

Corporate Social Innovation in East African Breweries Ltd (EABL): The Launch of Senator.

By Fredrick Gabriel Onyango Ogola¹ and Edward Mungai²

ABSTRACT: In December 2003, East African Breweries Ltd (EABL) launched a low-cost beer named Senator targeted at low-income consumers in Kenya. The decision was based on the realization that a significant portion of Kenyan alcohol market was divided between traditional brews³ and illicit liquors⁴. These brews and liquors were leaving behind a trail of health problems on their consumers. The government of Kenya had requested EABL's help in solving this problem. Diageo, the London-based brewing giant, was EABL's main shareholder. EABL management had convinced Diageo that a low-cost beer was an appropriate response to the decline of EABL's market share while simultaneously being a socially responsible investment. However, a six-month post-launch survey done in May 2004 had shown that Senator was not selling as well as had been projected. Further, the survey found that some EABL patrons were trading down from the premium brands like Tusker to Senator. In June 2004, Gerald Mahinda, EABL group managing director had only one question for Lemmy Mutahi, EABL marketing manager for emerging brands: How to make Senator a sustainable social product innovation for EABL and by extension Diageo.

1. Supervised by Adolfo Montalvo Garcia and Josep Francesc Mària Serrano, ESADE Business School

2. Senior Lecturer, Strathmore Business School, Nairobi, Kenya.

3. Brews which are mainly used for cultural purposes such as birth, initiation, marriage and funeral ceremonies

4. Business-oriented brews which were illegal and largely unhealthy due to the chemicals like methanol used in the brewing process.

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Case synopsis

On Monday June 14, 2004, Gerald Mahinda, group managing director of East African Breweries Ltd (EABL) had mixed feelings about this meeting. While he was waiting to meet Lemmy Mutahi, EABL's marketing manager emerging markets, he was pondering the next move in relation to a beer named Senator which EABL had launched in mid 2003. Senator was targeted at the low income consumers, the so called bottom of the pyramid (BOP) consumers⁵. Despite being the market leader with a 95% market share in the branded beer market, EABL only held 44% of Kenya's overall alcohol consumption. The rest of the market comprised of non-branded alcohol products most of which were illegally produced and sold mainly to BOP consumers. A recent report had found out that senator consumers were asking for a price reduction while some patrons of EABL's premium brand were switching Senator.

Lemmy had spearheaded the EABL project to produce Senator. Kenya's Ministry of Health was following the Senator project with keen interest given the huge costs incurred in treating victims of illicit brews.⁶ Diageo, the multinational brewing giant which owned a substantial part of EABL (42.46%), had initially expressed its reservations due to the product's possible impact on other EABL brands. Thus, the decision to proceed with the Senator project was not just an EABL affair but touched on its relationship with Diageo, the Kenyan government and the brewer's reputation as a socially responsible company.

Gerald's thoughts were interrupted by his personal assistant who called to inform him that Lemmy had arrived for their meeting. It was 10a.m.

The General Company Background

Before the early 1990's, most Kenyan alcohol consumers preferred Tusker, EABL's iconic brand, to any other alcoholic drink. Tusker was positioned as a socio-cultural motif that brought people together and made drinking a social pastime. At the time, no other beer brand could match Tusker's appeal. The brand was first marketed in 1923, shortly after the accidental death of Kenya Breweries Ltd founder George Hurst in an elephant hunting mission. It was in this year that the elephant logo, synonymous with Tusker Lager, was incorporated. Tusker's slogan is "Bia Yangu, Nchi Yangu" – Swahili for "My Beer My Country", (**¡Error! No se encuentra el origen de la referencia.**).

5. The term bottom of the pyramid (BOP) was popularized by C.K. Prahalad in the book, *The fortune at the bottom of the pyramid*. The term is used to refer to the poorest socio-economic group estimated to be about 2.5 billion people who live on less than \$2 per day

6 Illicit brews were illegally brewed liquors and were largely unhealthy. They were sometimes laced with chemicals like methanol during the brewing process to increase their "kick" on consumers.

However, the 1990's turned out to be the dark decade for the country's alcohol industry. Extreme taxation of alcohol products saw retail prices skyrocket. At the beginning of the decade, the alcohol industry contributed 29% of total excise revenues; this rose to 56% in the mid-1990s. The price of a bottle of Tusker rose from Kenya Shillings (KShs) 13.50 in 1991, to KShs50 in 2001. The economy was in a fragile state: low incomes and declining purchasing power combined with the prohibitive prices pushed the lower end of the market away from the mainstream alcohol market. Consumption of cheaper home-made and unregulated brews began to grow and the commercial alcohol market dropped from 400 million litres in 1991 to just 240 million litres in 2001.

For four consecutive years, 2001 to 2004, EABL was voted the "Most Respected Company in East Africa", in a survey conducted by PricewaterhouseCoopers and the Nation Media Group⁷, (**¡Error! No se encuentra el origen de la referencia.**). For the trading year that ended in June 2004, EABL had an annual turnover of KShs30 billion and provided employment to more than 1,000 people across East Africa. With breweries, distilleries, support industries and a distribution network across the region, EABL was the single largest contributor to Kenya's tax revenues in the 1990s and early 2000s.

Context of use and audience

Timing of the case within the subject and the programme

The case is ideal for teaching students on post experience courses such as MBA and Executive Education and Pre-experience courses such as MSc degrees in Finance, Marketing and International Management about the Social innovations/ Social Entrepreneurship, corporate social responsibility, business model innovation and BOP. The case can also be used to teach public officials about the need for government participation in successful BOP innovations.

Contribution of the case to the subject (and to the programme)

The case focuses on how a large corporation needed to adapt its existing business model in order to bring about viable social innovation⁸ which was focused on the bottom of the pyramid. It shows that such an innovation requires the participation of many people both inside and outside the company. This means a strategy of elaborate

7 . http://www.eabl.com/ccrep_eng.pdf, accessed on 1st December 2009

8 . " *Innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly developed and diffused through organizations whose primary purposes are social*" (Mulgan 2007).

stakeholder engagement is required. Firstly, the company needs to engage the customers, especially early adopters, whose aspirations may hold the key to the success or failure of such social innovation. A key learning point from the case is that such customers have high life-style aspirations and to position a product as “pro poor” may be problematic.

The case also highlights the contribution of social responsibility of leading firms in their industries in responding to social problems that are industry-specific. It provides examples of how much responsibility leading firms in an industry can shoulder regarding social problems.

The case also highlights how much of a company’s added-value share goes to the government in tax (in the case of EABL, 75.31%, Exhibit 6). These echoes the huge role governments can play in social Innovation.

The case will lend itself to discussion on:

- a) Responsible leadership⁹
- b) The bottom of the pyramid or inclusive business
- c) Companies and human rights
- d) Multi-Stakeholder initiatives/ engagement

⁹ . Responsible leadership is the art of building and sustaining trustful relationships towards both global and local stakeholders with the objective of mobilizing different constituencies to achieve commonly desirable objectives (including tackling the CSR challenges facing MNCs and their leaders) and to create sustainable value for stakeholders in business and society (integrated leadership performance). Pless understands “responsible leadership as a values-based and principle driven relationship between leaders and stakeholders who are connected through a shared sense of meaning and purpose through which they raise one another to higher levels of motivation and commitment for achieving sustainable values creation and social change. Important elements of the definition are: Relationship between leaders and stakeholders, Based on values/ trust, Mobilization of different constituencies and/or of each other, to create sustainable value and/or social change for stakeholders in business and society

Learning objectives

First, the case allows students to realize, as managers and most especially responsible global leaders of tomorrow, how much responsibility rests on leading firms in an industry in the face of social challenges. The students realize this by being in the shoes of the management of a firm that is leading in market share in its industry which feels obliged to lead the way in tackling the industry's related social problems, in spite of the constant shareholder pressure to expand and make more profits. The case demonstrates the critical role of the market leader in providing an industry environment for tackling social problems related to the consumption of its core products while tapping into the BOP/ inclusive business opportunities.

Second, the case provides an opportunity to examine the ethics of the bottoms-of the pyramid by enabling the students to assess the decision taken by the management in the face of the social dilemma as either only offering first order solutions or second order solutions. Moreover, as the case has the analytical difficulty of one¹⁰, the students' responsibility is to generate the different alternatives that the firm could have taken and compare them with the decision the firm has taken in order to evaluate the decision of the management.

Third, the case provides the student with an opportunity to access the complexity of responding to social problems that are meshed in the socio-cultural context of the community in which they operate. The case presents an example of closely linked social problems that embedded in social culture the solution to which may be beyond the scope and reach of corporate influence.

On reflection, the students/participants will be able to:

Understand social innovation and social entrepreneurship, the opportunities and challenges for a firm in "sinful products" such as brewing and distilling alcohol and tobacco.

Wake up to the leadership responsibility that market/ industry leaders have with regard to tackling social problems.

¹⁰ . A case has analytical difficulty of one when the author has identified the problem, proposed alternative solutions and solved the problem leaving the participants in the case analysis with only one role, to evaluate the effectiveness and efficiency of the decision taken.

Realize the challenges of using the Bottom of the Pyramid as a strategy of solving social problems while maintaining corporate reputations and expanding market share in a sustainable manner.

Identify all the stakeholders involved in a decision and how to classify them as dormant, dominant, definitive, dangerous, demanding, dependent, and discretionary according to Mitchell, Agle & Wood (1997).

Realize the huge role the government can play with regard to social innovation/ social entrepreneurship.

Teaching plan: 1.5 hours programme

Activity	Time allocated
Individual preparation by means of written questions	15minutes
Group preparation	--25
Initial questions/introduction	10 minutes
Example: Who would vote in favour of a particular option?	10
Discussion questions (designed to encourage debate)	20
Take-aways*	10

Suggested assignment questions (Provided to students during the small group discussion in class)

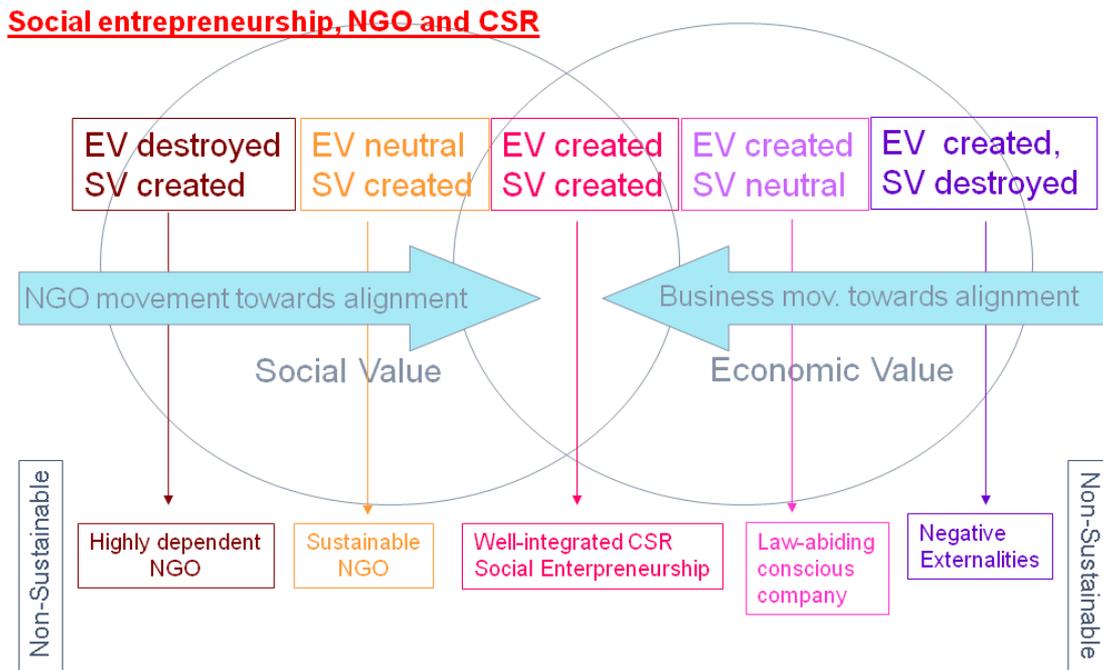
1. What are some of the important stakeholders, what are their interests and how would you balance the different interests?

2. What is your assessment of EABL's sincerity in the Senator project in 2003 rather than earlier, considering the fact that it has been the market leader for many years and the alcohol poisoning has been a historical problem?
3. What is your assessment of the fact that EABL is a leader in the beer industry yet it goes to the bottoms of the pyramid where smaller firms could exploit? expect to enter
4. Acting as Gerald, what argument would you use to convince Diageo to allow more time for the Senator project? And if Lemmy was given more time, what should he and his team focus on to make Senator an economically viable product innovation for EABL?
5. Is alcohol a necessity for the poor that it warrants this move by EABL or is investing money in behavioral change and altering drinking habits the solution?
6. From this case, how does the existing corporate business model influence its approach to entering the bottom of the pyramid markets?

Analysis

EABL responded to the social problem created by illicit brew by replacing illicit brews with Senator Beer. The beer had to have a "kick" and supplied cheaply enough to be affordable at the bottom of the pyramid. The issue of sustainability became a critical issue. This can be analyzed using the framework for balancing economic value and social value (Figure 1). Further, due to having different stakeholders with different interests in the issue, stakeholder engagement was central; hence a way of dealing with stakeholder by understanding them in terms of power, legitimacy and urgency (figure 2) was essential.

Figure 1: The Balance between Social and Economic Value Created and Destroyed



The concept of Social Innovation and Social Entrepreneurship

Social Innovation, three aspects; Sociality, Innovation and Market orientation

Sociality: The extent to which an organization intentionally and effectively pursues social objectives

Innovation: Orientation to improve systems, invent new approaches, create new solutions... for social problems.

Market orientation: Combination of social impact and independent commercial income stream.

Social innovation (SI) therefore is the innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly developed and diffused through organizations whose primary purposes are social (Mulgan, 2007). SI is initiated by heroic individuals or by social movements but it is not restricted to the non-profit sector. Putting SI in practice requires cutting across boundaries: organizations, sectors and disciplines. The impact of SI on economic growth is difficult to measure but its social stabilization is clear.

Social Entrepreneurship

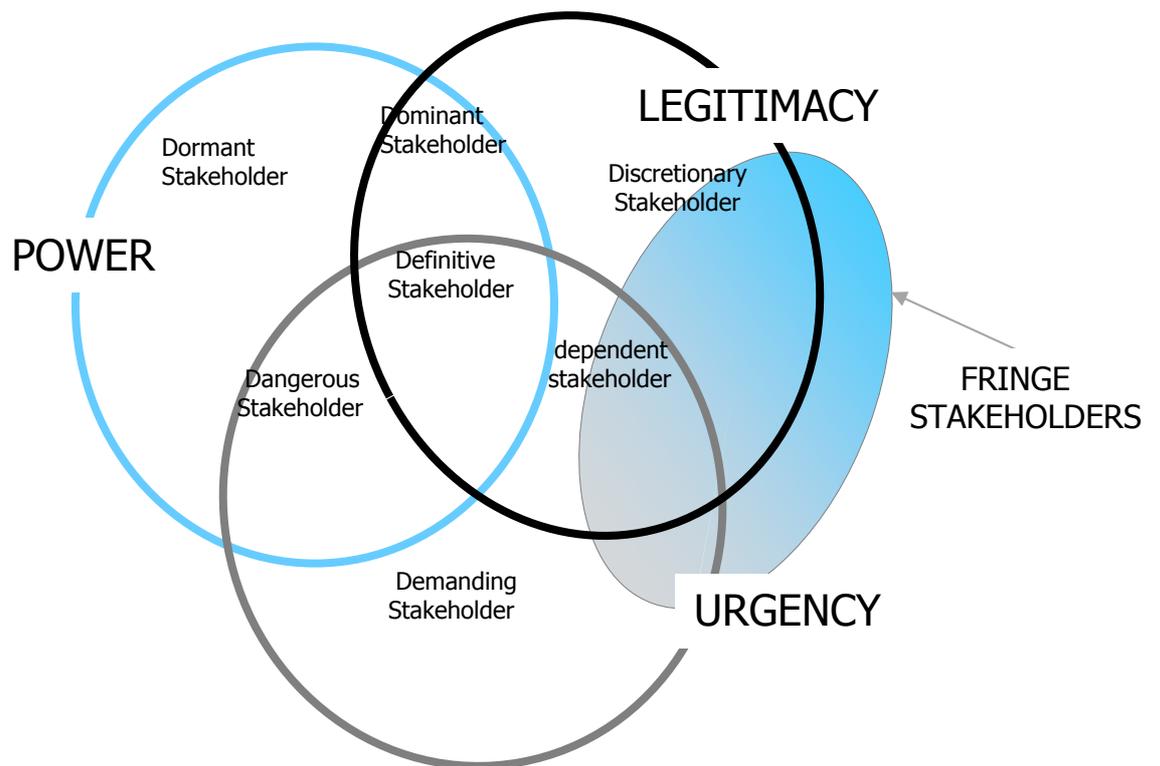
The job of a social entrepreneur is to recognize when a part of society is stuck and to provide new ways of getting it unstuck. He or she finds what is not working and solves the problem by changing the system, spreading the solutions and persuading entire societies to take new leaps. Social entrepreneurs are not content just to give a fish which one eats for a day or teach how to which allows one to provide for himself or herself and his family. They will not rest until they have revolutionized the fishing industry (Ashoka, www.ashoka.org).

Social entrepreneurs balance the social value and economic value created and destroyed. Social enterprise should not pursue so much social value that it destroys its economic value neither should it pursue so much economic value that it ignores the social value. The social entrepreneur should always remember that is she/he is neither operating as highly dependent NGO nor a firm so focused on the economic value that it creates negative externalities but

dwells somewhere in the middle of the two extremes as shown in figure 1 above. This is the balance that the Senator Project was aiming to achieve.

Figure 2: Three Aspects of Stakeholders Theory

The three aspects of stakeholder theory (power, legitimacy and urgency) can enable the participants to identify the different stakeholders involved in the case, their stakes and classify them in such a way that their interests can be balanced



Source: Mitchell, R.K., B.R. Agle, and D.J. Wood, 1997

The opportunities / benefits of the Bottom of the Pyramid approach for poor people

- Access to products that enhance standard and quality of living
- If they become entrepreneurs, they abandon poverty.

The risks/ problems of the Bottom of the Pyramid approach for poor people

- Exploitation by MNC (high interest rates, high prices)
- Creating new demand for “luxury goods” that cannot be satisfied with usual income: risk of increase in crime
- By creating new needs that help MNC increase their sales, MNC do not eradicate poverty, but serve their own interest
- Additionally they hinder poor people from saving money to create sustainable value for their families (e.g. build a house)
- They can get dependant on Western products and forget their own approaches.
- Westernization (products, lifestyle) has irreversible effects on indigenous cultures.

Recommendations regarding group dynamics

- Some other educational and relevant videos, blogs and YouTube forums could also be used to hammer the point home.
- This case decision is not to be taken democratically since It is not an “either or” decision which is a very limited view of the situation. **Moral imagination is a suitable approach** to the discussion rather than the “either/ or” approach which could only lead to controversial stance. This is because problems are frequently multi-faceted and defy straight-forward, linear solutions.
- In that regard, there is a need to explore the moral scope of the problem in unconventional ways while honoring the moral principles at stake. This entails knowing what the spirit of the scholarship reflects.

Difficulties encountered in using the case in the classroom

Difficulty among the participants to agree on what ~~is~~ social innovation is. Others wondered whether there is anything social about the Senator project. Others again wondered whether what the company had done can be termed as innovation.



Since some participants came from firms that were more like NGOs and others from profit-making organizations, the fact that EABL was also concerned about making money bothered them hence they had a problem terming the venture as **socially** oriented.

Recommended readings

Mitchell, R.K., B.R. Agle, and D.J. Wood, 1997, "Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts", *Academy of management Review*, 22, 4: 853–886.

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**Strathmore Business School
Strathmore University**

Madaraka Estate
Ole Sangale Road
P.O.Box 59857
City Square
Nairobi, Kenya
Tel (+254) (0)20 6006155
Mob.: (+254) (0) 722-205428
(+254) (0) 733-618135
Fax.: (+254) (0) 20-6007498
www.sbs.ac.ke

Campus Barcelona - Pedralbes

Av. Pedralbes, 60-62
08034 Barcelona – Spain
Tel. +34 932 806 162
Fax +34 932 048 105

Campus Barcelona – Sant Cugat

Av. de la Torreblanca, 59
08190 Sant Cugat, Barcelona – Spain
Tel. +34 932 806 162
Fax +34 932 048 105

Campus Madrid

Mateo Inurria, 25-27
28036 Madrid – Spain
Tel. +34 913 597 714
Fax +34 917 030 062

Campus Buenos Aires

Av. del Libertador 17.175
Beccar – San Isidro (B1643CRD)
Buenos Aires – Argentina
Tel. +54 11-4747 1307

www.esade.edu