessibility of tools and information:</i> -	Availability of easily accessible and specific advice, tools and initiatives a company can learn from when developing its own approach.
<i>Government:</i> Extent to which government is creating a conducive environment for CSR development.	Particularly for developing countries, the existence of an appropriate legal environment which reinforces compliance with fundamental standards and the presence of strong civil society organisations such as trade unions and NGOs as potential partners
<i>Awareness amongst stakeholders and shareholders:</i> -	A high level of awareness among consumers and investors, of the issues and companies' options in responding to them.
<i>Beneficiation:</i> The extent to which, beneficiaries' needs are appropriately identified and aligned with the CSR policy of a company, and the extend that the ownership of beneficiaries is ensured	-
<i>Funding:</i> The extent of, and the way in which funding is made available, as well as the funding being well-managed.	-

Amongst others, the above criteria give recognition to partnership building and the engagement of external stakeholders in the CSR development and implementation process of sub-Saharan African based companies. This applies especially to the South African companies interviewed, from which the study identified five main factors that promote CSR impact and implementation (GTZ 2009:104). The factors include:

- Alignment of CSR policies and activities with the company's core business,
- The support and participation of key top leadership,
- The impact of government legislation and sector charter guidelines,
- Partnership with other stakeholders including government and NGOs,
- Management of CSR activities by specialised service providers, including NGOs.

### **3.4 Hindering Factors for Integrating CSR into Business Activities in South Africa**

While the general success factors depicted in Table 5, above, also constitute general hindering factors for CSR, the same study identified five main factors that hinder CSR implementation and impact, particularly in the environmental and social context of South Africa (GTZ 2009:104). These five main hindering factors constitute:

- "Lack of focus in project selection and poor identification of CSR projects,
- CSR not sufficiently supported and led by top management, which is especially the case with multi-nationals where policy directives are not consistent with the national situation,
- Lack of capacity and experience of CSR practitioners. Of particular importance here is the neglect of the CSR function and the fact that CSR staff often fulfils other roles within the company.
- Poor management of partner NGOs as well as poorly equipped, trained or illiterate community partners,
- Lack of shared commitment to CSR projects from the recipient communities and from other key partners, as well as a lack of shared goals."

### **External Hindering Factors for Integrated CSR Approaches at the BoP**

The business environments that promote or hinder the integration of CSR into business activities in developing countries and emerging market economies are different from those of developed countries. An analysis conducted by the United Nations Development Programme (UNDP 2008) on different emerging markets identified external constraints for integration which fall mainly into five areas:

- 1) *Market Information*: is often not easily accessible, standard market research data such as consumer habits or user profiles is not available and not much is known about skills or existing production capacity.

- 2) *Physical Infrastructure*: Poor infrastructure hinders the exchange of goods and services as well as information. Electricity, water or data networks are either non-existent or in a poor condition.
- 3) *Regulatory Environment*: Laws and their enforcement in developing countries are often inadequate to create a conducive environment for CSR. There is no liability or incentive to adhere to international or even national environmental and social standards. Companies in developing countries often face a lot of 'red tape' when trying to obtain permits and licenses. Registration of small businesses is often not supported by government. Consequently, many small businesses operate on an informal basis which makes it more difficult for them to do business with established companies.
- 4) *Knowledge and Skills of Market Participants*: People in developing countries often have inadequate access to information due to a poor school system and also lack information systems such as the internet. They lack knowledge and skills, yet knowledge and skills are required to use and produce products and services.
- 5) *Access to Financial Services*: Poor households seldom have bank accounts as they do not have savings, sometimes not even cash. Banking services are not accessible as bank accounts cost money. Thus reliable payment methods like bank transfers are lacking and loans and larger investments are not granted because of the non-existence of legal documents.

### **External Hindering Factors: Analysis of External Structural Challenges in South Africa**

The structural challenges which at the same time can constitute opportunities for CSR engagement of business can differ greatly from country to country and require specific, often 'tailor made', solutions for the development of Inclusive Business models. For South Africa as an emerging market economy factor 1, "accessibility of market information", and factor 2, "physical infrastructure", have a more marginally negative impact on the South African business environment's efforts to support development through their core business operations than do the factors 3, 4 and 5 above. Nevertheless, both factors have an influence when looking at the disparity of the formal and informal sector in South Africa. Though market information is easily accessible from the developed market there is a substantial lack of information available from South African townships and rural areas. In fact, "the South African business sector is ill-informed about the informal sector and the so-called 'Township Economy' and there is a missing link between the two" (Thomas 2011, interview). The same holds for physical infrastructure which is well-developed in metropolitan and most urban areas, while rural and township areas are characterised by a lack of infrastructure and service delivery.

UNDP's hindering factors 3, 4 and 5 greatly influence the way businesses operate and integrate the poor into their core businesses in South Africa as described below:

### *Factor 3 - Regulatory Environment*

Laws and their enforcement in developing countries are often inadequate to provide a supportive environment for business, but this is not so in South Africa. CSR is an important topic and there is active legislative support from the government, domestic and foreign companies (cf. chapter 3.1). The regulatory environment in South Africa therefore rather constitutes a factor that aims at supporting the poor through a company's CSI programme and BEE endeavours, though less through its core business activities (Welzel et al. 2007). Though there is a variety of national legislation that plays a crucial role in the development of CSR (and South Africa has gone further than other States to legislate on social issues), CSR does not explicitly constitute a dedicated focal area within the South African Government. Also in many cases there is a significant gap between policy and actual implementation (Henks & Haman 2007). The red-tape factor described above is a general hindering factor influencing South African business negatively and cannot be seen as specific to CSR-related activities. There is a general commitment by government to cutting regulatory burden especially on small businesses (Zuma 2009).

### *Factor 4 - Knowledge and Skills of Market Participants*

The skills shortage is probably one of the most severe legacies of South Africa's past leading to a high unemployment rate yet there are many unfilled positions in the economy. There is a "brain drain" of skilled labour to "better paying" countries (like the UK and Australia) and at the same time an influx of unskilled labour from neighbouring African countries, particularly from Zimbabwe. In addition, the country's educational system is still failing to equip the new generations with sufficient skills (Coetzer 2009b). The *Mail & Guardian*, one of South Africa's most prominent weekly newspapers, describes the status of the education system in South Africa as having reached an education crisis after the release of the 2011 Annual National Education Assessment results (MacFarlane 2011). Therefore, skills development is an emphasis of the South African Government. Supporting small-medium enterprises plays a crucial role and is believed to create jobs and reduce poverty as the informal sector, in particular, lacks technical skill, business skills and knowledge about enterprise development.

### *Factor 5 - Access to Financial Services*

Access to finance is an important factor for people who want to become entrepreneurs or for those that want to engage in the value chain operations of bigger companies at the BoP. In Southern Africa accessibility and affordability aspects for the consumer are often not sufficiently factored in. There are over ZAR 12-billion still unbanked and 23.5% of South Africa's adult population still do not have access to any kind of financial service in 2010 (cf. FinMark Trust 2010, Southern Africa Trust & GIZ 2011).

For Inclusive Business at the BoP to be successful innovative approaches need to be developed to deal with these difficult market conditions. The transaction cost increases because of infrastructure gaps or because legal supporting frameworks are non-existent but there are also internal company factors that influence the choice of business to integrate their CSR activities into their core operations.

### Internal Hindering Factors of Companies for Developing integrated CSR at the BoP

Critical success factors for integrated CSR as outlined in literature also comprise a supportive internal company framework (cf. Gradl & Knobloch 2010, BCtA 2010b). Research conducted by the BCtA (2010a) on barriers to Inclusive Business Growth identified several internal hindering factors at the conception and execution stage of developing Inclusive Business models. For the **conception stage** the lack of interest, the lack of understanding of opportunity and the lack of capacity were highlighted as the main company-internal barriers to developing Inclusive Business models. These also included a lack of senior management buy-in and a lack of general awareness about the potential benefits of pro-poor business. There is an additional risk within corporations that inclusive business models may be dismissed by business units because they are perceived as sole CSR cost centres.

If an Inclusive Business project has been internally endorsed by the company and moves into the **execution stage** it will meet further challenges, which include amongst others: prohibitive start-up costs, a higher risk operating environment and working with new partners. The marketing and distribution of novelty products and services faces specific requirements in emerging markets which are not easily accessible and which the company might still need to acquire. Also, companies often do not have the expertise, time and resources to monitor, measure and evaluate the developmental impacts of their integrated CSR pilot projects. Thus lessons learnt from the pilot may not feed back into programme/project cycle adjustment.

The top three internal hindering factors to Inclusive Business growth identified by the research (BCtA 2010a) include:

- 1) *Inflexibility for innovation*: Companies seldom give enough latitude for the often trial-and-error nature of pro-poor business models. Often time and a lot of learning are required to identify a business model that can be sufficiently scaled to be profitable. Space for new ideas as well as resources and incentives to support these new ideas, are needed.
- 2) *Scaling up successful pilots*: Big companies sometimes struggle to think small. Inclusive Business models often need to have sufficient scale to interest a multinational firm. At this stage sufficient research has yet to be done to determine why some models successfully go to scale while others do not.
- 3) *Lack of buy-in from senior management*: Senior leadership is required early in the project stage to run the new idea. Without an internal champion it is difficult to achieve internal buy-in and resources for the new initiative. There is also a perceived tension between shareholder requirements of quick, big, short-term returns versus long-term value creation with modest returns.

### Internal Hindering Factors: Analysis of Status Quo in South African Companies

At the moment South Africa is going through a process of change that is characterised by a mind shift in boardrooms that slowly recognizes the benefits social development can bring to business. This is not only influenced by South Africa's "pro-development" agenda and legal framework, but also by the growing focus on sustainability management in Europe, the US and South African company listings abroad (cf. chapter 3.1 above).

Though more and more companies are beginning to realise the value of integrated CSR approaches in South Africa there is a general need to create more awareness of the benefits that companies engaging at the BoP can create for business and for the transformation and development of society in South Africa. Organisations like the Southern Africa Trust, University of Stellenbosch, the Gordon Institute of Business and Science (GIBS), Reciprocity and GIZ have started a process of awareness creation through research and public discussions. In partnership with business and government these organisations support a multi-stakeholder process at national and regional levels for the engagement in integrated CSR at the BoP (cf. Southern Africa Trust & GIZ 2011).

According to Thomas (interview 2011) a lack of internal capacity of South African companies for the development of inclusive CSR approaches is mainly noticeable in the following areas:

- *Lack of awareness and buy-in from management for Inclusive Business opportunities:* often innovative ideas do not find their way up to management level or are not recognized if they originate in departments that are solely responsible for CSI.
- *Lack of information from the informal sector market:* As mentioned earlier the informal and formal sectors create two separate economies. Many of the companies that are now slowly recognizing the value of accessing BoP markets have never engaged in any business activity in South African townships or rural areas and thus lack BoP market information.
- *Inappropriate organisational structure* for the reciprocal fertilisation of the different departments involved. BEE, Corporate Responsibility Units and business units are often separated from one another and lack cross fertilisation.
- *Strategies concerning CSR not integrated or aligned:* CSI, BEE and core business strategies are seldom aligned in South African companies.
- *Lack of funding:* required for pilot projects, research and other activities.
- *Ignorance of the potential of partnership building:* At the moment there is not much research on partnership building at the BoP in South Africa. There is only a limited pool of experts advising businesses holistically on integrated CSR approaches (e.g. Reciprocity). Many smaller consultancies, NGO's and small businesses give specific guidance on identified capacity gaps but no holistic advice on developing Inclusive Business.

Ismail (2011:32) further remarks that Inclusive Business development “requires much more than a transfer of financial and operational capacity but especially the identification of appropriate local partners, innovating the business model and convincing the Chief Executive Officer (CEO) that this will show returns, just not in the next quarter”. In addition, developing businesses at the BoP need capital to scale, skills to run the new business, and from the firm's perspective, need the courage to invest in a high-risk partnership with those at the BoP. Large firms in South Africa are often ill-equipped to do so.

### **Chapter 3: Conclusion**

Chapter 3 discussed the CSR landscape in South Africa and answered the question: “Which supporting and hindering factors for an integrated approach to CSR at the BoP exist.

While the above-described legislative environment, and the BEE-related legislation, in particular, is influential with respect to CSR/CSI spending and the selection of areas of emphasis for social spending, it hardly seems to have an impact on the integration of CSR activities into the core business of South African based companies. For the moment there are few national regulatory and economic incentives for the inclusion of CSR into the core business of a company. The up-coming focus on integrated reporting (King III) promises to guide the focus of attention to a more integrated CSR approach.

Different internal and external hindering factors have been identified that have a strong influence on how CSR is understood and implemented in South Africa. Apart from the strongly influential legislative environment, the main external socio-economic constraints to Inclusive Business include the lack of knowledge and skills of market participants and the lack of access to financial services of the BoP participants. While these factors have been identified as constraints these are at the same time areas that provide opportunities for companies and partners to engage at the BoP. With over ZAR 12-billion still unbanked and 23.5% of the South African adult population still not having access to any kind of financial services in 2010 (cf. FinMark Trust 2010, Southern Africa Trust & GIZ 2011), branchless mobile banking, for example, is set to play a pivotal role in the drive of South Africa’s retail banks to reach the unbanked. The most prominent internal barriers to integrating CSR into the core business of South African companies comprise: The lack of awareness and understanding of the benefits integrated approaches can have to business and society, access to funding for integrated approaches, and access to market information, especially from the informal sector.

Partnerships have been identified as one of the supporting factors for the development of integrated CSR. As chapter 3 discusses, there are a diversity of contact points where partnership building can support the process of developing Inclusive Business models and help overcome hindering factors for an integrated approach to CSR. How partnerships can contribute to the development of integrated CSR models and help overcome these internal and external challenges to integrated CSR will be dealt with in the next chapters.

## **4 PARTNERSHIP APPROACHES AND POTENTIAL CONTRIBUTION TO INTEGRATED CSR IN SOUTH AFRICA**

*Chapter 3 explained that partnership building constitutes one of the promoting factors for the integration of CSR activities into core business operations. In this context Chapter 4 outlines how partnerships can be beneficial to a company when accessing the BoP. The first part introduces a definition of partnerships in the context of this research. The second part describes the potential roles partners can fulfil in contributing to an integrated core business approach to CSR at the BoP. It elaborates on the added value of integrated core business-related CSR to business when entering BoP markets and outlines the social value of Inclusive Business to BoP communities. This chapter also identifies the potential contributions, benefits, risks, successes and hindering factors of partnerships to developing core business-integrated CSR in South Africa. This will help to give recommendations for partnerships that have the potential to support an integrated approach to CSR.*

### **4.1 Definition of Partnership Building for integrated CSR at the BoP**

The spectrum of possible partners in the stakeholder environment is broad and partnerships that engage corporations in social and environmental investment can be wide-ranging. Partnerships that support CSR can comprise a variety of different stakeholders including market players (such as other businesses, consumers and suppliers) and stakeholders outside the common market (such as governmental and non-governmental organisations and development organisations). The latter can also develop into market-based partnerships through, for example, the rendering of services to one another.

The range of definitions used for partnership in literature is wide (cf. Mitchel 2008, Stibbe 2008, Tennyson 2003, Warner & Sullivan 2004 and others). Recognizing the influence of South Africa's development agenda on its CSR endeavours (as described in chapter 3), development partnerships at the BoP will be the focus of this analysis. Partnership exists "if cooperative action becomes an ongoing and determined part of business relationships" (Schaltegger & Petersen 2008c:4 ff.). Within the framework of this thesis, a successful partnership promoting integrated CSR is defined as a partnership which creates a win-win relationship for the partners involved, while having social development impact at the BoP through core business operations. This definition is derived from the following considerations.

According to various authors (Balling 1998, Picot et al. 2003, Schaltegger & Petersen 2008, Wurche 1994) features of cooperation<sup>5</sup> include the following:

- Usually a small number of organisations involved, i.e. bilateral or trilateral relationships. If more partners participate this relationship is regarded as a network.
- Originates on a voluntary basis while termination can be unilateral.

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<sup>5</sup> The terms cooperation and partnership will be used synonymously in the framework of this research.



- Is based on reciprocal consideration of objectives of the partners involved.
- Aims at cooperating on a relatively long-term basis.
- Does not normally affect the economic or legal independence of the organisations involved.
- Exists between organisations as a whole not only their sustainability managers as the latter is seen purely as a partnership-based exchange.

The partnerships as described by Warner & Sullivan (2004) involve the joint use of capacity, expertise, resources and competences, thereby achieving outcomes that add value to what each partner could achieve by acting alone. This implies, by definition, a general benefit generation through partnerships, i.e. an added value. Characteristics that are commonly referred to in literature in addition to the added value include: mutually agreed objectives, distinct accountability, reciprocal obligations and voluntary engagement (cf. Warner & Sullivan 2004).

## **4.2 Specific Roles of Partners in Developing Integrated CSR at the BoP**

As described in chapter 2, approaching the market at the BoP by integrating low income communities into a company's value chain can be pursued either through selling to, buying from or distributing through the people at the BoP. Thus the BoP, in the view of the host company that plans to develop an Inclusive Business model, constitutes either consumers, producers or distributors. Therefore the question arises as to how partnerships can assist in the development of these three different business models and how they can internally assist a potentially necessary adaptation of the company's old business model. For this reason, clarification is required about what the process of developing an Inclusive Business model including those at the BoP involves and what the role of potential partners during this process can be. In order to answer these questions the development process for Inclusive Business approaches will be analysed.

### **Inclusive Business Development Process**

Gradl & Knobloch (2010) break down the Inclusive Business development process into three phases: Development, Implementation and Growth, each of which is subdivided into four steps as illustrated below (Figure 5). The steps during each phase usually do not take place in succession but simultaneously. They often happen in a different order and the model below only demonstrates a standard model. Therefore partnerships can be developed throughout the process and not only as illustrated below in step six.

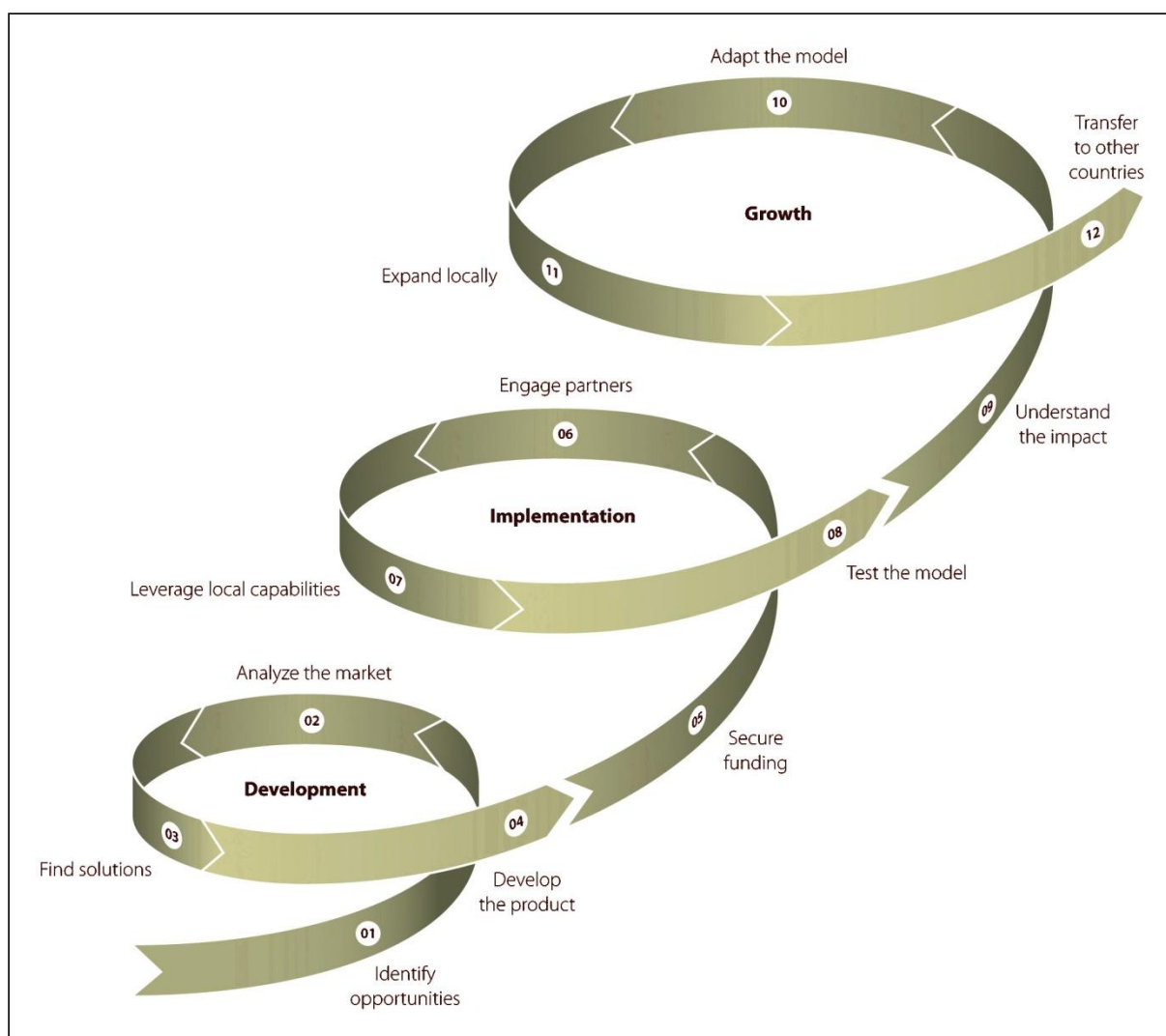


Figure 5: Development Process of Inclusive Business Approaches (Gradl & Knobloch 2010)

The examples below, which were derived from analysing different Inclusive Business case studies, showcase at what stage during the Inclusive Business development process partners can engage. The cases cover the different roles of the partners in contributing to the Inclusive Business development process and comprise the following:

*Partners that provide capacity building to those at the BoP:* such as providing training to those wanting to sell to business, building institutional capacity for those wanting to participate in the business process or supporting the development of saleable products. Many NGOs engage in this role, as do development organisations such as the former German Development Service (DED) or the Netherlands Development Organisation (SNV), which provide technical advice in this regard.

*Partnerships that support internal capacity building for alignment of business processes* and adjustment of value chain operations to integrate Inclusive Business processes in the host company, institutional as well as employee capacity building (cf. Gradl & Knobloch 2010).

*Partnerships supporting the market analysis:* local partners can offer skills and provide local market intelligence as they are knowledgeable about the target market. In South Africa these are, for example, consultancy firms like Reciprocity or the Pleiad Foundation which facilitate partnership building processes between local partners and bigger corporate businesses. Small and medium-scale enterprises (SME) or franchising activities with local entrepreneurs also fall into this category. These partners can help gaining access to the BoP. They can act as a catalyst or facilitator. These partnerships can also ease the access to foreign BoP markets by helping businesses that want to expand into the rest of Africa.

*Partnerships supporting the development of BoP products:* Research organisations (academia) can help researching new ways of gaining access to the BoP market, e.g. through the development of new products specifically designed for the BoP. Development organisations also support this process. The Dutch Inter Church Organisation for Development Cooperation (ICCO), for example, has helped create a BoP Innovation Centre that, jointly with companies, supports the development of innovative pro-poor products for developing and emerging markets, including South Africa (cf. BoP Innovation Centre 2011).

*Partnerships that can provide resources:* Government partners, as well as development organisations such as DFID, the Inter American Development Bank (IADB), the Swiss Development Cooperation (SDC), the German Federal Ministry for Economic Cooperation and Development (BMZ), the Swedish International Development Cooperation (SIDA), the Development Bank of Southern Africa (DBSA) or the International Finance Cooperation (IFC) provide, or have provided, financial resources. This is often in the form of co-financing to support or encourage the development of Inclusive Business models to support pro-poor development at the BoP. Funding can also be won through Business Plan competitions such as those conducted by the World Bank Development Market Place, Ashoka's Changemakers, the Business in Development (BiD) Challenge, the Acumen Fund and the UN supported SEED Initiative.

*Partnerships that support growth, the roll-out of Inclusive Business models and promote dialogue:* this comprises not only BoP entrepreneurs themselves, but also business associations such as BCtA or BoP business hubs, such as South Africa's National Business Initiative (NBI) or Business Unity South Africa (BUSA). Also, business chambers like the American Chamber of Commerce and the German Chamber of Commerce foster dialogue in this regard.

Figure 6 below summarises the different potential partners that can support Inclusive Business development processes. It demonstrates that in addition to engaging directly with communities or SMEs at the BoP, partnerships can also involve many other stakeholders including other companies, NGOs, academia, government, development organisations, business associations and others.

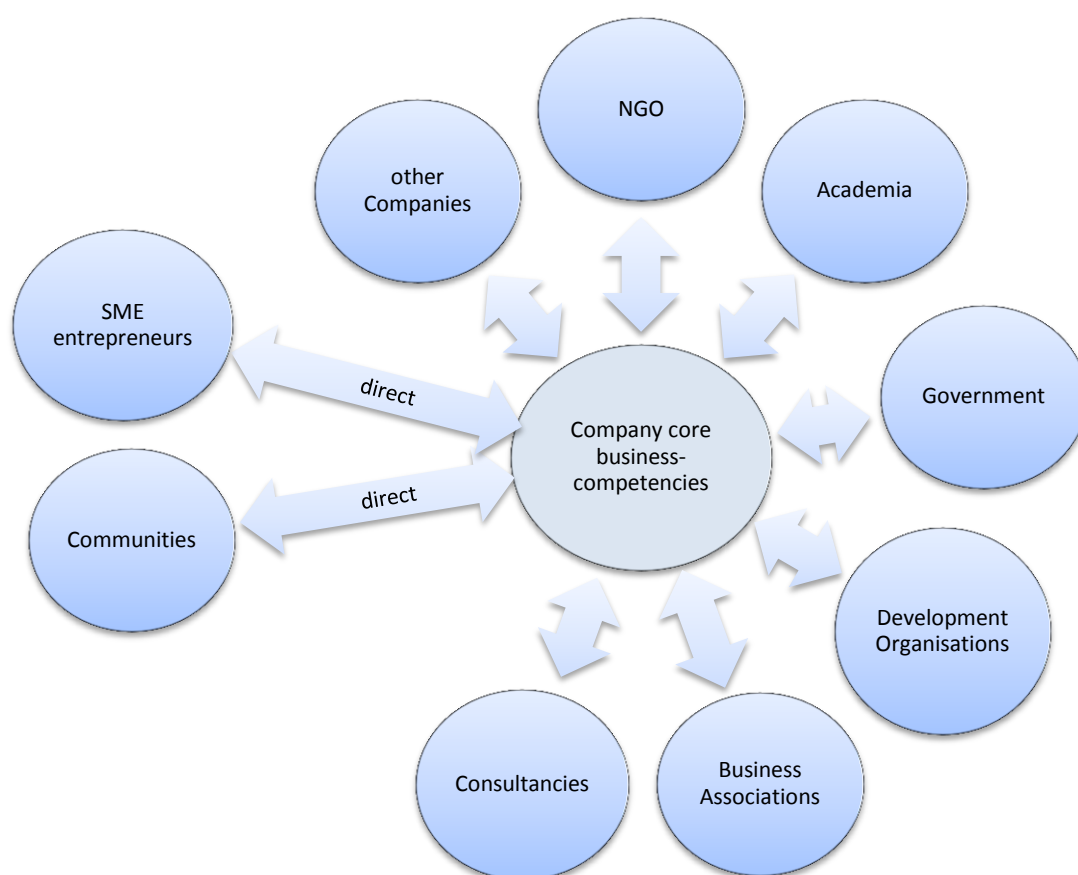


Figure 6: Potential partners supporting the Inclusive Business development process

The WBCSD (2005) recognises that public expectations of corporations are changing and civil society, communities and, more recently, government expect companies to become actively involved in social issues. This makes these stakeholders open for engagement and new and better partners are available for business. In addition, many NGOs, multilateral organisations and foundations are going through their own far-reaching changes driven by a need to become more self-sustaining and to improve their effectiveness. Thus, for example, many civil society organisations nowadays present so-called hybrid NGOs that are both able to deliver services and engage in advocacy (The Partnership Resource Centre 2011). A partnership with the business sector offers this opportunity but also the opportunity to reach a much larger clientele with more far-reaching resources in order to realize their own sustainability goals. Tennyson (2003) sees partnerships between civil society, the private sector and governments as central to achieving sustainable development and development goals. Individual approaches have shown that different stakeholders have developed activities in isolation, sometimes competing with one another, wasting resources and duplicating efforts.

In South Africa, companies are influenced by government, civil society, employees and customers alike to contribute towards South African Nation Building. This includes engagement in the development of the formerly disadvantaged, including those people at the

BoP. A complex development environment and over 100,000 registered NGOs in South Africa pose a challenge to those businesses having to identify a suitable cause and partners for mutually beneficial CSR actions (cf. Reciprocity 2011).

### **Roles of Different Partners at the BoP – Examples from Practise**

As illustrated above, partners supporting Inclusive Business can engage at different stages and at different times of the Inclusive Business development process (Figure 5). Partnership building for Inclusive Business thus also has a time dimension. In addition, partnerships can contribute to different approaches to the BoP market, i.e.: 1) selling to, 2) buying from and 3) distributing through the BoP. Table 6 below depicts selected cases of partnerships supporting these three Inclusive Business approaches.

Table 6: Engagement and roles of partners in different Inclusive Business approaches (own sources and examples from different case studies, as cited)

#### **1. Selling to the BoP (with social development impact)**

*Partnership with development organisation and other companies:* Vodafone's M-PESA mobile financial service approach in Africa and Asia is used for transferring money free of charge with mobile phones. This is useful for BoP clients who cannot afford a bank account or who have no access to banks. This business idea received start-up financing of about 50% of the pilot project cost from the British Department for International Development (DFID). Vodafone partners with mobile service provider Safaricom Kenya, with retailers, micro-finance institutions and others (Karugu & Mwendwa 2007). In August 2010 M-PESA was launched in South Africa by Vodacom South Africa<sup>6</sup>. M-PESA South Africa will be described as a case study in more detail in chapter 5.

*Partnership with other corporate businesses from the same sector:* South Africa's four largest commercial banks, *ABSA*, *First National Bank (FNB)*, *Standard Bank* and *Nedbank*, partnered with government-owned *Postbank* to establish an entry-level transactional bank account (the so-called Mzansi account). This product was jointly designed to increase access to financial services for people operating in the low income market in South Africa (cf. Gradl et al. 2011)

*Partnership with other corporate businesses from different sectors:* *Hollard*, a South African based insurance group, has developed new products specifically targeting the BoP. These include, for example, funeral, life, legal and mobile phone insurance. Hollard is partnering with South African low income focused retailers PEP and Jet to distribute its micro-insurance products to those at the BoP. In this way Hollard, in partnership with PEP and Jet, provides access to insurance products for a previously underserved market (Smith & Smit 2010).

*Partnership with SME:* *Massmart*, one of South Africa's leading retail groups (including retail shops like Game, Macro, Builders Warehouse, etc.) and third largest distributor of consumer goods in Africa, is selling products particularly needed at the BoP through formal and informal retail partners in rural areas (Huni & Coetzer 2008).

*Partnership with SME:* *Kimberly Clark South Africa*, a wholesaler of health and hygiene products, is planning to sell its old excess diaper waste to a local entrepreneur. Kimberly Clark had supported the entrepreneur's business by outsourcing this recycling part of its business and providing the diapers to the entrepreneur for free (Gajjar 2011, personal conversation).

<sup>6</sup> Vodacom South Africa was established in South Africa in 1993 as a joint venture of the UK-based Vodafone private company and the state owned South African national company Telkom (Coetzer 2008).

## 2. Buying from the BoP

*Partnership with government and NGOs:* Woolworths, one of South Africa's up-market retailers, as part of its Farming for the Future Initiative, integrates local farmers into its supply chains by providing support for the training of the farmers in organic farming practices and purchasing their organic farming produce. This project was initiated through partnerships involving the Council for Scientific and Industrial Research (CSIR), the National Department for Science and Technology (DST) and the Provincial Department for Economics and Development (Woolworths 2010). Woolworths receives advice from the World Wide Fund for Nature (WWF) and Conservation International for its Farming for the Future Initiatives and in organic food production (Scotcher 2009).

*Partnership with NGOs:* SAB Miller is one of the world's largest brewers. In South Africa SAB Miller's enterprise programme brings smallholders into the supply chain through regular sourcing from local farmers. SAB Miller and its subsidiaries partner with local and international NGOs such as CARE International, grain dealers and farmers' cooperatives. The NGOs provide technical training and advice to the supplying farmers (Pascarel & Thomas 2008).

*Partnership with government:* Richard's Bay Minerals (RBM), a Rio Tinto managed mining and smelting business in South Africa, implemented a programme for disadvantaged BEE enterprises to grow a reliable supply base for goods and services to the company. RBM is approaching promising black-owned businesses and helping them to grow their businesses and become suppliers to RBM through a process of assessment, guidance, training and accreditation (WBCSD 2005). In partnership with the South African Revenue Service (SARS), workshops are held on tax systems for these businesses. In partnership with the public Small Enterprise Development Agency (SEDA) and the Department of Labour, training on business planning, SME business compliance and labour legislation is conducted (RBM 2009).

*Partnership with NGO and the development foundation of a partner business:* The Coca-Cola Company partners with the NGO TechnoServe in Uganda and Kenya, creating new market opportunities for local farmers whose grown fruit will be used for Coca-Cola's locally-produced and locally-sold fruit juices. TechnoServe trains local farmers to improve quality, increase production, to organise themselves into farmer groups and to access credit. The Bill & Melinda Gates foundation contributes financially to the partnership (The Coca Cola Company 2011).

*Partnership with other businesses:* British food producer Fullwell Mill partnered with NGO, Mercy Corps, to establish a fair-trade raisin growing cooperative in Afghanistan which will sell to larger players such as British Community Foods, a British supplier of natural and organic dried food. Mercy Corps received US\$ 2 million from USAID for the three year programme and trains the Afghan raisin producers' cooperative that it helped in forming (Bulloch et al. 2011).

## 3. Distribution through the BoP

*Partnership with SME:* Coca Cola Sabco one of Coca-Cola's largest bottlers in Africa makes daily deliveries to thousands of small shops in low-income communities through a system of Manual Small Distribution Centres (MDC) in Africa and Asia owned by local entrepreneurs (Nelson et al. 2009). The Manual Distribution Partners provide market intelligence to access markets that are not accessible with conventional methods.

*Partnership with SME:* Danone Clover South Africa developed a special yoghurt, Danimal with added nutrition, priced for poor households. Danone distributes the product with the help of micro-distributors (mainly female franchisees known as the "Daniladies") in South Africa (Danimal 2011).

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*Partnership with local entrepreneurs and other companies:* RTT is a South African based logistical services group that currently runs a pilot project on its “Clinic in a Box” franchising model. In order to provide access to healthcare to underserved South African communities, RTT partners with local entrepreneurs to set up affordable healthcare container units that will provide basic healthcare services and distribute medicine to low-income communities. RTT also plans to distribute medicine via Spasa shops in partnership with local entrepreneurs. In the near future the company wants to partner with other non-pharmaceutical companies like Sanlam, an insurance provider offering insurance products for the BoP (Fullerton & Coetzer 2010).

*Partnership with local entrepreneurs:* Vodacom South Africa trains and cooperates with local entrepreneurs to run Vodacom phone kiosks. The company thus recognized the importance of tapping into local knowledge and expertise through its franchise models in which local entrepreneurs are sales people and managers and provide access and information to new markets (WBCSD 2005).

*Partnership with SME (community retailers) and other companies:* Standard Bank South Africa extends banking to the poor through a combination of mobile phone banking and a network of partnering community retailers. The community retailers allow low income customers to open bank accounts with low administration processes, access basic account information and perform basic banking transactions at locations such as market stalls, bank shops and taxi ranks (Gradl 2011).

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The above examples of partnerships supporting Inclusive Business approaches demonstrate that potential for growth lies in segments that have not been part of a company’s core business before. As this is a relatively new trend in South Africa, it requires the rethinking and adjustment of business processes. Hence, there is potential for partnerships that support access to unexplored and often informal BoP markets, as well as the development of the Inclusive Business development process itself (Thomas 2011, interview). As illustrated above, partnerships can take on different roles and responsibilities to support the process of accessing the BoP market.

### **4.3 Benefits of Partnerships to Supporting Development of Inclusive Business**

As described in chapter 3.4, the majority of managers in South Africa have not yet recognized the benefits that integrated CSR (including Inclusive Business) can bring to the company. Also the contribution that partnership building can have to developing Inclusive Business models is not fully understood (Thomas 2011, interview).

At horizontal level cooperation can be beneficial within the same stage in the value chain between businesses that would otherwise compete with one another, while lateral cooperation can be beneficial between companies from different sectors (cf. Thommen & Achleitner 2006). In addition to the benefits indicated in the examples above (Table 6), partnerships can contribute to strengthening business efficiency and competitive advantage. They can change public perception by raising awareness of ecological and social concerns (Schaltegger & Petersen 2008).

In South Africa though, this is primarily the case for standard CSI partnerships that are not related to the core business, while the main reason for developing Inclusive Business partnerships seems to be the combined incentive of financial return and legal obligations (cf. chapter 3.1). Inclusive Business partnerships with communities or SMEs are often regarded

as high risk interventions when it comes to return on investment, reliability of delivery by the BoP partner, continuity of services and regular delivery of products, as well as the warranty of quality of products and services derived from BoP partners (Southern Africa Trust & GIZ 2011). Partnerships can mitigate these risk factors by building capacity and providing training to those at the BoP. They can complement a lack of capacity and skills within the company, while at the same time improving the corporate ability to learn and act together with the communities and SMEs at the BoP. They can increase employee and customer awareness/loyalty and strengthen corporate brand and reputation through association with sustainability issues and with partners active and already popular in this area (cf. Susman 2011).

Partnerships can also support internal business processes which need adjustment to the new business model to overcome internal hindering factors as described in chapter 3.4. This can include areas where management and shareholders need to be convinced, staff needs to be trained, mindsets need to be readjusted and business strategy needs to be redesigned or complemented. In addition, value chains might need to be adjusted, partner companies involved in the value chain, and be informed and trained and so on.

Table 7 below summarises the benefits of partnership building to business as described above and derived from different literature sources (cf. Stibbe 2008, Tennyson 2003, Mitchell 2008). These benefits are not guaranteed but depend on the reason and nature of the partnership, good management, preparation and identification of suitable partners.

Table 7: Benefits of Partnerships to Business

Benefits of Partnerships to Business
<ul style="list-style-type: none"> <li>a. Share, transfer and/or reduce risks</li> <li>b. Secure or strengthen a legal or social 'license to operate'</li> <li>c. Publicity and enhanced reputation (potential resulting sales increase)</li> <li>d. Increase access to/ increase financial resources</li> <li>e. Increase access to new non-financial resources (knowledge of potential customers, of new products or services, technology etc.)</li> <li>f. Reduce cost (e.g. transport cost)</li> <li>g. Generate innovative ideas and plans, products</li> <li>h. Achieve development goals (own and obligatory)</li> <li>i. Can complement a lack of internal skills/capacity</li> <li>j. Learn from partnerships (human resource development)</li> <li>k. Investment opportunity that generates benefits in the long term</li> <li>l. Better access to markets, market information and different networks</li> <li>m. Create completely new business opportunities</li> <li>n. Provide evidence for compliance requirements (such as social reporting, BEE)</li> <li>o. Ensure quality and impact of a company's social investment</li> </ul>



#### 4.4 Risks of Partnerships at the BoP to Business

Generally, literature provides many more case studies that highlight cooperation successes than there are about partnerships that were not successful and about the risks these posed to the business. That does not mean that risk in partnership building for integrated CSR does not exist. Many of the risk factors that apply to partnership building in general are also applicable to partnership building in support of integrated CSR.

In management, partnerships are primarily seen as an investment. This investment can contribute to company success and to achieving sustainability through efficient, sufficient and consistent partnerships, but investment in partnerships is also exposed to risk. According to Gradl & Knobloch (2010:48), for example, “risks of Inclusive Business are often high, uncertainties considerable and profits often only materialize in the medium or long term.” In South Africa, where Inclusive Business is not yet widely known and the benefits it can bring to the business are not yet broadly understood, where there are capacity and knowledge gaps for developing Inclusive Business models, companies may wish to partner to ensure the quality and impact of its social and/or environmental investments (cf. Stibbe 2008).

The following additional risks should be considered for different sectors (cf. Tennyson 2003, Stibbe 2008, Jenkins & Ishikawa 2009, Gradl 2011):

- 1) *Negative Reputation*: Reputation of a business can be damaged during the course of the partnership itself, through unwanted outcome of the partnership or the reputation of the partners. This also includes the challenges of managing community expectations and reducing the economic dependence of SME and local producers at the BoP.
- 2) *Conflicts of Interest*: Partnership commitments can lead to a conflict of interest, especially when a private partner wants to engage in government tenders.
- 3) *Drain on Resources*: Before generating appropriate return on investment, partnerships require (especially in the beginning) substantial investment which not only includes financial resources, as described above, but also human resources and time.
- 4) *Operational Risks*: Lack of internal information-sharing about the partnership, lack of securing internal commitment for linkages (employee backing) and lack of ability to measure impact (especially the social impact) of any linkages formed.
- 5) *Implementation Challenges*: Partnerships face different implementation challenges and need constant review during operation in order to align partnership expectations and to achieve cooperation agreements.
- 6) *Loss of Autonomy*: Partnership work can mean less independence for each organisation as partners can no longer simply work autonomously but must abide by decision-making processes as agreed by the partners.
- 7) *Risks faced by partnerships at the BoP, in particular*: apart from the risks described in chapter 4.3) and the hindering factors described in chapter 3.4, risks of partnerships at the BoP can include the, often different, objectives of companies and the goals of the people at the BoP. Risks also result from different technical capacity, resource

constraints, varying cultural norms or the different “language” that public, private and civil society sectors speak.

Table 8 below summarises the risks of partnership building to business as described above and derived from different literature sources (cf. Stibbe 2008, Tennyson 2003, Mitchel 2008, The Partnership Resource Center 2011).

Table 8: Risks of Partnership Building to Business

Risks of Partnership Building to Business
<ul style="list-style-type: none"> <li>a. Immense time and resource investment in partnership building</li> <li>b. Loss of reputation, loss of credibility (partnership can increase vulnerability as the question arises as to whom the partners are accountable)</li> <li>c. Conflicts of interest</li> <li>d. Project implementation challenges based on shared responsibility (which can lead to limited progress as nothing is done at all)</li> <li>e. Loss of autonomy</li> <li>f. Confused shared accountability</li> <li>g. Raised expectations</li> <li>h. Financial risk, financial returns not met</li> <li>i. Non-delivery risk, inefficient unexpected outcome of the cooperation</li> <li>j. Poor participation of partner over time</li> <li>k. Poor capacity of partner/ lacking professionalism</li> <li>l. Risk of imparting sensitive information</li> <li>m. Risk that the partnership is intended only as “window dressing”</li> <li>n. Short term orientation towards results rather than long term processes (here risk aversion can prevail over risk taking)</li> </ul>

Though risks can differ from case to case, experience suggests that “issues are similar across industries and geographies whether a firm is selling to, buying from, or distributing through those at the BoP” (cf. Jenkins & Ishikawa 2009:10). Joint risk analysis and identification of which risk will be carried by which partner should be part of forming the partnership and should not only be conducted for the partnership itself but also for the joint project. Other success factors that can contribute to risk mitigation are outlined below (chapter 4.5).

#### 4.5 Success Factors for Partnership Building

Partnerships are complex. Outputs, outcomes and impacts are diverse. Tennyson (2003:33) defines the success of a development partnership by means of the following key criteria:

- “The partnership has an added business and social value in which the individual partners have gained significant benefits.
- The partnership has achieved its pre-defined objectives.

- The partnership is sustainable and self managing – either through continued engagement of the partners or through a self-sustaining mechanism that has replaced the partnership, allowing partners to move on to other tasks.
- The partnership is having an impact beyond its immediate stakeholder group and there is recognition from project beneficiaries (e.g. wider community).
- The cost and benefit ratio of the partnership is positive.”

Measuring these success factors are complex processes in themselves. Companies' success can be measured through sales volumes, profits, returns on investment or growth in market share. Indirect benefits like enhanced brand value or improved reputation are harder to measure. Measuring social benefits to communities poses an even greater challenge and can be measured through social indicators such as the number of jobs created, training received and technology transferred or income received (WBCSD 2005). In the framework of this research, attention cannot be given to the determination of economic value. Instead, focus will be on more qualitative criteria for successful partnerships as identified through literature research. The following factors (cf. Table 9) play a crucial role for successful partnerships according to Tennyson (1998), Stibbe (2008), Mitchell (2008) and Njenga (2011):

Table 9: Success Factors for Partnership Building

Success Factors for Partnership Building
<ul style="list-style-type: none"> <li>a. Mutual respect</li> <li>b. Transparency, good communication and trust</li> <li>c. Promising mutual benefits to the partners involved</li> <li>d. Clear shared objective of the partnership and for the development of the model</li> <li>e. Well defined roles and responsibilities within the partnership and a binding cooperation agreement</li> <li>f. Specified, measurable outcomes (goals)</li> <li>g. Local champions that drive the process of inclusive business and provide leadership, sound collective leaders</li> <li>h. Partners contribute equally to the design of the project (joint-ownership) and share resources</li> <li>i. Strong institutional commitment and support (appropriate and effective operating structure)</li> <li>j. Risk sharing</li> <li>k. Joint monitoring and evaluation in place (including measurable indicators)</li> <li>l. Cooperation and conflict management</li> <li>m. Degree of flexibility</li> </ul>

There are some success factors internal to a company that support Inclusive Business development. These have the potential to mitigate risk factors, as described in chapter 4.4 according to Gradl & Knobloch (2010), and include amongst others: support from executive management, cooperation with those responsible for CSR and sustainability issues in a company and employee backing. Gradl & Knobloch (2010:47 ff.) also recommend “engaging

a small amount of partners that are perfect fit and ideally comprise organisations that have clear self interest and broad reach". Successful partnerships use the core competencies of both partners that complement one another. Clear objectives and responsibilities are the basis for successful collaboration. Thus, these success criteria do not differ much from conventional partnership success factors. They differ from partnership to partnership, are partnership and business case specific and depend on the development stage that the partnership is at.

#### **4.6 Hindering Factors for Successful Partnership Building**

A study by the Southern African Trust and the SADC Employers Group (SEG) on civil society cooperation with business in the Southern African Region identified the following hindering factors for successful partnership building specific to Inclusive Business partnership building (Njenga 2011):

- a. Capacity constraints,
- b. Lack of understanding and clarity on concept of inclusive business,
- c. Misunderstandings resulting from unclear expectations and roles of partners,
- d. Language gaps between cross-sector partners,
- e. High initial set up cost of the partnership (e.g. distance to meet),
- f. Poor and unreliable communication between the partners.

It should be noted that partners of businesses face their own barriers which companies that seek partnership for engagement at the BoP need to take into account (BCtA 2010b). Partnerships should be entered into strategically. The risks emerging from these hindering factors can be mitigated through continued engagement with local stakeholders, listening to and learning from local partners throughout conception and execution of the Inclusive Business process, as well as through managing expectations of the different partners right from the beginning and throughout the partnership.

#### **Chapter 4: Conclusion**

Forming sector and cross-sector partnerships can increase the availability of a variety of financial and non-financial benefits (Warner & Sullivan 2004). As described in the M-PESA and Coca-Cola examples from practise above, partnerships can reduce cost, e.g. through sharing of resources, but also present access to new resources such as financial and physical resources, technical expertise and other knowledge (cf. Stibbe 2008). They can trigger innovation such as the development of new products (cf. Danimal 2011) and support more sustainable approaches than individual business ventures (Mitchel 2008). In some cases business at the BoP would not even exist without the support of a partner that knows about and provides access to these markets (cf. Coca-Cola MDC partners above). Thus partnerships, particularly at the BoP, can open new markets, ease access to new markets or gain access to knowledge from potential consumers for the development of new products.

Establishing new partnerships for the development of Inclusive Business can also be time-consuming and risky (cf. chapter 4.4). In addition to the benefits described above, positive outcomes of development partnerships for business can include: risk mitigation through risk sharing, securing or strengthening of a social license to operate, or the enhancement of corporate reputation.

Companies usually partner with NGOs and civil society organizations to get the necessary access to communities at the BoP and to ensure development impacts are taken into account. As the partnership examples above outline, companies can look at a variety of other partners beyond NGOs and other companies (cf. chapter 4.2). Also, government can constitute a valuable partner to access resources and support skills capacity building as described in the Richard's Bay Minerals case. Donors can leverage their convening power to bring different types of stakeholders together to facilitate and catalyze coalitions around development challenges. For example, by going beyond their traditional grant-making role, donors can bring together insurance companies, investors, academics and NGOs to get health investment services to the poor (cf. Gradl & Knobloch 2010). Three South African case studies will analyse different partnership models at the BoP for the South African context (see chapter 5).

## 5 CASE STUDIES SUPPORTING AN INCLUSIVE BUSINESS APPROACH

*By analysing and outlining the spectrum of potential partners in the stakeholder environment of South African companies, and based on semi-structured interviews, three successful corporate partnerships were identified which form basis for the three partnership case studies outlined below. Chapter 5, therefore, will discuss the business case and social case for the partners involved. The selection of cases was based on desk research and depended upon the availability of interviewees engaged in the three different BoP models: selling to, buying from and distributing through the BoP communities. Based on the theoretical analysis of the previous chapters this chapter will highlight the advantages these partnerships bring to the business and society as well as the challenges the partnerships faced.*

### 5.1 Case Study 1: Selling to the BoP through Business-Business Partnership

#### **Vodacom M-PESA**

M-PESA (Swahili term for “mobile money”) was first launched in Kenya in 2005 as a pilot project in emerging markets jointly financed by Vodafone UK and DFID’s Challenge Fund. Vodafone, in partnership with Safaricom Kenya, a mobile service provider, had developed the M-PESA system for emerging markets that enables the use of mobile phones to transfer money between virtual accounts without having to use a real bank account. M-PESA was very successful in Kenya and by December 2010 M-PESA had reached 13.3 Million users (57% of Kenya’s adult population) (Suri 2011). M-PESA was launched in South Africa in August 2010 in partnership with Vodacom South Africa and Nedbank with the goal of launching a money transfer service in South Africa that was able to operate on basic mobile handsets using sms-technology. When entering the market after a two year preparation phase M-PESA already had competitors in South Africa which offered a similar service. Banks like ABSA had partnered with Barclays, and Standard Bank had instantly responded to the M-PESA launch by partnering with Vodacom’s competitor MTN and the retailer Spar. Standard Bank launched a money transfer system that allows Spar customers to transfer money using a mobile phone to anyone in South Africa (De Koker 2008).

#### **Corporate Profile – Vodacom**

Vodacom was established in South Africa in 1993 as joint venture of the UK-based Vodafone private company and the state-owned South African national company, Telkom. Since then it has been South Africa’s number one cellular network operator. The original incentive for Vodacom to reach the BoP segment was of a regulatory nature when, in 1994, the South African government required Vodacom to provide affordable mobile communication to underserved areas in order to obtain its operating license. During Apartheid many rural and urban areas did not have any access to telecommunications. Today, there is still a noticeable digital divide between urban and rural areas in South Africa. In response, Vodacom designed

the Community Phone Shop Concept which includes the establishment of small entrepreneur- owned phone shops in underserved rural areas in South Africa. These became one of Vodacom's most profitable enterprises (cf. Coetzer 2008).

### **The Corporate Partner – Nedbank**

Nedbank is one of the four big banks in South Africa. According to Nedbank (2009), sustainability is at the core of the Nedbank Group's business strategy and it applies an integrated approach to CSR. Nedbank has a proven track record of providing financial services to those at the BoP. Having strong environmental credentials Nedbank is the first large cooperate in South Africa to become carbon neutral. The partnership between Vodacom and Nedbank was triggered by the legal requirement of the mobile phone provider having to partner with a bank in South Africa (cf. South African Reserve Bank 2008)<sup>7</sup>. As such, Nedbank's role in the partnership with Vodacom is to engage with South Africa's banking regulator to ensure that the M-PESA initiative meets all requirements of the South African Reserve Bank. While Nedbank is bringing the banking expertise into the partnership, Vodacom is bringing in its knowledge of mobile phone communication and Vodafone's experience with M-PESA in other markets (Uys 2010). According to Susie Lonie, Executive Head of Vodacom Mobile Money (until July 2011), the fact that the Chief Executive Officers (CEOs) knew one another and saw the business potential in the partnership also contributed much to the formation of the partnership (Lonie 2011, interview).

### **Engaging at the BoP – Selling to the BoP**

In South Africa, the M-PESA product allows the customer to convert real money into electronic money by depositing cash into a Vodacom M-PESA outlet, which range from Nedbank branches, Vodacom phone shops, and supermarkets to chicken restaurants. M-PESA outlets market the service to potential customers and provide support to existing customers. In return they earn a commission for customer care and any outlet transaction (BCtAc 2010). Mobile phones are used like a debit card that allows for transactions via text messaging (sms). M-PESA allows for four different types of money transfer: 1) between individuals, 2) between individuals and business (for example for salary transfers), 3) cash deposit and withdrawal at M-PESA outlets, and 4) allows a recipient to purchase airtime for their phones (Figure 7). M-PESA is especially suitable for the unbanked people who need access to banking services but who are not part of the formal banking system. Only Vodacom customers can send money from their M-PESA accounts but anyone with a mobile phone can receive it.

<sup>7</sup> South African regulations (FICA scheme) require bank account holders and banks to comply with residential address verification requirements. Certain exemptions are allowed for certain cell-phone banking services (cf. De Koker 2008, South African Reserve Bank 2008, also see below: challenges introducing M-PESA)

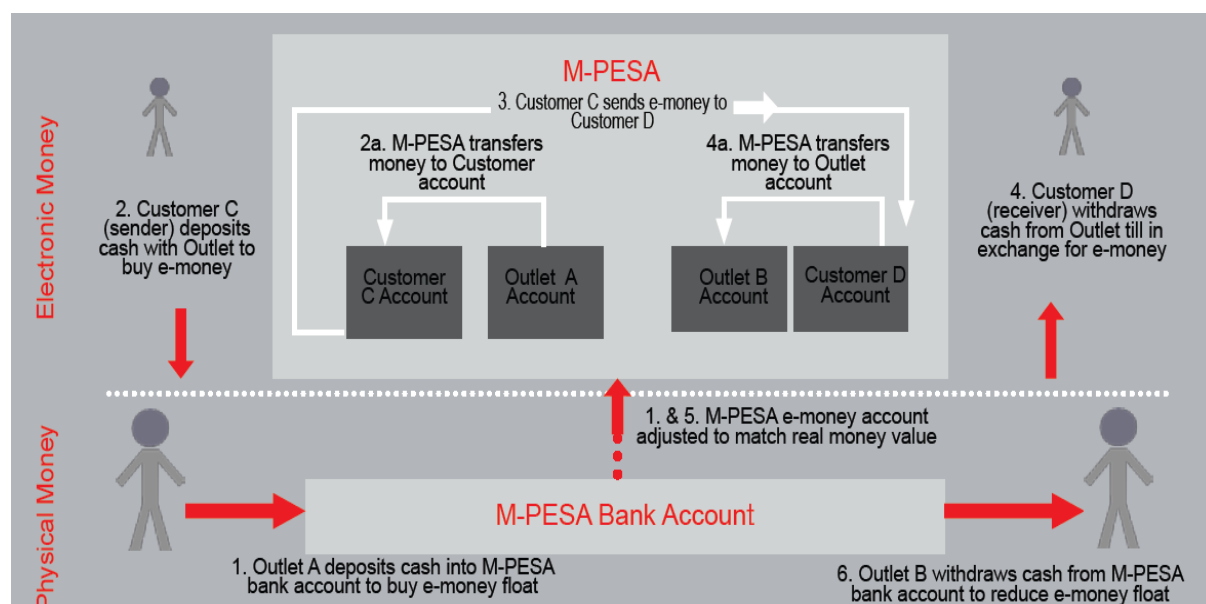


Figure 7: Vodafone's Money Transfer Business Operations Model (Huges & Lonie 2007)

### Business Case for Vodacom

Vodacom's role in the M-PESA partnership is to support the development of the M-PESA product, provide recruitment and training of money transfer outlets and to allow access to its customers and network range. The business case for Vodacom reaching the BoP is the access to increased marketing and market potential that the provision of a new service to rural areas provides, i.e. access to affordable banking services for the poor who do not have bank accounts. Vodacom gains from the transaction cost of each M-PESA transaction. Economies of scale and related increased returns of scale can make this investment viable for Vodacom. Around 18% of South Africans now use their mobile phones for money transfer (Maritz 2011). In addition, expected customer brand loyalty for first-time M-PESA customers suggests a longer term engagement with the two brands, Vodacom and Nedbank.

As indicated, when M-PESA entered the South African Market there was already collaboration between banks and telecommunication providers. The difference between these services and M-PESA is that in those cases the banks' existing mobile services still required the sender to have a bank account. The recipients of this service only receive money and do not have an account with which they can transact, while with M-PESA the recipients have their virtual M-PESA account with which they can transact. Vodacom plans to recruit more financial institutions and retail outlets into the system and Susie Lonie expects "to see an increasing level of integration between new types of financial services such as M-PESA and the more traditional financial services infrastructure" (Maritz 2010a).

### Business Case for Nedbank

Mobile money transfer is one of the fastest growing services in the financial service sector due to its ease of use and instant reach to the recipient. A survey conducted by World Wide



Worx (2011) indicated that the number of e-money users in South Africa doubled from October 2010 to April 2011. Former unbanked markets are now using mobile phones as banking tools (Maritz 2011). This allows Nedbank to extend its banking services to former informal markets. M-PESA can help to extend the formal reach of Nedbank's banking products and services to the unbanked population at the BoP through Vodacom's own distribution base and existing customers (Brown in *Classic Business*, 13/07/2011). This can eventually introduce the unbanked population to mainstream banking as is planned for with the new M-Kesho product in Kenya. M-Kesho is an account provided by Kenya's Equity Bank linked to an M-PESA account, and accessible via mobile phone, that allows for the introduction of other banking services such as micro-credit and micro insurance services (cf. Mulupi 2010). Nedbank plans to expand its existing banking services and product offerings at the BoP through M-PESA. Amongst other products this will comprise the option of paying salaries via internet into the M-PESA account (Brown 2011, in *Classic Business*, 13/07/2011).<sup>8</sup> This is expected to make M-PESA more attractive to SMEs. Thus M-PESA has the potential to become an "access channel" to many kinds of different financial services for BoP communities, while expanding Nedbank's market for tailor-made services to those at the BoP.

### **Key CSR Benefits of M-PESA Partnership**

As outlined in chapter 2, an Inclusive Business approach through selling products and services to BoP communities, that are needed by the poor can have high development impact. In South Africa, mobile phone penetration is high, reaching 80% of the population, yet more than 13 million economically active South African's, that is 23,5% of the adult population, still do not use any kind of financial service (Brown 2010, FinMark Trust 2010). Thus mobile technology can play an important role in South Africa's economic and social development through providing access to financial services.

As Pieter Uys (2010), Vodacom Group CEO, highlights: "Access to telecommunications and relevant content can significantly help in crossing the digital divide in South Africa and Africa, furthering education and creating jobs". M-PESA in addition, will bring marginalised individuals into the economic mainstream by providing them with basic banking services.

M-PESA can not only provide affordable banking services to formerly unbanked areas but also reduce transaction costs for the rural poor. The service also has potential to create jobs through the creation of new outlets and in this way has potential for income generation.

Product-related benefits comprise the following: M-PESA's remote payment is a safe way to transfer money as there is no need to carry cash and there is no need to queue or to travel to a bank. Thus M-PESA can contribute to business efficiency, especially for Small and Medium Enterprises in rural areas, as customers can bank money without having to leave their businesses or homes.

<sup>8</sup> Ms. Ilze Wagner, Nedbank's Head of Transformational Banking, was at the time of the study not in a position to respond with more details in this regard (email correspondence Wagner 28<sup>th</sup> June 2011).

### **Challenges of introducing M-PESA into South Africa and How These are Addressed**

It is clear that M-PESA has had a slow start in South Africa when compared to its rampant success in Kenya and Tanzania, having reached only about 120,000 customers in South Africa by May 2011 (Theobald 2011). Analysts make the simultaneous rebranding of Vodacom, which took place in April 2011 not long after M-PESA had been introduced, responsible for the slow start of M-PESA South Africa<sup>9</sup>. In addition, the separated marketing effort on Nedbank's and Vodacom's web-pages is mentioned as a potential reason. Both companies are now planning a new joint-marketing effort (Theobald 2011).

According to Susie Lonie the main challenge M-PESA faced in the South African market was South Africa's two-pronged economy. She also mentioned the technical requirements of the sophisticated South African retail market which required a "point of sale integration" through a currently developed Application Programming Interface (API). An API will have to be introduced to bring the banked customer into the M-PESA space as it will allow banked customers to directly transfer money into the M-PESA account (Lonie 2011, interview).

Nevertheless, one of the main reasons for M-PESA's slow start remains the already relatively high saturation of the South African market, where the amount of people with access to banking services, when compared to other African countries, is high. In addition, the South African market already offers other affordable banking products that allow BoP consumers access to affordable banking services like the low-cost Mzansi accounts for the low income market (as offered by Standard Bank, FNB, ABSA and Nedbank itself, in partnership with Postbank) or the community banking system of the Standard Bank Group (Gradl et al. 2011). There is also already existing market coverage for mobile banking services and strong competition from other banks and mobile service providers that fill the former market niche with similar products.

South Africa's tight mobile and banking regulations constitute a challenging factor that Vodafone had no experience with from M-PESA's introduction in developing markets in East Africa and the Middle East. This challenge could be abated by partnering with a bank like Nedbank when entering the South African market (Lonie 2011, interview). This still raises concern, even with Nedbank Group CEO Mike Brown (Brown 2011 in *Classic Business*, 13/07/2011). For instance, it is expected that the newly introduced RICA (Regulation of Interception of Communications and Provision of Communication-Related Information Act) reintroduces some of the classic financial inclusion barriers by linking the tight identification requirements of RICA to the right to use a mobile phone<sup>10</sup>. This might not only discourage future banking customers because of the administrative burden of registration but can also exclude South Africans who do not have an identity document, or who have difficulties in affording transport to visit the agents of operators, from mobile communication services.

In addition, there is a lack of financial and general literacy amongst SMEs and other potential low-income customers which prevents potential BoP customers from accessing existing low-

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<sup>9</sup> Rebranding of Vodacom changed the colours of the brand from blue to red.

<sup>10</sup> RICA required all owners of a South African mobile phone sim-card to register their identity with agents of mobile phone operators by July 2011.

income financial products and services. This needs to be jointly addressed through financial literacy programmes in collaboration with education institutions and other banks if one wants to integrate the unbanked into the mainstream economy says Rau, CEO of the South African Chamber of Commerce (Rau in *Classic Business*, 12/07/2011)

### **Conclusion: M-PESA Partnership**

The M-PESA partnership between Vodacom and Nedbank combines the core competencies of both partners. The partnership is expected to provide for financial inclusion of the unbanked and in this way supports the bridging of the formal and informal sectors of the South African economy (Wagner 2010). It promises to generate benefits for the partnering businesses, the entrepreneurs operating M-PESA outlets, as well as customers at the BoP. The M-PESA corporate partnership model constitutes an instrument that is seen by both partners to leverage win-win for business and society. The partnership between Vodacom and Nedbank appears to have the strength to serve the BoP and to generate a win-win situation for businesses and society through a successful business model.

However the immense and fast success that M-PESA achieved in Kenya or Tanzania cannot be expected from the South African launch of the M-PESA mobile banking service. The big mobile banking service providers, Nedbank and Standard Bank, agree that South Africa constitutes a very different market to the developing markets M-PESA had been launched in before (Brown & Barnard in *Classic Business*, 13/07/2011). Thus the success of the M-PESA mobile banking partnership will not only depend on the partnership factors as outlined in chapter 4.5 and 4.6 but also (and to an even greater extent) on specific external factors.

The South African market realities therefore need a different approach that, if it wants to succeed, requires M-PESA not only to link more thoroughly with the already existing banking sector and products, but also to financially educate those potential customers that do not yet have access to financial services.

Scholz, AfriFocus banking analyst, confirms that mobile banking is an innovative tool to bring the unbanked into the banking mainstream but that innovative low-cost solutions are required to overcome the higher risk faced at the BoP. Innovative solutions are required that allow SMEs and local entrepreneurs, in particular, easier access to banking services. At the same time the integrity of banks needs to be protected in order not to expose them to the too high risk that engagement with SMEs at the BoP constitutes. This requires the collaboration of banks and partnering with respective technology providers (Scholz in *Classic Business*, 12/07/2011).

In addition, an expansion of Vodacom's M-PESA to other banking partners could possibly create a competitive advantage for this mobile banking tool. Standard Bank Group's Director of Inclusive Banking, Leon Barnard, confirms that partnerships play a very important role in the process of "banking the unbanked". This process needs many levers for integration. He indicates that Standard Bank itself had gone through an enormous learning process and that defining one another's roles was a process that was especially difficult from the beginning. He argues that, particularly with big corporate partners, defining the roles and designing cost

and value sharing agreements needs time and that agreements are quicker to reach with smaller business partners (Barnard in Classic Business, 13/07/2011).

## **5.2 Case Study 2: Buying from the BoP through Business-NGO Partnership**

### **Farming for the Future**

Woolworths, a South African retailer, has developed its Farming for the Future Programme to adopt more environmental friendly farming practices throughout their supply chain. The retailer has begun sourcing supplies grown organically and with a low level of environmental impact from rural and poor (BoP) areas in South Africa. Farming for the Future has been greatly supported through the expertise of two of Woolworths' NGO partners, the Pleiad Foundation and the World Wide Fund for Nature, South Africa (WWF). The "Farming for the Future way" is characterised by sustainable farming practices that can increase soil fertility, reduce water usage, nourish people, help communities to cope with climate change and support rural livelihoods. The organic farming methods applied by the programme are in the long term expected to increase biodiversity. In 2010 Woolworths assisted 32 black-owned companies with supplying goods and services to its various business units (Woolworths 2010).

### **Corporate Profile – Woolworths South Africa**

Woolworths' core business focus in South Africa is based on the provision of retail products and services to the upper and middle income groups. Although mainly active in South Africa, Woolworths South Africa also supplies the rest of Africa, Australia, New Zealand and the Middle East. Being named responsible retailer of the year at the World Retail Congress 2008, Woolworths' leadership has realised that their focus on environmental and social issues can drive innovation and operational efficiencies (Woolworths 2010). In 2007 Woolworths consolidated their sustainability efforts under their Good Business Journey Programme. This programme has four pillars – the economic, social, environmental and transformational pillars (Smith 2011, interview). The Farming for the Future Programme is part of this Good Business Journey. The Good Business Journey programme also comprises an enterprise development programme, which has enabled the retailer to support emerging "black-owned" suppliers. The retailer, as part of their BEE efforts, therefore encourages enterprise development and preferential procurement<sup>11</sup> through the integration of formerly disadvantaged communities into their value chain. Woolworths sees itself as an agent of social transformation, like many other larger South African firms. The retailer indicates that its CSI strategy is aligned to both its core business and to the national development priorities of the South African Government (cf. chapter 3.2). Woolworths partners with a wide range of

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<sup>11</sup> Enterprise development and preferential procurement are two of the seven pillars of the BEE scorecard for which Woolworths scores points for Black Economic Empowerment efforts. The retailer is committed to spending 3% NPAT for BEE related SED and enterprise development activities (Carden, interview, cf. chapter 3.1)

corporate, governmental and non-governmental organisations (NGOs) across a range of social, environmental and transformational interventions.

### **The NGO Partner – World Wildlife Fund South Africa**

The World Wildlife Fund South Africa (WWF) is Woolworths' strategic partner in agriculture. WWF in partnership with the NGO Conservation International (CI) has been involved in supporting the producer side of the retailer's value chain by giving strategic advice to Woolworths for its Farming for the Future programme. WWF and CI, through their own Green Choice Programme, are supporting so-called Business and Biodiversity Initiatives which are aimed at wise resource use throughout the food supply chain (cf. Scotcher 2010). The initiatives include, for example, the Southern African Sustainable Seafood Initiative (SASSI) that supports the sale of fish caught through sustainable fishing practices (cf. WWF SASSI 2011), the Biodiversity and Wine Initiative that supports sustainable growing of grapes for wine (cf. BWI 2011), and Badger Friendly Honey Production (Hawkins 2010, personal conversation). WWF is, at the moment, internally reviewing their corporate partnerships, which includes the partnership with Woolworths, which they have had for just over a year now. At a later stage WWF will review its partnership together with Woolworths<sup>12</sup> (von Bormann 2011, interview).

### **The NGO Partner – Pleiad Foundation**

Pleiad Foundation was founded in 2011 as a non-profit organization within the Pleiad Group to expand the development work of Pleiad Capital. Pleiad Foundation supports poverty alleviation, economic development and empowerment of poor rural communities in South Africa. The NGO is providing technical expertise to emerging farmers, for management support, market support and support to access finance for small-scale farming (Pleiad 2011). Pleiad also links small-scale farmers with markets like Woolworths and Pick'n Pay and has a core role in the set-up and implementation of the agri-consolidator project described below.

### **Engaging at the BoP - Buying from the BoP**

By engaging at the Base of the Pyramid Woolworths not only aims at meeting the expectations of its customers and BEE requirements but also its own economic bottom line through expanding economic opportunities to the BoP. Through its enterprise development programme Woolworths is supporting existing suppliers to improve their BEE empowerment credentials but also to improve its own BEE empowerment credentials. For this reason the retailer is committed to introducing small and medium black-owned enterprises into their supply chain through financial support and assistance in the development of business skills (cf. Woolworths 2010). One of Woolworths' key focal areas under their enterprise development strategy is "the improvement of Woolworths' preferential procurement score by

<sup>12</sup> WWF was not able to share its guidelines on partnership building which includes complex but different approaches for both philanthropic and transformational target driven corporate partnerships.

influencing transformation of existing suppliers while introducing new small and medium enterprises to their supplier base” (Woolworths 2010:19).

Woolworths is supporting small-scale farmers through their enterprise development programme in various ways by (Carden 2011, interview):

- Offering the marketing and procurement of goods and by negotiating preferential trading terms for SME suppliers which will, for example, receive their payments within seven days after they have delivered. This addresses the challenge of the often limited working capital of SMEs.
- Supporting access to available loan funding. An enterprise fund has been set up to support emerging enterprises that need start up funding, in particular.
- Training of SME, including small-scale farmers, through a variety of partner NGOs.

Recently Woolworths has supported the establishment of the agri-consolidator project. Since October 2010 this emerging farmer’s project has been piloted by the NGO, Pleiad, in South Africa’s Limpopo Province. In its pilot stage the agri-consolidator project aims to include a group of 10-12 previously disadvantaged farmers into the formal food supply chain of corporate business partners, such as Woolworths and other companies.

The concept of the agri-consolidator is that of an agriculture business hub that directly engages partners and other stakeholders, such as lending banks or government departments (Figure 8). The agri-consolidator supports the integration of emerging farmers into formal food supply chains through their integration into companies’ core business operations. It represents an efficient production, sourcing, processing and logistical services facility. The consolidator also provides management support to the small-scale farmers involved and assists in the development of bankable investments (Pleiad & IFAD 2011).

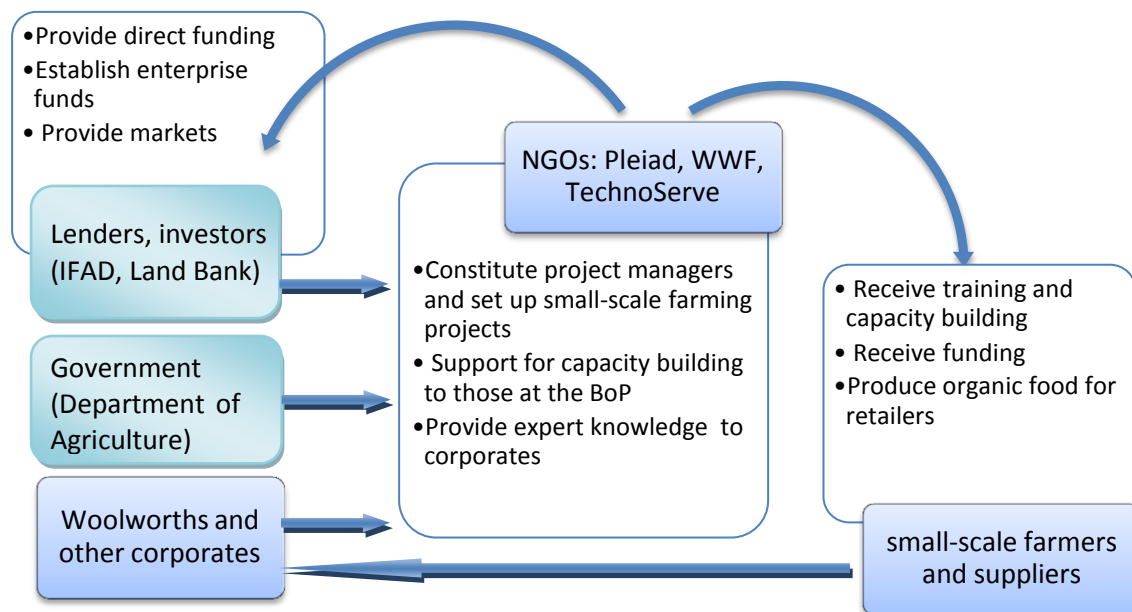


Figure 8: Agri-consolidator cooperation model and stages in the cooperation chain

The Pleiad Foundation, which manages the set up of, and stakeholder engagement in, the agri-consolidator project, thus does not only partner with Woolworths but also with other South African retailers, like Pick'n Pay, which will provide markets for small farmers' produce. The main funding for the pilot project is provided by the International Fund for Agricultural Development (IFAD). Funding for this partnership is also made available through the Limpopo Department of Agriculture and the Land and Agriculture Development Bank. Additional funding is sourced from South Africa's Enterprise Development Fund. The NGO, Techno Serve, provides day-to-day technical advice and training to emerging farmers in a mentorship model that is called the Principal Farmers Model (Carden 2011, interview).

Core functions of the agri-consolidator thus include:

- *“Management support:* to develop demand-driven food product lines and themes, broker off-take agreements on behalf of small farmers with retailers, wholesalers and distributors.
- *Technical support:* on-farm training in production management, farm management and business administration.
- *Market support:* to give small farmers opportunities to produce (niche) high value food items, support local farmer food brands, establish food processing facilities.
- *Financial supports:* to develop bankable business cases for small farmers, provide access to enterprise development funds, corporate social investment (CSI) funding and loans from commercial banks.” (Pleiad & IFAD 2011:3)

### **Business Case for Woolworths**

Targeting upper class customers, the niche retailer Woolworths has realised that the development of high quality products and organic farming can have a positive effect on sales numbers and the environment. According to Coetzer & Bridgman (2009) the competitive advantage of the business in the retail sector is in large part due to the retailer's ability to modernise and innovate. Hence Woolworths offers a wide range of organically produced products which have contributed to building its brand over the past years (Smith 2011, interview). The main reason for Woolworths' sourcing from formerly disadvantaged communities is so far its commitment to fulfilling BEE requirements (Carden 2011, interview). On the other hand, Woolworths also sees today's emerging farmers as the future reliable agri-entrepreneurs and suppliers.

By sourcing locally Woolworths also reduces product miles, import costs, dependencies on international and regional markets and decreases its spending. Woolworths' Good Business Journey, including its Farming for the Future Programme, has earned Woolworths a reputation as one of the leading responsible and high quality organic product retailers in South Africa. The company supports a variety of other conservation projects through its NGO partners. This contributes to raising awareness of environmental issues while raising Woolworths' reputation through its involvement in conservation efforts.

### **Business Case for Pleiad**

The NGO's role in the partnership is the provision of expert knowledge to Woolworths, as well as the pooling of stakeholders and potential partners for a successful agri-consolidator business operation. Pleiad brought on board Woolworths as partner to the agri-consolidator project from the beginning. It receives funding from Woolworths for its activities and provides, through partnering with retailers such as Woolworths and Pick'n Pay, the market for the emerging farmers it supports. Pleiad, as a business-oriented NGO, is managing the agri-consolidator pilot project. The organisation recently arranged an emerging farmers investors' forum that brought together potential investor partners for the agri-consolidator pilot. The forum discussed potential future roll-out of the intervention. In this way Pleiad sources funding for emerging farmers but also its own core business operations. Potential spin-off effects of the partnership could include the strengthening of both organisations' reputations.

### **Business Case for WWF**

The NGO's role in the partnership is (together with its partner CI) to provide expert knowledge to Woolworths across a range of biodiversity conservation and other environmental-related issues, including the Farming for the Future Programme. WWF in return receives partial funding from Woolworths to strengthen WWF's sustainable agriculture work (Woolworths Holding Limited 2011). WWF also receives funding from Woolworths for other core activities of the NGO such as the elimination of alien plants in the Tankwa Karoo National Park which are not necessarily related to Woolworths' core business. Spin-off effects of the partnership also include the strengthening of both organisations' reputations.



This cross-fertilisation originates from the fact that both are reputable organisations that engage in the improvement of people's livelihoods but also conserve the environment. Woolworths also uses its chain of stores to raise awareness for environmental issues on behalf of WWF such as the recent "Imagine no Rhino Campaign", that generates conservation funding from the sale of reusable and recyclable bags designed especially for this purpose.

### **Key CSR Benefits of the Farming for the Future Partnership**

- The Woolworths Farming for the Future Programme promotes enterprise development and food security for emerging farmers through supporting capacity building for food production, for farm management, for business administration skills and for income generation. At the same time it provides financial support to access technical, financial and business administration skills to assist farmers in supplying quality produce in sufficient amounts.
- Emerging farmers' projects such as the agri-consolidator pilot project have the potential to create a positive socio-economic impact for its direct beneficiaries as these small enterprise projects can generate income and employment opportunities for communities at the BoP. In addition the agri-consolidator facilitates access to markets for emerging farmers through the establishment of links with markets such as Woolworths.
- By assisting the farmers in the development of bankable business cases the pilot project attracts investors which are expected to provide finances in form of seed grants or loans to other emerging farmers for the roll-out of the project. The aim is to turn the agri-consolidators into a sustainable and self-sustaining business, to start roll-out of the pilot project by 2011 and to establish agri-consolidators throughout the country (Pleiad & IFAD 2011).
- In this way Woolworths helps creating a value chain that brings development to previously disadvantaged communities. Also, Woolworths' customers can decide to support these communities through their purchases. Through explicit branding of some of Woolworths' products its customers are made aware of their contributions to different community support programmes.
- In addition, Farming for the Future supports the production of high quality organic agricultural products for South African middle to high income customers. This also paves the way, and creates awareness for, the promotion of organic produce in a country where organic farming is still an emerging market opportunity.

### **Key Challenges faced by Farming for the Future and How these are Addressed**

The execution of black-owned farming enterprises, as supported by Woolworths' enterprise development programme, is facing the following challenges:

- The situation in South African agriculture is characterized by the ongoing land reform process which aims at addressing the unfair land distribution during apartheid. Since the

launch of democracy in 1994, the government has led a process of land restitution and land redistribution to South Africans that had been expropriated during apartheid. Land bought by government for redistribution has often been neglected and is in a state of degradation. The redistributed farms often do not have any infrastructure and have lain fallow for a long time before being handed over to their “new” owners. Thus these farms are in dire need of up-grading while the emerging farm owners need to acquire technical skills and business management skills (Carden 2011, interview).

- Access to working capital and adequate infrastructure are two key barriers to the market entry of small-scale farmers (Radebe 2011).
- Woolworths, like other firms engaging at the BoP, seems to have a challenge in scaling up its BoP interventions. Projects that integrate emerging farmers into the retailer’s value chain so far remain rather small scale. The reason for this seems to be that it is easier and less capital-intensive to spend their 3% NPAT BEE contribution (cf. chapter 3.1) on “black-owned” transportation firms than on small-scale farmers who need far greater investment. Therefore a higher percentage of the enterprise budget goes into “black-owned” transportation (Carden 2011, interview).

### **Conclusion: Farming for the Future Partnership**

Woolworths, in partnership with Pleiad and WWF South Africa, combines all three sustainability pillars: economic, social and ecological, within its integrated CSR activities, with the addition of the transformational pillar, which is specific to South Africa. Working directly with low income groups is, at the moment, not part of Woolworths’ strategy as this is time and staff consuming. Woolworths has the intention to support black-owned enterprises but does not have enough own resources (especially human resources) to run its enterprise programme. Therefore Woolworths engages with NGOs that have staff and capacity to support its integrated CSR processes. Kenneth Carden (Woolworths’ former Manager of Woolworths’ enterprise development programme and now Pleiad Enterprise Expert) suggested partnering with a wide range of other organizations as well. So far support for Woolworths in this regard is predominantly received from NGOs (Carden 2011, interview).

South African NGOs that work with low income groups on the other hand could be more strategic in engaging in corporate partnerships. Pleiad seems to-be spot on in this regard. Many other South African NGOs seem not to have realised the potential of target driven corporate-NGO partnerships and do not seem to have the capacity either. NGO-Corporate partnerships of a philanthropic nature are dominant. NGOs must be clearer on their own role and common objectives before they engage in partnerships with business. This opinion was also shared by WWF representative, Tatjana von Bormann (2011, interview)

Other experts confirm from their experience that many South African NGOs working at the BoP seem not to be the sophisticated service providers that are needed to support Inclusive Business processes. They do not have the capacity and strategic approach to engage in business processes like those at the BoP (Pascarel 2011). Thus, though there is potential

and need for their engagement, NGOs require a more business-oriented, quality-assuring and coordinated approach if they wanted to engage in Inclusive Business processes.

The agri-consolidator provides a model for an integrated approach that delivers both capacity and investment funding to emerging farmers to develop viable and sustainable agri-businesses. While these businesses are founded in rural areas they will be integrated into the formal food supply chain in South Africa, as well as into South African exports of food and agricultural products.

### **5.3 Case Study 3: Distributing through the BoP through Business-SME Partnership**

#### **Coca Cola – Manual Distribution Centres**

The Coca-Cola Company (CCC) has operations in every country on the African Continent. The reason this works is according to Egbe, president of the Coca-Cola Company's South African Business Unit, "the engagement of local investors in those businesses" (Maritz 2010b). Coca-Cola works on a franchising model. The company only produces the Coca-Cola syrup concentrate which it then sells to local bottlers. The bottlers that hold Coca-Cola franchises for one or more geographical areas produce the final drink before bottling or canning it for distribution. In many African rural and urban areas difficult accessibility does not allow for the conventional way of distributing Coca-Cola products with trucks. Thus in 1999 the Coca-Cola Company piloted using Manual Distribution Centres (MDC) in East Africa with its local bottler Coca-Cola Sabco. The MDC model quickly became a great success. By November 2008, for instance, MDCs in Ethiopia accounted for 83% of Coca-Cola Sabco's nationwide sales, in Tanzania this figure reached 93% of Coca-Cola Sabco's nationwide sales (Nelson et al. 2009).

MDCs are "independently owned low cost manual operations created to service emerging urban retail markets where conventional distribution models are not effective or efficient. Outlets at point of sale served by MDCs are typically low-volume with high service frequency and low cash flow that requires fast turnaround of stock" (Nelson et al. 2009:12). The MDC system engages small business owners that use whatever means possible to distribute Coca-Cola products to the retail outlets, for instance donkey carts, bicycles or even carrying by hand. Since 1999 the concept of MDCs has been adopted by Coca-Cola bottlers all over Africa. In this way CCC created a partnership model that engages the local population. The partnership model constitutes, on the one hand, a franchising partnership of CCC with local bottlers and, on the other hand, a partnership with local entrepreneurs for the distribution and sale of their products (Figure 9 below).

#### **Corporate Profile Coca-Cola South Africa**

Coca-Cola South Africa opened its first bottling plant and distribution centres in Johannesburg in 1926. South Africa is the largest Coca-Cola market in Africa. According to company statistics, every year Coca-Cola bottlers sell an average of 235 beverage servings to each person in the country (of an estimated population of ca 50 Million). While Coca-Cola

South Africa is mainly responsible for the marketing of the beverages, the local bottlers are mainly responsible for their manufacture and distribution. This partnership model has become part of Coca-Cola's business model, which in most cases constitutes a joint venture model. Coca-Cola South Africa is involved, both directly and through the Coca-Cola Africa Foundation, in CSR initiatives that support the environment, entrepreneurship, education and HIV/AIDS prevention on the African continent. The company is partnering with four bottlers: Amalgamated Beverage Industries (ABI), Coca-Cola Fortune, Peninsula Beverages (PenBev) and Coca-Cola Shanduka Beverage SA.

### **The Bottling Partner - Coca-Cola Shanduka Beverage SA**

While Coca-Cola South Africa engages four bottlers in its South African business operation, this case study focuses on Coca-Cola Shanduka Beverage SA (CCSB) which, of the four bottlers, is engaging the highest amount of Manual Distribution Centres in their operations (40-45% according to Msimango 2011, interview). Coca-Cola Shanduka, whose main areas of operation are semi-rural and rural, has recently started a marketing campaign with its SDPs and piloted a female entrepreneur project at point of sale (see Figure 9 below).

CCSB was formerly known as Scarlet Ibis Investments 3 (Pty) Ltd. Scarlet Ibis Investments 3 (Pty) Ltd was bought by Coca-Cola South Africa in 2006 with the strategic purpose of advancing its commitment to black economic empowerment (BEE) in South Africa. The aim of Coca-Cola South Africa is to develop a black-owned and geographically diverse beverage company. In 2007, therefore, Coca-Cola South Africa sold 70% of Scarlet Ibis Investments 3 (Pty) Ltd to the Shanduka Group, an African black-owned investment holding company – the Coca-Cola Shanduka Beverage SA (CCSB) was formed. This made CCSB the first majority black-owned and managed bottler in South Africa (CCC 2011). CCSB supplies more than 34 Coca-Cola brands from its two main plants, each with three production and six sales centres. CCSB has a majority stake and management responsibility in the Coca-Cola joint venture. It has more than 10,000 retail customers (including distributors and retailers) across eight trade channels in three South African Provinces (Shanduka 2011).

### **Engaging at the BoP – Distributing through the BoP**

Coca-Cola Shanduka Beverage SA, in collaboration with Coca-Cola South Africa, has piloted a strategic MDC approach that they call the "Strategic Distribution Partner" model. A Strategic Distribution Partner (SDP), similar to the MDC described above, is a Coca-Cola third party distributor that either already sells Coca-Cola products, or is selected in potential strategic areas of operation that are inaccessible and not viable for distribution through the bottler itself. The potential distributor needs to show interest and potential to become a SDP. This is assessed through a profiling measure. The potential SDP needs to have sufficient space for product storage and a small amount of capital for investment. It also needs to be sufficiently equipped for distribution in Coca-Cola Shanduka's inaccessible areas. SDPs are able to service smaller product amounts to customers that buy only 2-5 cases. They are able to service more frequently while this would not pay off for the bottler through direct distribution. Each SDP is assessed individually for its capacity and receives business training

as required. CCSB distributes products to these third party distributors which can form their own small scale distribution network in their area of operation.

A pilot for improved marketing was started last year and 12 SDP centres received marketing training which, amongst others, included strategic placing of coolers, prices, displays and products to improve sale volumes. SDPs use different ways of marketing. Thus there is no blueprint marketing approach and individual, time-intensive marketing training has to be conducted. This year CCC and CCBS are jointly targeting 29 SDPs with a plan to rollout the marketing model across the country. SDCs do not only receive business training, if required, but can also access short term “product on credit” from Coca-Cola. The time span of a short term credit can be as short as one day. SDPs will deliver the product to the point of sale, small retailers that earn a living from the sale of Coca-Cola’s products, as well as other fast moving consumer goods (FMCG). Figures on sales are not yet significant enough to evaluate the success of this model (N’dri 2011, interview).

As part of its “5 by 20 campaign”, with which CCC targets the empowerment of 5 Million women worldwide by 2020, Coca-Cola South Africa, together with CCSB, has piloted a model that enables female small business owners to become Coca-Cola points of sale. This model was introduced in 2010 and is in its pilot phase with 40 businesswomen in the Vaal, an area in South Africa’s Free State Province.

All women of the pilot project receive training in basic business skills. The women are empowered through a three-stage model: 1) recruitment pack (and product to the value of ZAR 1000), 2) a Coca-Cola kiosk with cooler (and other FMCGs to the value of ZAR 3000) and 3) the fully equipped version, similar to a Coca-Cola community shop. These packages are provided on a loan basis. Accessible and sustainable loan services for the female entrepreneurs are at the moment under negotiation with a local bank.<sup>13</sup>

Coca-Cola calculates that the women will be able to break even after 1.5 to 2 years of successful business, by making a profit of only ZAR 15 per day<sup>14</sup>. The calculations include compulsory savings of approximately 10% and rental. CCC would support the businesswomen by opening a formal account with preferential conditions with the banking partner. They are looking into adding additional products to the account such as insurance. The first tests indicate that the women will be able to multiply their investment by 3 up to 9 (N’dri 2011, interview).

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<sup>13</sup> The name of the bank could not be disclosed at this stage.

<sup>14</sup> ZAR 15 equals approximately Euro 1.524 (source: oanda, 08/08/2011)

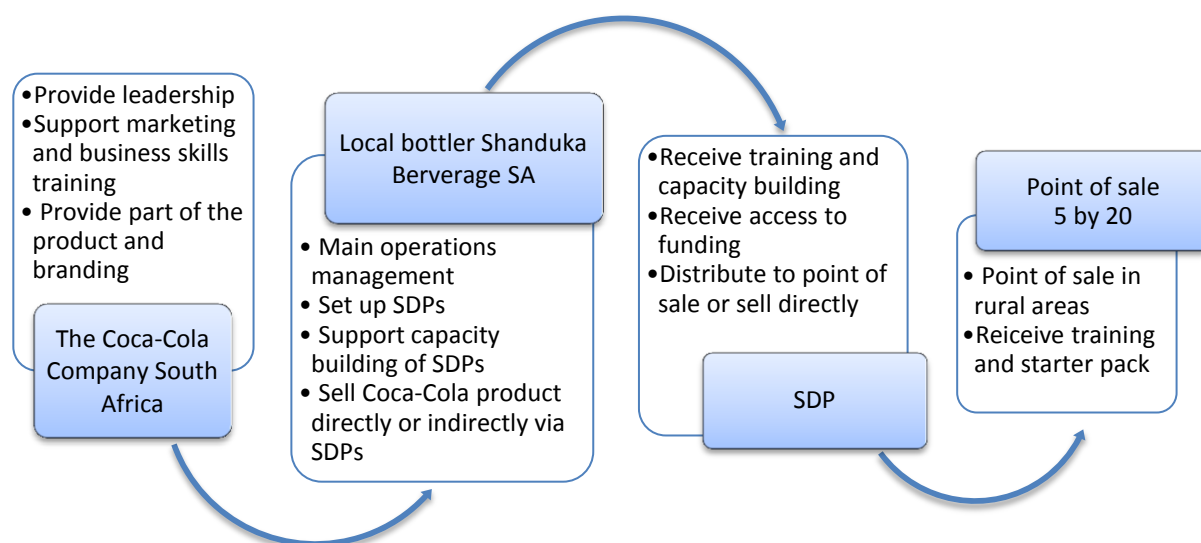


Figure 9: Stages in cooperation chain – Coca-Cola manual distribution

### Business Case for Coca-Cola and Coca-Cola Shanduka Beverage

CCC's and CCSB have a franchise business partnership. Both their business depends on sales and market penetration. Both partners' interest lays in capturing an even larger share of the market in the lower income segment in South Africa. The innovation of SDPs allows access and expansion into markets that had not been available with conservative distribution methods (i.e. rural and semi-rural areas). CCC benefits from the expertise and knowledge of its bottlers and local SME owners and their endeavours for the profit-making of their own businesses which is driven by a feeling of ownership and entrepreneurship. On the other hand, the CCSB profits from CCC's marketing campaigns, innovation, leadership and the positive image of the brand. The SDP model provides flexibility to different local conditions. Furthermore CCC pioneers outdoor sales and marketing techniques that reach out to poorer customers. CCC's and CCSB's roles, responsibilities and business share are defined through a contractual agreement. Through an opportunity assessment, "current reality" is assessed on an annual basis upon which Coca-Cola South Africa's business plan is adjusted. This is the basis for the development and adjustment of the bottler's business plan (cf. Msimango, interview 2011).

At the same time CCC has found a way to support socio-economic development and black economic empowerment (BEE) in South Africa through investing into those at the BoP and creating SMEs through integrating small entrepreneurs into their company's value chain, thus ensuring legitimacy of its operations in a country that requires business to contribute to transformation and development. According to Egbe (in Maritz 2010b), business needs to

create a mindset that deals with Africa's challenges through, for example, innovation. CCC developed a business model that takes into account these challenges. The sustainability in the business is supported through the vested interest of every small business owner in the survival and profit making of their own business.

### **Key CSR Benefits Derived from the Partnership**

CCC's joint venture business model allows the company to support economic development and entrepreneurship at different levels. This specific partnership thus benefits the local people at the BoP through development of entrepreneurship and provides other general CSR benefits as described below. The development benefits include:

- *Creating employment and entrepreneurial opportunities:* An economic impact study undertaken in 2007 found that for every job created inside the Coca-Cola system, another ten jobs are created outside the system. This is either through the distribution and sale of CCC products or through local procurement. By 2010 more than 3,000 small distribution businesses had been formed Africa-wide. These created direct employment for more than 13,000 people while generating revenue of more than US\$600 million (CCC 2010).
- *Building capacity and generating income for emerging entrepreneurs:* The SDP/MDC models provide training and capacity building to those at the BoP. They enable emerging entrepreneurs to generate income through an innovative approach in semi-rural and rural areas.
- *Promoting gender equality:* CCC plans for a 50% proportion of their MDCs being run by women by 2020. This constitutes an empowerment of 5 Million women and is CCC's commitment to the Business Call to Action (BCtA), an initiative that aims at supporting the achievement of the Millennium Development Goals through development of Inclusive Business models that offer potential for both commercial success and development impact (Kent 2010). In Africa, where patriarchal societies dominate, the burden of poverty is disproportionately carried by women. CCC therefore aims at reaching women with access to financing their MDCs, links to networks and training. Thus this goal will have a potentially high development impact and especially supports the achievement of the UN Millennium Development Goal 3.
- CCC, with the support of its bottlers, also creates jobs through integrating communities into their value chain by creating opportunities for farmers to supply ingredients for beverages.

### **Challenges in Introducing the Coca-Cola SDP and How these are Addressed**

The success of the SDP model depends on factors within and beyond CCC's control. Therefore, successes and failures of the SDPs are monitored on an ongoing basis to enhance the business model and its development impacts. Challenges faced during the set

up of SDP networks in South Africa include the lack of business skills amongst emerging entrepreneurs which were addressed with training from both CCC and CCSB.

As with many emerging entrepreneurs, the Coca-Cola SDPs also face a lack of start-up financing. N'dri (interview 2011) recognises the potential of leveraging the distribution network to achieve broader development goals in low income communities by distributing other social products such as banking or insurance products. This should not be the responsibility of CCC alone but can be achieved together with partners (such as other companies, NGOs and government agencies).

Though it is much harder to set up a distributorship (SDP network) than setting up a retail outlet with local women, the following challenges were faced by CCC in establishing the 5 by 20 pilot project (N'dri 2011, interview):

- The female entrepreneurs of the South African 5 by 20 pilot project sell relatively small volumes but the servicing and supplying of the Coca-Cola product to them in relatively inaccessible areas cost a lot. Thus CCC thinks of ways to reduce the service cost to the pilot retail outlets by identifying more direct ways of supplying the female entrepreneurs with the product, for example through larger SDP-networks.
- The extreme lack of capacity in basic business skills (tax, financial skills, even basic literacy) requires training and respective investment cost.
- Overall, at the moment the female retail model still costs more than it generates income. The female retailer at this pilot stage still needs to make a huge margin to survive.

### **Conclusion: Coca-Cola Case Study**

The SDP model is a response to the specific South African market conditions at the BoP. The model has been developed by adjusting Coca-Cola's Eastern African successes to these specific conditions. It was strongly driven by Coca-Cola's intention to create a majority black-owned business and to support enterprise development in the country, which enables the company to gain BEE scores. Overall the MDC partnership model has led to increased sales and volume growth by reaching small retail outlets in formerly less accessible rural and urban areas. This integrated model shows the potential to create a long-term win-win situation for Coca-Cola's business, franchisees and small entrepreneurs, as well as for society in general.

The partnership with small entrepreneurs in this case needed substantial investment for the capacity building of the SME partners, as well as investment into an enabling business environment. The training and technical assistance of MDC owners and employees are of high importance for the success of the MDC model (Nelson et al. 2009). Coca-Cola had no difficulties raising funds internally for the pilot projects in South Africa as this model proved to be successful in earlier approaches in East Africa and the 5 by 20 project constitutes part of their global commitment to support female entrepreneurship. The importance of working together with other larger stakeholders, like the banking sector, becomes especially evident



when facing the need of local female entrepreneurs to invest in the start-up pack for their emerging businesses. There is potential for other partnerships, i.e. with the insurance sector.

Thus ensuring that the MDC/SDP model maintains profitability for Coca-Cola, as well as ensuring the commercial viability of the small enterprises involved, cannot be the responsibility of Coca-Cola alone. A holistic approach is expected to make the service to the poor and the social development impact more sustainable. By working in partnership with, for instance, other companies, government or other donors, there is potential to leverage the MDC network for addressing other development needs, like the need of access to loans or access to health services.

## 6 DISCUSSION AND CONCLUSION

*The last chapter presents a summary of key findings based on the research undertaken. It discusses the findings against the hypothesis, answers the thesis questions and derives recommendations from the three case studies for strategic partnerships in each of the identified model partnership sectors. It critically analyses the potential for engagement of partners to overcome hindering factors to integrated CSR in South African companies and outlines for each partnership model, criteria for success and best practice.*

### 6.1 Discussion

On the basis of the research undertaken through the desk study, interviews and three individual case studies it is evident that the emergence of a core business approach to CSR in South Africa has potential for enhancing development impact. The country provides a fairly conducive environment for the inclusion of emerging market strategies with development potential into the core business operations of South African based companies (cf. chapter 3).

As Ashley (2009a) states, there is no one single business case but many when investing in Inclusive Business at the BoP. Whether the analysed cases constitute the competitive advantage gained in other countries, where these Inclusive Business models had previously achieved great successes, still remains to be seen. This depends largely on internal and external company factors in the unique South African context, as outlined in chapter 3 and analysed in chapter 5. While not yet economically viable at scale, the analysed business-business partnership (Vodacom-Nedbank), business-SME partnership (Coca-Cola - SDP) and the business-NGO partnership (Woolworths-WWF, Pleiad), promise delivery of social benefits at scale and economic returns in the long term if the identified key challenges are addressed (cf. chapter 5).

Though partnerships for the support of this integrated approach at this stage still play a marginal role, the research identified substantial potential for the engagement of partners in integrated CSR processes as described below. Chapters 6.1.1 and 6.1.2 will, based on several underlying findings, discuss the research questions. In particular chapter 6.1.2 will argue, through explaining how partnerships can overcome hindering factors to integrated CSR, that the research hypothesis holds true that: Partnerships have the potential to significantly contribute to the integrated CSR activities of South African companies and to support the integration of CSR activities into their core business.

Chapter 6.2 will give recommendations for strengthening partnerships in support of integrated CSR models as derived from case study research. This will be followed by recommendations for future research and by outlining future perspectives in the field of integrated CSR and partnerships in support thereof.

### 6.1.1 *Discussing the Hypothesis - Considering Related Research Questions*

#### **Research question 1: How is the “CSR landscape” in South Africa characterised? How is CSR understood and performed in South Africa?**

The South African experience today suggests a mixed response to CSR and a mixed understanding of CSR by its different stakeholders. The CSR landscape in South Africa remains dominated by CSI activities. Focal areas of CSR interventions seem chosen according to the government’s development agenda in order to address government gaps and financial gaps but less so according to the companies’ own business rationale (cf. chapter 3.2). The value and potential that integrated CSR approaches can have for business and society has not yet been fully realised and is not fully understood, especially by smaller businesses (Nagler, interview 2011).

There is a strong enabling legal and policy environment for CSR in South Africa which is contributing to increased social spending. This is not necessarily supporting the integration of CSR into companies’ core business. Moreover, sector charters, the Broad-Based Black Economic Empowerment (BEE) agenda, the Johannesburg Stock Exchange (JSE) and other legislation provide guidance for mostly voluntary activities but do not contain enforcement measures for an integrated more sustainable approach. The King III Code of Good Corporate Governance, which has been adopted by the JSE as listing requirement, constitutes one of the few drivers for a more integrated approach to CSR.

This CSR-related regulatory framework, in particular BEE and sector charters, as some of the key aspects of CSR, is unique to South Africa. Sector charters and the BEE Codes of Good Practice are promoting CSR/CSI spending and also influencing related choices for partnership building, especially under the enterprise development and socio-economic development categories. Therefore, partnerships became important to gain respective BEE scores. On the one hand, this promotes the development of several cross-sector partnerships for projects at the BoP with, for example, small entrepreneurs, farmers and communities. This also has triggered integrated CSR approaches as the cases of SAB-Miller<sup>15</sup> and others demonstrate (Table 6, chapter 4). On the other hand, these partnerships are, according to charters and BEE codes, not necessarily required to be an integrated part of a company’s core business. In fact they often remain on the periphery of a company’s operations and contribute solely to the “black-washing”<sup>16</sup> of a company’s business operations.

Thus BEE constitutes a powerful tool that intends to redress the imbalances of the past. If amended by measures and incentives that ensure core business integration, BEE can be expected to promote more sustainable and integrated CSR solutions as well as partnerships in support thereof.

<sup>15</sup> SAB-Miller partners with small-farmers (suppliers) to secure constant delivery of raw material and at the same time gains BEE scores.

<sup>16</sup> Black-washing is a term derived from so called green-washing, which describes the illusive use of green marketing in order to promote the misleading perception that a business is environmental friendly. In this case black-washing describes the misleading perception that a company has integrated BEE measures.

***Research question 2: Which supporting and hindering factors for an integrated approach to CSR exist in South Africa in general and which can be identified for the three selected cases?***

### **Supporting Factors**

South Africa constitutes a unique emerging market that is characterised by a strong divide between the formal and informal sector. The existing legal framework presents the potential to support more integrated CSR solutions. Existing infrastructure, including the accessibility of banking services, creates an enabling environment and increasingly opportunities for further engagement through integrated CSR approaches at the BoP.

Partnerships between same-sector companies, as well as cross-sector partnerships, can help bridging the divide between the formal and informal sectors by jointly developing products especially designed for the BoP or by distributing with the help of local entrepreneurs and SME partners as described in the M-PESA and Coca-Cola case studies (cf. chapters 5.1 and 5.3).

Each of the three corporate businesses assessed through case study analysis developed a specific integrated solution in its specific business context to engage at the BoP. Apart from partnering with competent organisations, key success factors that were common to all three researched Inclusive Business models when partnering with those at the BoP included:

- Building capacity of those partners at the BoP,
- Clarifying roles and responsibilities at an early stage of the partnership, and
- Providing access to capital and additional finances to partners at the BoP.

Analysis of three partnership case studies found additional supporting factors that contributed substantially to the success of the integrated approaches. Success factors of each individual partnership are described in more detail in chapter 6.4.

### **Hindering Factors**

The research identified five main external and internal hindering factors for integrated CSR engagement at the BoP in South Africa (cf. chapter 3.4), which include:

Table 10: Summary of identified main hindering factors for an integrated approach to CSR

<b>Lack of information from the informal sector market</b>	<b>Lack of awareness and of buy-in from management for integrated CSR opportunities</b>
Physical Infrastructure	Inappropriateness of organisational structure
Regulatory Environment	Strategies concerning CSR are not integrated or aligned
Lack of knowledge and skills of the market participants	Ignorance of seeing potential of partnership building
Lack of access to financial services by BoP participants	Lack of funding for new, innovative projects

### **External hindering factors    Company internal hindering factors**

Many of the identified external and company internal challenges can be overcome and the risks resulting from them can be mitigated through strategic partnerships. How partnerships can overcome these barriers and support more integrated approaches to CSR will be part of chapter 6.1.2 and the argumentation of the research question below. This will argue for confirming the hypothesis of the research.

### ***Research question 3: Which partnership models exist that support sustainability and the integration of CSR into the core business of South African companies?***

The research has outlined partnerships between different stakeholders that have the potential to support a more integrated approach to CSR (cf. Tables 2 and 6 in chapter 2 and 4, respectively). Three successful partnership models at the BoP were described and analysed in chapter 5. The researched case studies included: a business-business partnership, a business-SME partnership and a business-NGO partnership. These three partnership models provide evidence that partnerships can promote a sound business case applying integrated CSR at the BoP that creates a win-win situation for both business and society in South Africa. Ergo, these partnerships have overcome the hindering factors presented in chapter 3 for the specific South African context.

This contributes to confirming the hypothesis by outlining partnerships at different stages of the business development process and by demonstrating partnerships assuming different roles for different integrated CSR approaches, such as the Inclusive Business models selling to, buying from and distributing through BoP communities. All three cases promise to deliver social and economic benefits at larger scale and in the long term. The fact that in all three cases the corporate partner has been the driving force for the establishment of the respective partnership indicates that the companies have recognised these benefits.

The research also identified the potential for new partnerships that can add even greater socio-economic development impact to the existing integrated CSR solutions. These partnerships, therefore, can potentially constitute new additional Inclusive Business models through, for example, the provision of micro-credit schemes, micro-insurance schemes or health schemes. These additional partnerships are already partially under consideration and can provide a more integrated solution to socio-economic development challenges at the BoP, for instance:

- a. Through the business-business partnership model (Vodacom-Nedbank) which also can support access to non-financial services through mobile phone devices, additional development impact can be gained and economic opportunity can potentially be expanded by partnering with other sectors such as:
  - Health care services;
  - Access to, and integration into, existing banking products and services;

- Development of new financial products and services especially designed for the BoP, that allow easier access in South Africa's bureaucratic banking environment through cooperation with other South African banks (cf. chapter 5.1).
- b. Through the business-SME partnership model of Coca-Cola and SDPs, access to health care services could potentially be provided using the manual distribution networks<sup>17</sup>. Through partnering with banks, government or development organisations additional start-up finance for small entrepreneurs can be accessed. The manual distribution networks can also be a means of entry to insurance for small entrepreneurs by partnering with insurance providers such as Hollard (cf. Smith & Smit 2010).
- c. A similar situation holds true for the business-NGO partnership model (Woolworths – Pleiad, WWF). This partnership model also has potential to access funding from government and corporate donors for small entrepreneurs. Some funding is only accessible from donors if partners apply in a particular composition. USAID, for example, as part of funding projects in the framework of its Global Development Alliance programme, prefers a composition that involves a private sector partner, a mediator and implementer (NGO) and, potentially, a government partner for projects that aim at improving the livelihoods and capacity of small entrepreneurs or communities at the BoP (cf. USAID-GDA 2011).

How the analysed partnerships can overcome identified hindering factors to integrated CSR in South Africa will be described below.

#### *6.2.1 Evaluation of Hypothesis - Partnerships in Overcoming Barriers to an Integrated Approach to CSR*

The research concludes that the identified external and internal hindering factors to integrated CSR activities (cf. Table 10 above) create an opportunity for the engagement of appropriate partners to address these barriers. The following external and internal barriers of companies for the development of integrated CSR interventions in South African companies can be addressed through strategic partnerships and respective mitigation measures as outlined below. The partnership opportunities presented complement the development of integrated CSR approaches. While addressing the barriers to integrated CSR through partnerships, companies should take into account that partners are facing their own barriers. For this reason partnerships should be entered into strategically to avoid potential risks (cf. chapter 4.4).

Advice for the strategic choice of partners to address the identified barriers is derived from case study research and from all three researched integrated CSR approaches - selling to, buying from and distributing through the BoP, as well as from recommendations of the WBCSD (2005). The following discussion on overcoming hindering factors through partnership approaches is divided into the analysis of options for external and internal factors.

<sup>17</sup> Such health care services for example can include HIV/AIDS Voluntary Counselling and Testing, which is believed by many development organisations to halt the spread of HIV/AIDS (cf. Aidsmark 2011).

### **Addressing External Hindering Factors through Partnerships**

While the CSR-relevant regulatory environment and its impact on partnership building has been described in detail in section 6.1, the non-regulatory external hindering factors derived from the research that can be addressed through partnerships include:

#### *a) Addressing the lack of information from the informal sector - gathering market intelligence*

The key to a win-win situation between the two parallel South African economies lies in overcoming the divide between the formal and informal sectors and identifying and creating linkages between the two (cf. Thomas 2011, interview).

Partners that come from, or are familiar with, the informal sector can create these linkages. They can comprise small businesses but also government outreach programmes that have been successful and gained experience at the BoP. Partnerships in this regard constitute Coca-Cola and its Strategic Distribution Partners but also Danimal and its female distributors (cf. chapters 5.3 and Table 6 chapter 4.2).

Questions that corporate business usually has to address when assessing potential at the BoP include amongst others: how big is the market what is the potential development impact, what are the spending patterns at the BoP and how do they change, how are products and services used at the BoP, who sells them and through which distribution channels, what innovative business models have already achieved results and how have they been implemented, what were the successes and failures of previous programmes (cf. Reciprocity 2011)?

Therefore, it is important to interact with local community leaders, community representatives, community or even local government organisations, development NGOs, or for-profit experts that work at BoP level. These partners can play a role in assessing the needs of the communities and those of business in the local area in which they operate. Their local knowledge can provide valuable insights into undocumented social habits and customs.

There are also a few South African NGOs like Pleiad, that were identified during the research, which provide market assessment, advisory and capacity-building services for integrated CSR approaches at the BoP. However, the extent of capacity of the South African NGO sector to support integrated CSR processes could not be determined as yet.

#### *b) Addressing the lack of physical infrastructure through support to distribution of products*

Companies often face the problem of missing infrastructure and insufficient access to informal markets when they plan to engage at the BoP.

Where lack of infrastructure and lack of distribution networks make it difficult to reach the BoP market, investigating more informal distribution systems and partnering with those main stakeholders that are familiar with these informal distribution systems, can help in gaining market access.

As demonstrated in case of Coca-Cola, these stakeholders can comprise local entrepreneurs that, through forming a network, can either constitute strategic distribution partners or partners at the point of sale, like the 5 by 20 female entrepreneurs (cf. chapter 5.2). These partners will need training and capacity building to adapt to the requirements of a big corporate but often will have already established businesses that allow for coping with local conditions that are unfamiliar to big corporate businesses.

*c) Addressing the lack of knowledge and skills of the market participants*

Poorly equipped and trained or illiterate community or SME partners, as well as poor management of partner NGOs creates a risk to integrated CSR engagement at the BoP (cf. chapter 4.4). Big corporate businesses, such as Woolworths, often do not have the human capacity to engage directly with suppliers at the BoP. Partnering with organisations, whose mission is to strengthen small and medium businesses or to educate secondary suppliers or distributors, can support this step.

Partners, therefore, can provide capacity building to those at the BoP. They can provide training to those wanting to sell to big companies as in case of the NGO Pleiad, or build institutional capacity for those wanting to participate in the business process.

*d) Addressing product development challenges*

Companies that want to sell or provide services to the BoP with development impact should consider integrated solutions rather than isolated products.

Addressing target groups holistically and together with other stakeholders and partners can generate a more attractive product and/or service to low-income customers as the banking sector in South Africa intends to do (cf. chapter 5.1). A package deal, for example, is often easier to sell and cheaper to provide if partners can use one another's resources.

Products especially designed for the BoP can address different development needs at the same time and in that way can achieve greater development impact. Examples are Coca-Cola's plan to work with a partner bank to provide accessible loans to their SDP entrepreneurs or Vodacom's plan to provide health care services through M-PESA (cf. 6.1.1 above).

*e) Addressing access to financial services of those at the BoP*

23.5% of South Africa's adult population still does not have access to financial services which impacts greatly on the accessibility of finances for SME entrepreneurs. These constitute potential local partners for larger firms (as suppliers and distributors). In order to support these potential partners, companies can either set up financing mechanisms themselves, as Woolworths' enterprise fund shows (cf. chapter 5.2), or:



Business can also partner with financial institutions to design financial instruments for start-up finance for those at the BoP, such as the provision of loans or credit to preferred conditions (as in case of M-PESA or as planned by Coca-Cola, cf. chapters 5.1 and 5.3).

Donors addressing financial gaps at the BoP are described under section c below.

### **Addressing Companies' Internal Hindering Factors through Partnerships**

Hindering factors internal to a company derived from the research that can be addressed through partnerships include:

#### *a) Addressing lack of awareness and buy-in from management*

The identified risk, that ideas coming from CSI or sustainability departments are not taken in earnest, can be mitigated through a sound business case for the project idea. Each company will have to develop its individual business case, if they want to engage at the BoP.

Partnerships can help in developing a business case, by directly providing expert knowledge, designing the business case or by simply constituting a partner that enables access to co-funding sources for the project as described in the section below (cf. section c).

The business case needs to be presented to key people in the company and the company's shareholders in order to gain their buy-in at a very early stage of the project and to present the opportunity for the growth of the project idea. The business case will differ from case to case, depending, amongst other factors, on business sector, internal capacity, organisational culture and set-up, as well as willingness to engage in the Inclusive Business development process (or other integrated CSR interventions, respectively).

Therefore, each company should also create space for innovation. Again, partnerships can give support: Even the direct exposure of senior business management to development projects and potential community partners through, for example, a day in a township<sup>18</sup> to showcase opportunities for the business, has generated support and buy-in from leadership. Assessing and approaching potential partners to support internal buy-in, as well as with regard to implementation and growth of the project idea should be part of early project stages (cf. BCtA 2010b).

#### *b) Addressing inappropriateness of organisational structure and non-alignment of CSR-related strategies*

Competent internal business units are critical for embedding CSR initiatives. This often requires specific adjustments to accommodate the implications of servicing low-income markets. It is, therefore, important to gain not only buy-in from top-management, but also from other operational levels.

<sup>18</sup> The term township refers to an underdeveloped urban living area in South Africa that until the end of Apartheid was reserved for non-whites. Townships were usually built on the periphery of South African towns and cities.

Partnerships can support the company's internal capacity building for alignment of business processes and adjustment of value chain operations to integrate CSR processes in the host company, and help with institutional, as well as employee, capacity building (cf. chapter 4).

Thus partnerships can also address the lack of capacity and lack of experience of companies' CSR practitioners, especially the neglect of the CSR function in addition to the other roles CSR staff hold within the company (cf. chapter 3.4).

Also, the showcasing and analysing of other success stories and internal successes can help adjusting internal operations to the requirements of the respective integrated CSR model. For instance, since the M-PESA success, Vodafone now has its own internal challenge fund that supports innovative ideas. It has established business units that help support emerging Inclusive Business opportunities (BCtA 2010b). An organisational review and appraisal of the potential of Inclusive Business within an organisation can be done by consulting partners that are expert in the respective fields, such as Reciprocity or Endevo<sup>19</sup>, consultancy firms that specialise in integrated approaches at the BoP. These partners can also address the alignment of CSR/CSI, BEE and core business strategies that have been identified by research as obstacles to integrated approaches (cf. GTZ 2009, Southall & Sanchez 2007). In order to create more effective partnerships, some companies also assign personnel especially familiar with the different objectives of social and commercial enterprises (Kubzansky et al. 2011).

### *c) Addressing company-internal financial gaps*

Many companies face a lack of finance required for innovative pilot projects and research in this regard. Uncertainties of the financial returns of innovative CSR ideas often make it difficult to raise sufficient funds within the company. Up-front co-finance is often required when the project business plan does not present immediate but only long-term rates of return. Thus building partnerships with financial institutions is often essential for success and requires companies to establish long term relationships with investors (cf. WBCSD 2005).

In some cases, only a specific composition of a partnership makes access to co-funding for a company possible. Companies that partner with communities, small entrepreneurs and government strongly increase their chances of accessing co-funding for emerging market projects from donors or investors. This was, for example, the case when Vodacom's M-PESA received co-funding from DFID and ABSA Bank and SABMiller received co-funding from the Africa Enterprise Challenge Fund.

There are financial instruments provided by the South African Government that require specific partnership constellations such as: the National Empowerment Fund (NEF) of the Department of Trade and Industry (DTI) or the Transformation and Entrepreneurship Scheme of the Industrial Development Cooperation (IDC). Also, the Departments of Local Development and Planning of each of the South African provinces often provide funding for

<sup>19</sup> These organisations offer opportunities for companies to understand the new market by organizing meetings and exchanges of managers and small entrepreneurs from the formal and informal markets.

Small to Medium Enterprise development like the Itala Development Finance Cooperation of South Africa's KwaZulu Natal province. Other companies such as Khula Enterprise Limited are channelling funding from big corporate donors to SMEs (cf. Khula 2011). In addition, there are bilateral and multi-lateral government donors, as mentioned in chapter 4, which provide financial support to business-development partnerships between entrepreneurs and larger firms. Also, foundations are often willing to invest in BoP (cf section 5.2).

### **Verifying the Hypothesis of the Research**

The above elaborated findings outline a broad spectrum of where and when partnerships can engage to contribute to a more integrated approach to CSR in South Africa. Thus the findings of the research confirm that the hypothesis holds true, that partnerships have the potential to significantly contribute to the integrated CSR activities of South African companies and to support the integration of CSR activities into companies' core business. Thereby partnerships contribute in different ways to successful integrated CSR approaches at the BoP. They support the external and internal capacity concerns of companies when engaging at the BoP through integrated CSR interventions by addressing the:

- Lack of information from the informal market sector and gathering market intelligence,
- Lack of physical infrastructure through support to distribution of products,
- Lack of knowledge and skills of the market participants,
- Product development challenges,
- Lack of access to financial services of those at the BoP
- Lack of awareness and buy-in from management,
- Inappropriateness of organisational structure and non-alignment of CSR-related strategies,
- Financial gaps within a company.

Thus there is potential for greater and more strategic partnerships in support of integrated CSR approaches in South Africa. Recommendations for partnerships in support of integrated CSR, as derived from the findings of the three case studies, are outlined below.

## **6.2 Recommendations for Partnerships in Support of Integrated CSR Models**

Sound business cases for the partners involved and social returns invite replication of the three partnership models analysed, in similar environments. While success factors common to all three models are presented in chapter 6.1.1, the following case-specific recommendations were derived from the three case studies.

### ***6.1.2 Selling to the BoP with Development Impact***

In order to ensure that the potential customer, or in Coca-Cola's case the local partner (SDP), can afford the product, partnering with micro-credit institutions or trying to access and then to offer other financial or in-kind support such as Coca-Cola's short term product on

credit, can help the potential customer to afford the product (cf. chapter 5.3). Similar solutions provide help with access to existing financial resources like government subsidies, credit schemes or micro-loans for potential BoP customers and SME partners as the case of agri-consolidator through the NGO, Pleiad shows (cf. chapter 5.2).

While targeting literacy gaps such as financial literacy or general literacy is important for all three BoP approaches, this can, in the case of selling to the BoP, help the potential BoP customer to get to know and to gain access to a new product (cf. chapter 5.1).

Linking a new product to existing familiar products or technologies as in case of M-PESA can provide innovative solutions to access emerging markets (cf. chapter 5.1).

Tapping into entrepreneurial capacity, especially in nearby communities, and helping existing local businesses to benefit from the company's know-how helps the company's outsourcing initiatives. This can also give access to, and information about, markets at the BoP as in case of M-PESA and is thus applicable for all three BoP approaches (cf. chapter 5.1).

### *6.2.2 Buying from the BoP*

Partnerships with small-scale suppliers are often seen as high risk investment with regard to reliability of delivery from the supplier, continuity of services, regular delivery of products and the warranty of products supplied (cf. chapter 4.3 and 4.4).

Providing special conditions for those suppliers at the BoP can ease their operations as the introduction of Woolworths' 7-day payment rule for small-scale suppliers and Coca-Cola's product loan for Strategic Distribution Partners show.

Mentorship programmes, as well as capacity building for those at the BoP in business development, production, business skills and sustainable farming techniques can help SME partners to develop and sustain their business.

Examining the value chain and looking for outsourcing opportunities that could be met by local entrepreneurs can reduce operating costs and thus add value to the business as Woolworths' case shows (cf. chapter 5.2). This activity can also support distribution processes through the BoP.

### *6.3.2 Distributing through the BoP*

Naturally occurring distribution mechanisms (small Spaza shops<sup>20</sup>, kiosks and others), where traditional means of reaching markets do not exist, can provide an entry to distributing a company's product and to partnerships with small entrepreneurs or retailers. Once distribution networks are established, they can become levers for other products and services such as health insurance. These in turn can make a product offered to those at the BoP more attractive but also gain greater development impact.

Training and technical assistance to distribution networks is of high importance for the success of this model. Identifying suitable entrepreneurs through well-defined selection criteria and helping to strengthen their capacity and reach, as Coca-Cola and Vodacom have

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<sup>20</sup> The term, Spaza shop refers to an informal convenience shop in rural South Africa. They are usually operated from home.

done in South Africa, can support the reliability of delivery and supply, continuity of services, regular and timely delivery and ensure the quality of products and services. This also reduces the risk for the company when engaging at the BoP (cf. chapter 5.1 and 5.3).

Partnering through franchise models can be a way of spreading capital risk. This should be approached with caution and accompanied by business skills training given that financial illiteracy, and the lack of knowledge about existing financial products and services, still restricts many low income customers and SME owners' access to credit (cf. chapter 5.1).

#### *6.4.2 Success Criteria for Integrated CSR at BoP Markets*

The report "Doing Business with the Poor" of the WBCSD (2005:67) suggests as an outcome of analysing several case studies that there are three elements that need to be present in every successful cooperative effort to develop integrated CSR (and Inclusive Business, respectively) and derive social and economic benefits thereof. The need for the presence of these three elements for successful Inclusive Business development was confirmed by the research undertaken. They include:

- "A strong focus on core competencies of the corporate business partner,
- A strategy of partnering with external resources, and
- An active participation of the local SMEs and entrepreneurs."

Summary of results derived from the present study:

Many integrated CSR interventions require understanding the market and identifying the priorities and needs of low income communities. The lack of capacity of business requires innovative ways of gaining market intelligence and access to the BoP. This innovation refers to products and partners. Sustainable integrated CSR approaches of companies require partnership building. The range of partners varies from collaborating with business to non-business partners such as NGOs, local communities and entrepreneurs, and government.

### **6.3 Recommendations for Further Research**

The case study research undertaken has an explorative pilot character. It is therefore not only recommended that the findings of this study are verified in a second step but, in addition, to conduct further research in areas that, due to limitations in scope, could not be further explored at this stage. Since partnerships are expected to play an increasingly important role in sustainable development in South Africa, further research is recommended, but not limited to, the following areas:

*Scalability:* Kubzansky et al. (2011) add to the characteristics of commercial viability and social viability for successful integrated CSR interventions, the characteristic of scalability. Therefore further research is required to identify hindering and promoting factors of scaling-up the existing pilot projects of the three case studies undertaken.

*Capacity of South African NGOs:* The research assumes that the capacity of South African NGOs to contribute to integrated CSR solutions as partners in supporting integrated CSR processes is still in its infancy. Few NGOs have realised the potential that lays in corporate business partnerships to achieve their missions in a commercially viable way while jointly alleviating poverty. Further research is required to assess capacity, opportunity and potential in this area.

*Role of South African government:* The role of the South African government to create an enabling environment for integrated CSR and for partnerships has not been fully covered in the research undertaken. South Africa remains an unequal nation with high levels of poverty. Although appropriate policies and legal incentives are certainly crucial to overcome social challenges, this cannot be achieved by government alone. In this context, government's ability and potential to create a more conducive environment for integrated CSR approaches at the national and regional levels and stronger private-public sector linkages needs to be researched.

*Impact on those at the BoP:* While the present study has explored existing partnership models of comparably new integrated CSR initiatives, further research is required on the impact of these initiatives, in particular with regard to community development and the development of entrepreneurship. An analysis of the long-term impact on those at the BoP, as well as on hindering and promoting factors, can bring further insight into the success of the models.

#### **6.4 Future Perspectives**

Engaging in integrated CSR approaches at the BoP, and more particularly in Inclusive Business, is a trend that is increasingly receiving attention from well-known big corporate businesses in South Africa. Trailblazers in this regard, include mobile service providers, insurance providers and the retail and the banking sectors. The latter, for example, is at the moment discussing the financial inclusion of the agriculture sector, which will enable better access to financial services and loans for small-scale farmers (Centre for Inclusive Banking in Africa 2011). Other firms are discussing regional approaches and looking into local sourcing opportunities at the BoP. This includes, for example, retailers like Pick'n Pay, Spar and Shoprite-Checkers, which are currently expanding their market presence into Africa, but so far predominantly imported their products (The topic of Inclusive Business is also receiving more attention at the seminars and discourses of South African universities such as the University of Cape Town, the University of Stellenbosch and the University of Pretoria's Gordon Institute of Business Science).

Simultaneously with the aim of supporting socio-economic development, financing mechanisms are being developed, especially by governments and other donors, to provide incentives for the engagement of the poor in integrated business processes and for SME development.

More and more innovative approaches are required by business to access emerging markets and engage in partnerships in support thereof. As positive returns on investment and social

impact at the BoP are anticipated from the roll-out of the three described sample cases, competitors can be expected to reproduce similar approaches and innovative ideas to gain the competitive advantage from their business rivals.

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**ANNEXURE 1 – LIST OF INTERVIEWEES**

Interviewee/ Correspondence partner	Organisation	Position in Organisation	Date of interview/ correspondence <sup>21</sup>
Prof. Thomas, Wolfgang	BoP Business Hub University of Stellenbosch	Coordinator, Lecturer and BoP Expert	16/05/2011
Mr. Nagler, Jürgen	UNDP	African Private Sector and Inclusive Market Development Advisor	05/07/2011
Mr. Maditsi, Alex	Coca-Cola Company	Senior Director Operations Planning	15/06/2011
Mr. N'dri, Konan	Coca-Cola Company	Market Development Manager	15/06/2011
Ms. Lonie, Susie	Vodacom South Africa	Former Executive Head of Department Vodacom Financial Services	17/04/2011
Ms. Wagner, Ilze	Nedbank	Head Transformational Banking	13/07/2011
Ms. von Bormann, Tatjana	WWF South Africa	Green Choice Market Transformation Initiative Manager	13/07/2011
Ms. Hawkins, Heidi-Jayne	Conservation International	Manager Green Choice Alliance	19/08/2010
Mr. Smith, Justin	Woolworths	Woolworths Head of Sustainability	06/12/2010
Mr. Coetzer, Pierre	Reciprocity	Associate at Reciprocity	13/05/2011
Mr. Pascarel, Nicolas	Reciprocity	Director Reciprocity	13/05/2011
Mr. Msimango, Meshack	Coca-Cola Company	National Operational Marketing Manager	03/08/2011
Mr. Gajjar, Vijay	Kimberly Clark South Africa	Director Corporate Governance	05/06/2011
Mr. Carden, Kenneth	Pleiad	Pleiad Enterprise Expert	25/07/2011

<sup>21</sup> Correspondence included introductory and follow-up emails as well as face-to-face and telephone interviews. The date stated, refers to the first day that telephone interviews or face-to-face interviews, respectively, were conducted. Some interviews required preparation long time in advance before the actual interview took place.

## **ANNEXURE 2 – GUIDING QUESTIONS EXPERT INTERVIEW**

### **Example, Professor Dr. Thomas**

Key Questions addressed during expert interview:

1. How is the “CSR landscape” in South Africa characterised? How is CSR understood and performed in South Africa?
2. What roles do integrated CSR approaches and Inclusive Business (engaging the Base of the Pyramid) play in South Africa at the moment?
3. Which supporting factors for an integrated approach to CSR exist in South Africa?
4. Which hindering factors for an integrated approach to CSR exist in South Africa?
5. What are the framework conditions for an inclusive approach to CSR in South Africa?
6. What role do partnerships play for an inclusive approach to CSR in South Africa?
7. What are the main factors for an integrated approach to CSR in South Africa?

**ANNEXURE 3 – EXAMPLE OF GUIDING QUESTIONS, COMPANY INTERVIEW**

1. How are you engaging at the BoP? Describe these interventions and partners.
2. What were the reasons for you choosing this specific partner?
3. What is the business case for the company and its partners?
4. What are the key benefits of the partnership? (social responsibility and economic)
5. What are the promoting factors when entering the SA market?
6. Which key challenges/hindering factors did you have to address when entering the SA market?
7. Which challenges are you facing now?
8. How are those challenges addressed?
9. How would you evaluate the partnership?
10. What defines the success of the partnership in your view?
11. What are the promoting factors for the partnership?