



## Transforming a Supply Chain Into a Social Enterprise

**Creating sustainability initiatives that can scale requires innovative balancing of social impact and profit seeking.**

For conventional, profit-seeking companies, moving into social impact carries huge contradictions. An ad hoc, small-scale initiative is an inexpensive way to do a bit of good and receive a nice **warm glow** in the process. But any attempt to achieve more serious impact through scaling the initiative will likely trigger awkward discussions about how much that warm glow is worth to the firm. Thus, the ceiling remains low on social impact unless it can be justified in **“win-win” terms**. Needless to say, this is no easy feat.

My **recently published case study**[1] about Swedish oils and fats producer AAK’s “Kolo Nafaso” programme in West Africa describes how one company redefined “win-win” by creating a sustainable and scalable shea butter supply chain. In so doing, AAK was able to use **business as a tool** for maximising social impact, creating ripple effects with strongly positive implications for the firm’s most important stakeholder relationships and future activities in the region.

### **The initial growth of Kolo Nafaso**

Shea butter, a widely used component in the confectionery and cosmetic industries, is extracted from the fruit of the karite tree, which grows in the **Sahel region** of Africa. As of 2018, an estimated four million West African women are involved in the

### **shea butter supply chain.**

In 2009, AAK began exploring how to source shea butter more sustainably, starting in Burkina Faso. The first step was to start working with the harvesters (mostly smallholder farmers) directly, rather than through dealers. AAK recruited women into the Kolo Nafaso (translation: “house of benefits of shea kernels”) programme by hiring local representatives, or “extension officers”, in the manner of global NGOs. The extension officers showed the women a safer, faster technique for processing shea kernels (the part of the nut that contains the butter): Instead of the traditional method of boiling the nuts in a full pot of water for an hour, they could steam the nuts in two inches of water for 15 minutes. Doing it the AAK way saved time and firewood, reduced the amount of water to be hauled from local wells and removed routine scaldings as an occupational hazard.

In 2016, AAK began training women to build and use rocket stoves, requiring up to 65 percent less wood than the traditional three-stone stove. Not only is this type of stove obviously better from an environmental perspective, but it also spares the shea collectors valuable time, money and the physical strain of gathering and transporting the wood. Seventy-three percent of Kolo Nafaso enrollees who responded to an AAK survey said the

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rocket stoves saved them time, 28 percent said they spent the extra time on commercial activities, and 37 percent reported benefitting financially as a result.

Teaching better working methods such as the above was only the beginning of the programme's benefits to the smallholder farmers. AAK offered a novel payment structure whereby harvesters were gathered into groups, and each member pledged to deliver a certain volume of shea kernels for the season. Based on her pledge, each woman was given a portion of her future expected earnings as pre-payment. If the group as a whole fulfilled its joint commitments, AAK would throw in a bonus to be distributed as the members saw fit.

AAK's recruiting efforts were wildly successful. Beginning with around 2,000 women, the programme swelled to more than 50,000 by 2015. That year, Kolo Nafaso was rolled out in Ghana; by 2019, more than 100,000 Ghanaian women had joined. The success of the programme has fuelled an expansion to Burkina Faso, Ivory Coast and Nigeria – as of June 2020, more than 300,000 women were enrolled in total.

### The impact on the harvesters

Beyond cutting out the middleman, Kolo Nafaso did not provide direct financial benefits to participants. Their wares were subject to prevailing market rates. However, the payment structure AAK had devised has helped communities in various ways.

First, the programme saved the women physically taxing trips to the local market, because they knew they already had a buyer in place that picked up the harvest from the village.

Second, the three-part payment cycle – advance, time of sale and seasonal bonus – serves several beneficial purposes. The pre-payment, which occurs when the shea tree flowers, is also at the start of the planting season. It enables the women to invest in agricultural services (e.g. getting their land tilled by someone owning the necessary equipment) and buy inputs to plant a greater portion of their land holding than was possible before.

The innovative payment structure also stabilises cash flow for the women so they can plan expenditures and save for a rainy day. The lump sum payments (as opposed to sporadic and uncertain incremental income from middlemen) can also be used to set up micro-enterprises generating further revenue. Many women used their advance money to pay their children's school fees, a common challenge (for large families, especially) in this context, or deal with unexpected cash needs like treatment for a sick child.

The bonus payouts to groups that fulfil their quota can be distributed however the collective sees fit. Some groups have established local-level savings and loan associations from which members can borrow to defray emergency costs. In other cases, bonuses have paid for public-use projects such as improvements to wells or school facilities. This improves the standing and respect the women get in their community, over and beyond the benefits that accrue to them or their children.

Third, because AAK insisted that all payments go through the banking system, Kolo Nafaso has helped expand financial inclusion in a region where a mere **23 percent of the population** is banked. Bringing more Africans into the formal financial system is a prerequisite for governments to direct assistance where it is most needed.

### Benefits for AAK

So where is the win-win in all this? For starters, AAK enjoyed a higher-quality product and a more reliable supply chain as a result of the programme. AAK could also capitalise on insights from locals who knew the shea butter business inside and out. As one executive said: "It gives us a lot of information prior to the season because we hear from the women how they see the crop, and they are the experts on these things."

Moreover, AAK was able to solidify relationships with prized clients eager to burnish their own sustainability credentials through association with Kolo Nafaso. For example, in 2017 Swedish confectioner Cloetta inked an agreement to source shea butter exclusively from AAK. Later that year, the Kolo Nafaso partnership was given prominent placement in Cloetta's annual report, website and press materials.

Beiersdorf, the German multinational that owns NIVEA and other popular personal-care brands, is just one of the companies that have joined AAK's Sustainability Partner Programme, which supports empowerment initiatives such as planting 10,000 shea trees and sponsoring training for shea collectors. Participating in the programme allows AAK's partners to show commitment to ethical sourcing and traceability, issues of increasing concern for consumers. Moreover, a group of four Beiersdorf employees were inspired to independently create **NIVEA von Herzen**, a limited-edition, 100 percent sustainable shea butter product for the German market – proof that social initiatives can enhance engagement *within* as well as between organisations.

Being more deeply embedded within West African farming communities may also bring unforeseen payoffs. By helping to improve local agricultural

infrastructure, AAK may be sowing the seeds of future supply chains, should it one day decide to source products other than shea butter that are native to the region.

### Why Kolo Nafaso succeeded

Kolo Nafaso is an ambitious initiative whose success wasn't guaranteed. Launching it involved considerable risk. How did AAK's procurement team convince the organisation that the chance was worth taking?

Based on my conversations with AAK executives, I would attribute the accomplishment to two factors. One, the supply chain team kept the programme low-profile in the beginning. They did not spread the word about early-stage efforts or solicit feedback from other departments such as sales until there was something to show that looked promising. Two, AAK realised that the programme's impact did not translate easily to PowerPoint. Key stakeholders, both internal and external, would have to travel to Africa to see it for themselves. In Cloetta's case, it was only after senior managers spent two days touring AAK's Kolo Nafaso operations in Ghana, including visiting the women's groups in the project villages around the city of Tamale, that the lightbulb went off and the partnership was forged.

Now that business travel has been grounded due to the pandemic, sustainability initiatives in emerging markets may have yet another obstacle in their path. Companies may want to consider creative solutions such as the immersive use of online video or VR technology to give a sense of the environment, without transporting people there physically. Beyond that, I hope our Kolo Nafaso case study will be an inspiring example, showing how, with thoughtful planning, organisations can scale both profits and social impact.

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[1] Co-authored by Pierre-Yann Dolbec, Assistant Professor of Marketing and Concordia University Research Chair in Complexity and Markets at Concordia University; Rajesh Nanarpuzha, Assistant Professor of Marketing at Indian Institute of Management Udaipur; and Jean Wee, Research

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