Compassion, enlightened self-interest and an innovative approach can make CSR projects a viable part of your business operation.

CSR teams face formidable internal competition when chasing capital expenditure within their organisation, particularly when moving into untested markets.

In the vast majority of listed companies there is an overriding view that private capital should be used to deliver maximum short-term returns to shareholders rather than funding non-core products offering long-term sustainability benefits. So how do you convince the board your project is a legitimate, strategic and viable option for the company?

In many cases this is best achieved by finding a project that has direct links to the firm’s core operations, with a business plan that headquarters can relate to; one that feeds back into the company’s normal growth matrix.

M-Pesa, the world’s first large-scale mobile payment service, is a great example of how good ideas can impact lives and be integrated back into the core business.

M-Pesa (M stands for mobile and Pesa is Swahili for money) is a joint venture between mobile phone giant Vodafone and its Kenyan subsidiary Safaricom. Initially aimed at helping the unbanked population of Kenya receive and repay microfinance loans, the service was quickly adopted as a means to transfer remittances and pay for services. Within three years of its 2007 launch, it had 12.6 million registered users and tens of millions of transactions - equating to 30 billion Kenyan shillings (US$375 million) - every month. Today’s its operations have extended to Afghanistan, South Africa, India and Eastern Europe.

“There was a lot more we could do”

The concept was born in 2004 when a study by Vodafone’s Corporate Responsibility team confirmed what the United Nations had surmised some years earlier; that information and communication technologies were an important lever to improve social and economic conditions in the world’s poorest countries. It was proof, according to team leader Nick Hughes that “there was a lot more we could do” with the first generation network; developments which could turn corporate responsibility into real business opportunities.

His initial proposal was turned down by the Vodafone board, which was focused on the imminent launch of 3G. But a couple of senior executives saw the potential and Hughes, refusing to give up, sought financial support from the UK Government’s Challenge Fund set up to assist sustainability innovations. He was awarded £910,000 (US$1.45 million) conditional on Vodafone funding
the remaining 50 percent.

When Hughes presented the idea back to Vodafone’s CFO he took a different approach. Rather than introducing the service as a separate CSR initiative he was able to present benefits understood by a traditional telco operator. M-PESA would increase Vodafone’s “stickiness” with its existing client base and boost agent loyalty. In other words he was able to show the proposal made good business sense.

Letting the business evolve

When the pilot programme kicked off in 2005, 500 customers were enrolled (with a free phone) and eight agents trained in buying and selling air time. It soon became evident that the use of M-Pesa was not confined to loan repayments. People were using their M-Pesa float to send money to relatives and pay each other for goods and services. Some used the account to hold money overnight. At the full commercial launch in 2007 the micro-loan payment functionality was removed. Customers were able to deposit or withdraw cash at M-Pesa outlets, transfer money from person to person and send pre-paid airtime. The aptly named communication campaign “Send Money Home” made no reference to either a loans or banking service.

M-Pesa soon became profitable. In addition, and even more importantly, it contributed to a reduction in churn of Safaricom’s customer base. The company has now gone beyond its payments service, forming partnerships to provide a money transfer service between the UK and Kenya; interest-bearing savings accounts; and point-of-sale micro-crop insurance for Kenyan farmers.

5 Tips for successful CSR innovation

As noted in my case study Vodafone M-Pesa: Unusual Innovation – From a Corporate Social Responsibility Project to Business Model Innovation, co-authored with Olivier Furdelle, Executive-in-Residence at the INSEAD Social Innovation Centre, M-Pesa was not the first mobile money service launched in the world, but it was the most successful. It’s interesting to look at why.

Firstly, there was tremendous need for their product. Internal remittances are huge in Kenya, as in many African nations, and the population was looking for a cheaper, safer, more efficient way of moving their money.

Secondly, they had the market. Safaricom already had 80 percent share of the country’s mobile phone market, in other words 80 percent of the population could use their service.

Thirdly they understood the agent economics. Their business plan recognised the need to incentivise agents who had the resources to buy and resell airtime.

Number four, they were flexible. When you bring something new onto the market you have to be able to let it grow in different directions. It doesn’t matter what people use your product for as long as they use it. M-Pesa put the service out on the market and let it evolve.

And finally they took a proactive stance addressing potential risks, working alongside rather than fighting with local regulators.

Finding a versatile business model

Vodafone’s success was the result of a clearly defined objective and a strategy which could adapt. When moving into an unfamiliar marketplace you have to be prepared to adopt innovative business models and different processes.

Working under a CSR platform provides initiatives with a buffer against normal business practices allowing exploration. However once the business is established, real growth will only occur once it is integrated back into the core business.

While many firms engage in CSR for altruistic reasons, the highly competitive business world requires that, when allocating resources to socially responsible initiatives, companies consider their own business needs. Hughes recognised the importance of both. M-Pesa, while providing bottom-line benefits for Vodafone, was also able to use innovative mobile phone technology and business models to tackle development challenges in poorly resourced countries, transforming the lives of millions of people and businesses.

Loïc Sadoulet is Affiliate Professor of Economics at INSEAD.

Follow INSEAD Knowledge on Twitter and Facebook