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**The internal and external drivers of business model innovation
for sustainability: A case study of a South African health
insurance company.**

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of the requirements for the Degree of
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by

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ABSTRACT

With the right management tools and access to best practices, South African companies can create and capture significant value for multiple stakeholders. This can be achieved by innovating business models with built-in sustainability. Sustainability business models can help alleviate the country's top three socioeconomic pain points (inequality, unemployment, and poverty), whilst adding significant economic value.

Human beings' decisions are a function of an internal value system. Accordingly, executive leadership decisions do not only stem from external pressures and drivers, but also from an internal value system. The question this research sought to answer was what the external and internal drivers of business model innovation for sustainability are, to help determine the motive behind executives' choice to integrate sustainability into business models. Motive often determines longevity of a strategy.

Aiming to answer this research question, qualitative research methodology was carried out utilising a single case study method on Discovery, a prominent South African health insurance company. This exploration sought to establish an understanding of the thinking process and lived experience of the founding leadership in responding to external and internal drivers of their business model. Fourteen respondents were interviewed using one-on-one interviews. The respondents were comprised of eight Discovery Group executives, three industry experts from the regulatory side, and three equity analysts.

The themes that were found as drivers for Discovery's business model were leadership capability, regulation, legitimacy, as well as the pursuit of competitive advantage amongst industry peers. Discovery's leadership highlighted internal purpose as the main rationale for their shared value business model.

This study contributes to knowledge by providing a framework for companies to utilise, with an aim to reduce their implementation risk, when designing business model innovation for sustainability. In so doing, it adds to the growing body of sustainable business model knowledge in South Africa.

Keywords: Business model, innovation, sustainability, health insurance

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List of Abbreviations

B-BBEE	Broad-Based Black Economic Empowerment
BMIS	Business Model Innovation for Sustainability
CAGR	Compounded Annual Growth Rate
CEO	Chief Executive Officer
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
CC	Competition Commission
CSV	Creating Shared Value
DHMS	Discovery Health Medical Scheme
ESG	Environmental, Social and Governance Factors
FTSE Russell	The trading name of London Stock Exchange Group (LSEG) subsidiaries FTSE International Limited (or known as FTSE Group) and Frank Russell Company.[1] The division is notable for FTSE 100 Index, Russell 2000 Index as well as other indices.
GEAR	Growth, Employment and Redistribution
HMI	Health Market Inquiry
LSM	Living Standards Measure
IRR	Internal Rate of Return
JSE	Johannesburg Stock Exchange
NHI	National Health Insurance
RDP	Reconstruction and Development Programme
SBM	Sustainable Business Model
SRI	Socially Responsible Investment Index (SRI)
UHC	Universal Health Coverage
WCED	World Commission on Environment and Development

1. INTRODUCTION

1.1. Chapter Outline

This chapter is divided into 6 sections. Section 1.2 outlines the purpose of the study and situates this study in the field of sustainable development, the rationale for focusing on sustainability and the need for business models to embed sustainability to realise the best sustainable development outcomes. Section 1.3 outlines the context of the research by highlighting why Discovery was chosen as a unit of study and what connects Discovery to sustainable business models. Section 1.4 highlights the main problem and research questions asked to solve this problem while Section 1.5 outlines the significance of this problem and concludes chapter 1.

1.2. Purpose of the Study

“The greatest danger in times of turbulence is not the turbulence—it is to act with yesterday’s logic.” —Peter Drucker.

Sustainable Development was defined as “development that meets the needs of the present, without compromising the ability of future generations to meet their own needs” (WCED, 1987; pg. 8). In the last fifteen years, the world experienced significant socio-economic events that brought back sustainable development to the fore. These events include the global economic crisis of 2008, the recent COVID-19 pandemic, rising global inequality, racial discrimination in the US that provoked the Black Lives Matter movement in 2020, and the Great Resignation of 2021. Consequently, key questions on the impact of current corporate practices on the sustainability of the global economy and its ability to meet future generation’s needs have been raised.

These events have urged researchers and various organizations such as the World Business Council for Sustainable Development to encourage companies to contribute to sustainable development. Civilisation and socioeconomic development are positive indicators for growth. Society, governments, and the business sector all aim for economic growth and prosperity. However, growth without caution to the negative unintended consequences it can produce is costly ignorance.

According to Geissdoerfer et al. (2017), rapid socio-economic development has simultaneously widened social inequalities and overwhelmed the environment beyond its

ability for regeneration. Nature, people, and the business sector are all interdependent. This implies that, without nature's ability to self-recover, or dignity to society granted, there will not be future business to be executed or trust relationships necessary to build businesses. Eccles and Klimenko (2019) sounded an alarm that if the current industrial practices and social behaviour do not change, financial sustainability of industries will face grave limitations. Stirred by these environmental, and social concerns, the playing field for companies will never be the same (Montiel, 2008).

Ekins (2011) advocated for coordinated action through stakeholder partnerships to achieve sustainable economic growth that benefits the economy, the environment, and society at large. It was Montiel (2008) that correctly observed that primarily, everyday business operations and activities involve environmental and social issues. Business is increasingly becoming aware of its impact on society and the environment and awakening to the need to actively participate in sustainable development, to avoid future constraints.

In their UN Global Compact-Accenture CEO survey, Lacy et al. (2010) posit that despite globalisation, technological disruption and the most severe economic recession in the past 100 years, corporates are very committed to sustainability. According to the survey, 93 percent of CEOs see sustainability as critical to their company's future economic prosperity.

The implementation of corporate sustainability remains a complex undertaking for business executives, even as they recognise its importance. Most executives seem unsure about what it takes to fully achieve corporate sustainability and the process it entails. Managers have recognized that the integration of corporate sustainability into business models is something to consider, but they rarely move to implement this (Kiron et al., 2012). Stead and Stead (2000) noted though, that there has been a surge in executives' interest to learn how strategic management intersects with corporate sustainability, because corporate sustainability decisions are the responsibility of the C-Suite.

Both Bansal (2005) and Weber (2008) made a case for authentic corporate sustainability as one that integrates economic success with social justice whilst treating the environment with integrity. Osterwalder et al. (2005) put forth in their studies, that sustainability and business models cannot be separated if true sustainable development is envisaged. For companies to achieve the best sustainability outcomes through their businesses, they will need to ensure

sustainability is central to the very logic of their existence. The old age approach of placing corporate social responsibility on the periphery of the main business, is insufficient to create effective change within institutions, industries, and societies for true sustainable development. Stead (2000) and Bansal (2005) support this idea too in their studies, and state that building in sustainability into core business models is a better alternative to obtaining significant outcomes from corporates in delivering sustainable development.

The purpose of this study was to centre the idea of integrating sustainability into core business strategy and thereby business models. The study explored internal and external factors that drive executive management to innovate business models that integrate sustainability, with a focus on the South African health insurance sector. The aim was to develop a practical framework companies can utilise, to obtain competitive advantage amongst peers, through innovating for sustainability.

1.3.Context of the Study

The exploration investigated a South African health insurance company, Discovery. The choice to explore Discovery was based on the attributes of a business model for sustainability that the company displays and communicates publicly. As this is a case study methodology, the focus was entirely on Discovery. Discovery was established in 1993 in South Africa, a year before the abolishment of the apartheid government and the creation of a new democratic state. The company has deployed a unique business model and launched a product called Vitality which seeks to improve the health of its customers, thereby ultimately reducing its own liability through lower life and health insurance pay-out, achieving a seemingly win – win solution for its customers and shareholders.

The choice of Discovery was based on the following rationale:

1. Discovery operates within the private sector and private business is a key stakeholder of sustainability globally. Porter and Kramer (2011) rightly stated that not only is private business a key stakeholder of sustainability, but it owns and directs most resources and capabilities. Thus, the research objective to focus on the private sector and the choice of Discovery Limited.

2. SA has limited comprehensive studies that provide insight into how companies innovate business models to integrate sustainability and drive environmental and social impact. Yet, South Africa provides a good platform to explore the concept of business model innovation for sustainability given the challenges of inequality and unemployment the country grapples with. Discovery Group therefore provides an accessible reference point within an emerging market context.
3. A consideration of accessibility to the archives and executive decision makers at Discovery because strategy and business models are decided at the executive level. Through discussions with non-executive directors of various private and public companies in South Africa, regarding the research focus of this dissertation, the researcher obtained contacts to approach Discovery as a fitting unit of observation. It was important to ensure that access to data would be seamless therefore access to this network that led the researcher to the Discovery Group was critical in the choice of unit of observation.

Discovery today is a blue-chip publicly listed company that started operating in South Africa 23 years ago, with start-up capital of R10 million. It is a thriving multinational with market footprint in 21 countries, generating revenues in the region of R150 billion as at 2019-year end, on the back of serving approximately 17.1 million customers. In January 2017, the website of the World Economic Forum (<https://www.weforum.org/>) featured Discovery as a health insurance innovation leader.

At the time of Discovery's inception, South Africa was transitioning from the apartheid regime to a democratic state. The country was facing acute socioeconomic challenges, particularly in health care. Gore (2015) states that there was an extremely low supply of doctors, an unusually high mix of different disease burdens, and a new policy environment that sought access to health care for all. The government wanted to do away with the past discrimination against black people and rightly so. This meant you could not rate customers on pre-existing conditions (Gore, 2015). Further to that, compared to other regions in the world, where a national system subsidizes risk, South Africa had no unified public health insurance system.

Discovery's founders realised that the combination of regulatory changes regarding health inequality, high disease burdens and lack of doctors in the system meant thinking differently about traditional health care business models. In addition, there was a substantial rate of medical

inflation, with health care inflation at two times the price inflation. As a result, health insurance companies experienced very thin margins and were battling to survive (High, 2020). A combination of all these challenges meant financing health care sustainably would be an overly complex undertaking.

As the health insurance industry was experiencing a margin squeeze, Discovery was building momentum in its market research which yielded insights into a completely new business model. The insights involved the principles of Behavioural Science and the drivers behind its target market's lifestyle choices. One of those principles affirmed that people need incentives to make habitual changes (Gore, 2015). This insight unlocked knowledge that, lifestyle choices directly affect mortality. Specifically, that lack of physical exercise, low quality nutrition and smoking are fundamental to a health insurance system, as they contribute to four conditions: diabetes, cancer, heart disease, and lung disease that drive over 60 percent of mortality every year (Gore, 2015).

The company thereby identified an opportunity to utilise Behavioural Science principles to build a business focused on helping people change negative lifestyle choices. The founders reckoned that, if they incentivised customers to make healthy lifestyle choices, customers will welcome this. In essence, the founders focused on making people healthy, thereby reducing the business's insurance pay-out ratio and thereby liability. This in contrast to the old traditional health insurance business of waiting on customers' fate to strike and pay-out whatever obligation owed to customers. Adopting these principles, led to the innovation of their Vitality model, which is about incentivising customers to make healthy lifestyle choices. The Vitality product helped Discovery stand out from its competitors as it helped them avoid the margin squeeze given the low pay-out ratio.

Vitality as a product, offers incentives to Discovery's clients for maintaining their health through exercise, eating healthy and avoiding habits that reduce health such as smoking or drinking. This product ultimately affects behaviour in ways that reduce health care costs for the consumer and increases life expectancy (Gore, 2020). Discovery claims that as a result, customers end up paying lower insurance premiums which translate into superior profitability for Discovery, purely by delivering health to its customers. Discovery's own declared purpose is to make people healthier and enhance and protect their lives, according to its website, www.discovery.co.za.

Discovery managed to operationalise its purpose of making people healthier, thereby integrating some level of sustainability into strategy. The company's business model is unique in the industry. Hence the interest by the researcher to explore the company as an embodiment of a business model for sustainability.

The business sector is trying to embrace the adoption of sustainable development, and this is seen through various initiatives such as Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) imperatives the world over. The concern on the ground with these methods is that they are executed on an ad-hoc basis, are not transformational in their nature, and are therefore short-lived. Millar et al. (2012) posit that misalignment of the corporate agenda of inclusiveness or sustainability with the daily operations of organisations and the strategies that define their growth opportunities, remains a challenge.

According to Schiller (2018), many CEOs already understand the social imperative and have studied similar messages about sustainability for a decade and more. The harder question may be what ultimately drives them to integrate sustainability into their business models and how best to carry out that mandate.

1.4. Main Problem

South Africa is riddled by inequality and has inadequate access to quality health care, financial services, education, and housing for low-income groups. It needs sustainability strategies at a government, business and social level that help alleviate these pain points. Business as a manager of significant resources can help play a role in solving these triple challenges.

Discovery Health is one of the few local companies that embed sustainability into business models. For this reason, it can be utilised as a point of reference for other companies that aim to do the same. South Africa's economy could benefit from many more local companies that help solve the myriad structural problems the country faces, through innovating business models for sustainability. This research topic will help advance knowledge on how companies operating in emerging markets can help solve structural problems experienced by local communities.

There exists an opportunity for new entrepreneurs and old institutions to rethink traditional shareholders centric business models in favour of stakeholder centric business models. Thus, creating a win-win proposition for all stakeholders of that business.

The following research questions were designed to help deliver responses to the exploration on the initiation of business models for sustainability by executives:

1.4.1. Research Question 1

What are the internal drivers for business model innovation for sustainability within the health insurance sector?

1.4.2. Research Question 2

What are the external drivers for business model innovation for sustainability within the health insurance sector?

1.4.3. Research Question 3

How did Discovery innovate its business model to embed sustainability?

1.5. Significance of the study

The significance of this study centres around the opportunity that sustainable development has created for companies and society. Firstly, an opportunity for companies to make a difference by serving more stakeholders beyond shareholders and customers. Secondly, an opportunity for companies to gain competitive advantage by leveraging the sustainability imperative to create more robust business models. Lastly, an opportunity for society to be served in a more human centred, sustainable, and relevant manner by companies. Solving the crisis of climate change, inequality and poverty is a significant opportunity for both the longevity of business and wellbeing of society while ensuring the needs of future generations are met.

The study will help further equip executives and management with the tools to design business models for sustainability. Business model innovation for sustainability is a critical 21st century skill, given the universal environmental, social and governance problems. However, executive's understanding of sustainable business models and how to operationalise them is still muted. (Bansal, 2005; Hall & Wagner, 2012; Schaltegger et al., 2012).

Practical examples on the lived experience of executives that have successfully implemented innovative business model for sustainability will help encourage other decision makers on their own path to building sustainability driven business models. This study investigates operationalising sustainability. Two theories that need to be considered to help executives wrap their minds around operationalising sustainability are pondered on by the researcher. These are the Resource Based Theory and Dynamic Capabilities Theory.

Resource Based Theory is used to study the strategic resources available to a firm with the potential to deliver comparative advantage to a firm (Barney 1991; Hamel 1993; Prahalad, 1996). How these theories are useful to this study is that they highlight a company's internal resources that are available as a motivation for business model innovation for sustainability.

A key objective of this study is help reduce the implementation gap often experienced by many company executives albeit their good intentions to integrate sustainability into business models. Therefore, the outcome is a sustainability framework demonstrating an execution process for a business model for sustainability with a higher potential to effect real change on the ground.

2. LITERATURE REVIEW

2.1. Introduction

The case study focus for this research was Discovery Limited (“Discovery”). Discovery is a South African business assumed to have responded to the health inequality problem by transforming a traditional health insurance business model into one that shares value with most stakeholders. Access to quality healthcare by most disadvantaged families in SA is a challenge that existed pre-democracy. It was catalysed by the apartheid policy and remains a significant challenge for the country. In establishing the relevant literature context that will form the backdrop of this research exploration, it was important to highlight the historical imbalances and the triple challenge of poverty, unemployment, and inequality that South Africa battles with. Therefore, this literature review begins by contextualising the socio-economic history of South Africa and its impact to the current economy and the health care sector.

Secondly, literature on the evolution of how corporates have responded to the sustainability business imperative, as informed by the concept of sustainable development was discussed. Further to that, the researcher focused on different sustainability related strategies, theories, tools, and frameworks such as CSR (Corporate Social Responsibility), Triple Bottom Line, Corporate Sustainability and Shared Value to formulate a context on the evolution of how corporates have attempted to implement sustainable development.

Evans et al. (2017), stated that the best sure proof approach to realise innovations for sustainability is through business model changes, and that this is widely acknowledged. Jolink and Niesten (2015), agreed that business model innovation is becoming prominent in business discourse and practice as an alternative mechanism to embed sustainability into business. Therefore, a review of literature concerning the definition and workings of business models and innovation was widely discussed.

Lastly, the research examines bodies of literature on the noted internal and external drivers for corporate sustainability, stakeholder theory and dynamic capabilities theories.

2.2. Contextual Background: Socio-economic history of South Africa

Although sustainable development should be an aim of each country globally, there are regions where the prioritisation of it by business and government is critical, given the unique and deep socioeconomic problems in those regions. The top three regions in the world where businesses

see sustainability as important to their future success are Asia Pacific, Latin America, and sub-Saharan Africa (Lacy et al., 2010). Given the deep socioeconomic challenges in South Africa (lack of access to basic social services and high inequality), it can be argued that a prioritisation of sustainable development in this region is also critical to the country's future success.

Statistics SA (2019) has given an account of a South Africa that continuously ranks as the most unequal in the world, year on year, and attributes this to the country's roots in the history of colonisation and apartheid. (According to the website of the World Population Review (<https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>),

South Africa was ranked the world's most unequal country, with a Gini coefficient of 63.0 in 2021. In 2005, the Gini coefficient was much higher, at 65.0. The Gini coefficient is a mathematical measure of the difference between the rich in each economy and the poor and is referred to as an 'income gap' as a result (Orthofer, 2016). Leibbrandt et al. (2012) gave a grave account on the persistent increase in the level of economic inequality in South Africa, despite great traction in reducing poverty over the past two decades.

As highlighted by May et al. (1998), incomes of households can be grouped in deciles to show the inequality in a country. Given this approach, the richest 10% households in South Africa hold 71% of the wealth, while the poorest 60% hold just 7% of the wealth. Additionally, as much as 55.5% of the people in South Africa live in poverty, earning less than \$83 per month. Although poverty in South Africa is not limited to any one race group, it is concentrated among blacks, with 61% of Africans and 38% of Coloureds poor, compared with 5% of Indians and 1% of Whites (May et al., 1998).

2.3. South Africa's political and economic history

According to Statistics SA (2019), despite the policy work and practical implementation of specific poverty alleviation programs by government to reduce inequality since the democratic transition in 1994, progress has been low. South Africa's low economic growth is because of a system of socio-economic unfairness and exclusion of a significant part of its population from economic activity. Philip (2011) posits that this institutionalised system of inequality in South Africa has its history in the following key legacies of apartheid:

- The highly concentrated structure of the core economy with white people dominant in the ownership of assets such as land and capital, and the impacts of migrant labour.
- the spatial legacy of Bantustans and apartheid cities; and

- the deep inequalities in the development of human resources.

These different legacy issues are interdependent and have a multiplier effect on the next one, they each created and keep intact deep levels of economic deprivation that lock people into poverty, (Philip, 2011). Over twenty years on since the ushering of the new democracy, yet the apartheid legacy is still strongly felt in South Africa's education, health, and corporate and economic institutions. Some economists argue that it was over 300 years that black South African's were marginalised and that turning the tide against these legacies will take longer. The slow pace recorded by Statistics SA is testament to this fact, that despite all necessary effort by government, economic growth and positive social impact remains muted.

The dull progress is due to the deep systemic nature of the problem. Apartheid in South Africa was institutionalised, passed as law and organised in different socio-economic elements, from land distribution to access of social services. One can argue that it even went as far as psychological grooming. Borat et al. (2009), clarified this when they stated that, the apartheid government of South Africa created smart systems to exclude black people from basic human entitlements, societal benefits, opportunities, and resources, whilst making the same benefits widely available to white people only. Posel (2010), added that even after colonialism, the governments that took over, such as the Nationalist South African republic in 1948, deepened and continued the deprivation of black people from the resources that they needed to consume for advancement and to survive.

During apartheid, black people were separated from due process, quality education, housing, decent work, basic healthcare, civic engagement, and the right to vote. In addition, the exclusion from commerce and inability to purchase valuable immovable and income producing assets, deepened the marginalisation of black people (Carter & May, 1999). The impact of apartheid which stripped people of their assets, especially land, distorted economic markets and social institutions through racial discrimination, and resulted in violence and destabilisation (May et al., 1998). Using Maslow's Hierarchy of needs theory as a lens through which to process the issue of the marginalisation of black people, it follows, that there was no space held for black people to begin to self-actualise and maximise their full potential. A continuous cycle of high levels of inequality, poverty and unemployment can cause devastating results on a society and its economy (Statistics SA, 2019).

Socioeconomic exclusion under Apartheid had significant cost implications for South Africa as a country. To this day, the country still pays a hefty economic cost, many years after the end

of the apartheid system in 1994, even as Statistics SA accounts each year on the inequality. The brunt is borne mostly by black people, who are hard hit by the income inequality as indicated by a high gini co-efficient of 63.0 (Bhorat, 2009; Chitiga et al., 2014; Wilkinson-Maposa et al.,2005).

The history of South Africa's politics, economy and social setting is proof of the impact of negative consequences that can be felt for many generations because of poorly thought-out policies based on the marginalisation of other races or classes of people. While apartheid was an evil government system that was legalised, similar poorly thought-out corporate systems are evidenced the world over. Hence terms such as unconscious capital and the concern about unsustainable business practices that are destroying nature's ability to self-regenerate.

The backdrop of the history of South Africa's socio-political landscape gives a sobering account of how leadership is key in either building or destroying a country. It is also eye opening on how country governance is very much connected to economics and thereby the corporate sector. Governments set the policies for all life and business activities in a country to thrive or be confined.

2.3.1. Health economics in SA

In their book, *Spirit Level*, Wilkinson and Pickett (2009) provide a summary of several verifiable studies into how inequality is directly linked with multiple social problems, including health issues, mortality, crime, and substance abuse. Likewise, perceived threats to social status induced by extreme inequality can cause fundamental breakdown in the structure of society (Wilkinson & Pickett 2009).

The inequality in South Africa is even more stark within the healthcare sector. Approximately R250 billion is spent annually on the 16% of the population that has access to private healthcare, while about R220 billion covers public healthcare that is accessed by the majority (Mbokazi, 2019). Disparities in the health care sector continue to widen in South Africa with yearly expenditure on health per person ranging from \$1,400 in the private sector, to approximately \$140 in the public sector (Mayosi & Benatar, 2014).

In their study, Maphumulo and Bhengu (2019) gave an account of how the national public health sector is overburdened with providing health care for more than 40 million uninsured

people who make up 84% of the entire population and attended to by some 30% of the doctors in the country. Apparently, up to 25% of uninsured people pay cash for private healthcare (Mayosi & Benatar, 2014). The infrastructure condition of the public hospitals remains in a dilapidated because of poor management and underfunding (Mayosi & Benatar, 2014). As it currently stands, public healthcare, which is accessed by the majority of black South Africans- desperately needs overhauling. Sick people must contend with long queues, poor facilities, and demotivated staff. Access to doctors and specialists is very limited and sick people are often sent home with no medicine as district and provincial health facilities run out of budgets (Mbokazi, 2019).

2.3.2. Health market history in SA

There are at least four distinct periods in the history of healthcare regulation in the private sector, below is a summary as made available by the Competition Commission (2019):

Period 1: Over the period 1980 to 1989, the regulatory framework principally supported the needs of employer and industry-based schemes and there were no open schemes competing with employer and industry-based schemes. Schemes were required to community rate their contributions and to comprehensively cover minimum benefits. Schemes were permitted to differentiate contributions only on the grounds of income and the number of beneficiaries.

Period 2: Over the period 1989 to 1993, all medical schemes were permitted to differentiate contributions making the schemes environment akin to actuarial insurance and removing their social protection function. Schemes were able to differentiate based on health status, age, gender, claim patterns, geography, and income.

Period 3: From January 1994 until 2000 the requirement that medical schemes offer minimum benefits was removed. This policy shift facilitated the entry and growth of multi-employer and open schemes. Medical schemes were consequently permitted to discriminate against poor health risks by adjusting the contribution structure (i.e. making sick people pay more), the application of wide exclusions, and changing the benefits offered (i.e. excluding benefits for certain conditions).

There was a substantial movement of beneficiaries from restricted (employer and industry) schemes to open (multiple-employer and individual) schemes during this period, and beyond. Open schemes grew in relation to restricted schemes while the total medical scheme population remained stable, suggesting that open schemes gained market share at the expense of restricted schemes. This coincided with the period when medical schemes were permitted to risk-rate and risk-select.

Period 4: From 2000 onward, the Medical Schemes Act was revised to remove discrimination based on health status and a system of mandatory minimum benefits was reimplemented. The government's vantage point was that health is a human right in South Africa and no one should be turned away because of lack of financial resources.

As outlined above, the private hospital industry is a relatively recent development in South Africa. According to the Competition Commission of South Africa (2019), before 1985 private hospital care was uncommon and most medical scheme members used public hospital services. Additionally, public hospital services were offered for free for lower income groups. Higher income groups with incomes more than the average household were required to pay. The Competition Commission of South Africa (2019) relay that in 1986 there were a total of 6,125 private hospital beds and that by 1998 there were 20,908 beds in 162 private hospitals (an increase in beds of more than 240%). By 2010, a further 10,000 private beds and 54 hospitals had been added. Over the same period, the number of public hospital beds declined from 117,842 in 1986 to 88,920 by 2010 (a decline in beds of 25%) (Competition Commission of South Africa, 2019).

2.4. Business in addressing South Africa's inequality problem

According to Fig (2005), South African businesses do not like to be accountable to their role in the unjust history of South Africa. As a result, they prefer to put a lipstick on a pig and go along with superficial concepts of 'corporate social investment' and 'corporate citizenship': concepts that conceal the ugly truth about the legacy of apartheid, justice, or moral and ethical responsibilities (Fig, 2005). Companies bend the notion of 'corporate social responsibility', despite the wide use of this term among practitioners and in the literature (Fig, 2005). Business does this to avoid repatriation and mounting calls to have business account for its role in the apartheid system (Fig, 2005).

The founding principle of capitalism - taking care of the interests of shareholders instead of an approach where all stakeholders are taken care of is the order of the day. In the minds of many businesspeople, there exists a tension between doing good and maximising shareholders wealth and they keep choosing the latter. Philip (2011) made an unpopular yet interesting observation about how both ends of the spectrum of deep inequality and elitism are a form of distortion and how as a society, we should not see the disadvantaged end as the only unsustainable evil to solve, but elitism too. Elitism is a problem. In South Africa, elitism is a status quo seen as an ideal destination to arrive at, where nothing about it should be questioned even when the attainment of that status, often entails the systemic exclusion of the disadvantaged. The growing policy emphasis in South Africa on the need for “inclusive growth” rather than just any growth, reflects these different perspectives (Philip, 2011).

In their study, Tregenna and Tsela (2008) made a sobering point, one that might explain why inequality and poverty remain muted, despite government intervention. They stated that to aim for economic growth without complimentary fundamental changes in economic distribution between the haves and have nots, the goal of halving poverty in South Africa will remain a pipe dream (Tregenna and Tsela 2008). Basically, that an effective anti-poverty strategy cannot avoid tackling the issue of distribution of wealth (Philip, 2011).

In terms of hoping for corporate action on this matter, Fig (2005) notes that, it seems there is a trickle of evidence that prove that firms will voluntarily participate in helping to usher an equitable post-apartheid transformation. Regarding Broad Based Black Economic Empowerment so on, the government has often had to mediate through policy or through the drafting of sectoral charters, to put business on the road to transformation (Fig, 2005).

The short sightedness of unconscious capitalism is that in the long run, shareholders wealth, starts to get eroded when there is no environment to trade in, no partners (customers, suppliers, and employees) that can trust you and thereby work with you on realising that wealth. This tension presents an opportunity to go above and beyond what we have understood thus far about how economics and business function.

There lies a significant opportunity for businesses in emerging markets with similar challenges to SA, to solve deep social related problems and thereby accelerate sustainable development. The choice to explore Discovery, was done with this location backdrop in mind. Ultimately, the consideration to integrate sustainability into daily operations of businesses could have positive far-reaching effects globally. However, one could argue, that more so for countries

with deep structural economic distortions such as South Africa. According to Sonnenberg and Hamann, (2006) innovation in South Africa can be borne out of this perfect storm of seemingly insurmountable inhibitors to economic growth, to providing companies with new business opportunities.

2.5. The role of government in addressing SA's inequality

In SA, it is more urgent to adopt sustainability and inclusive growth because of structural inequality. The government can help regulate the space. Regulation can be an effective driver of systemic change in certain commercial sectors if utilised well.

Since democracy in South Africa, the government aimed to close the economic chasm between different racial groups in South Africa. The government marched ahead with this aim by first launching the Reconstruction and Development Programme (RDP) in 1994, followed by many economic and policy initiatives to create a conducive environment that supports stability and economic development (Smit et al., 2013). In 1996, macro-economic policy Growth Employment and Redistribution (GEAR), replaced RDP and in 2000 by the Broad Based Black Economic Empowerment (B-BBEE) to establish codes that will ensure greater black economic ownership and interest (Habib & Padayachee, 2000).

Government cannot be expected to handle all the socioeconomic challenges using traditional development methods, macro-economic programmes, and legislative incentives to gain investment in key transformational areas. Philip (2011) argues for a holistic economic approach and strategies to improve economic opportunities on the margins. This means the corporate sector participating fully to help build an inclusive and distributive economy where all groups of races can benefit from the growth and development of the country.

The SA government has been tackling the issue of inequality and executing pro poor and development policies to help revive the economy. In 2007, SA president Thabo Mbeki, instructed for a report referred to as the "Strategic Framework", to study the effects of the existing programmes targeting inequality, as well as a strategy plan to recommend how progress in the "second economy" could be strengthened (Philip, 2011).

The commissioned Strategic Framework pointed to a "first" and "second" economy. The report argued that the two economies are connected. Further to that, they are a result of high inequality that is deeply calculated, methodical, created by institutions of the privileged economy and is

rooted in key legacies of apartheid (Philip, 2011). This analysis had a range of key implications for strategic interventions regarding inequality going forward. The major analysis concluded that, for transformational change to happen, a ground up holistic approach that sees both economies as interconnected is key. Accordingly, the problems of the second economy are rooted in the exclusionary nature of the first economy. The narrative of the interconnectedness of the rich and poor proved a major step in how the government then reinforced its development programs going forward. It no longer used the narrative of the dichotomy of the two economies. No longer that the second economy needed to be fixed to catch up with the first economy but that the first economy needed to open and share resources that it has to a great degree excluded the poor from.

While the second economic strategy process began under Thabo Mbeki's Presidency, its effects were approved under President Kgalema Motlanthe, between the Mbeki era and the beginning of the Zuma Presidency. Since then, there has been less talk about the concept of the "second economy" (Philip, 2011).

May et al. (1998) are of the view that, although the South African government faces a mammoth task in terms of policy formulation, it has responded in a credible fashion. When it comes to implementation however, current progress does not meet the expectations of the poor. The belief that all that was needed for transformation and economic development was capitalism through the freeing up of markets and removal of state intervention was an illusion (May et al., 1998). Market-oriented macroeconomic policy reforms have not helped the poor much because the underlying institutional reality of distorted markets has remained the same (May et al., 1998). To be specific, structural inequality and apartheid legacies are still alive and active and undermine all efforts envisaged through policy.

In addition to the underlying institutional context remaining the same, is the problem of regulatory implementation failure, which is starkly demonstrated in South Africa's health market sector. Following the recent Health Market Inquiry (HMI) conducted by the Competition Commission (CC) of South Africa, one of the key findings of the inquiry was a glaring lack of regulatory execution by the government which was found to be a key factor in health market failure. The Competition Commission stated in their HMI (2019) report that they have found insufficient monitoring of the private sector with lack of oversight by the

Department of Health not using current regulatory powers to manage the private healthcare market. According to the Competition Commission (2019), it commissioned the HMI subsequent to noting consistent above inflation price and expenditure increases in the private health care sector. These increases widened inequality in that only a privileged few South Africans could afford access to private healthcare.

The South African government is in the thrust of introducing Universal Health Coverage (UHC) (SA Gov, 2019). According to SA's government website (www.gov.za), UHC means that all people and communities can access quality and affordable health services they need, while also ensuring that the use of these services does not expose the user to financial hardship. Given the failure to uphold legislation effectively in the current health sector market, as found by the CC with their HMI study, there are concerns in the market regarding government's ability to execute the UHC as planned.

The backdrop of SA's inequality, low unemployment rate, poverty, and government's attempt to intervene at policy level demonstrate the need for an ecosystem wide intervention to be able to move the needle in the right direction (Smit et al., 2013). As the context of the current socioeconomic standing of South Africa clearly shows above, sustainability in post-apartheid South Africa, is driven and aligned to the socio-political mandate of nation building.

In South Africa, sustainable development cannot be defined purely as voluntary initiatives as there are no clear distinctions or divisions between voluntary business actions and state-led interventions (Smit et al., 2013). Many policies, including the NHI and Broad based Black Economic Empowerment Act (BBBEE) continue to be powerful drivers in shaping the future of the South African sustainable development landscape, with "Ubuntu" (African humanism) as cultural driver (Rampersad & Skinner, 2014).

2.6. Sustainability Origins

To put a context to this research, it is necessary to understand the evolution of sustainability, the intention for it, its origins as well as to understand the logic behind the interest in sustainable development by business.

It is widely acknowledged that, the origins of the notion of sustainability go back 300 years and was the main subject of the essay of popular German mining director Carl von Carlowitz on forestry (Peters, 1984). In his essay, he debated that long-term success in mining and livelihoods related to that sector is very much dependent on “sustainable forestry” (Heinrichs et al., 2016). Today, the idea of sustainable development and sustainability have transcended the management of nature and the climate and is permeating discourses in many other sectors, importantly, the business sector.

Since the beginning and end of industrialization, development was mainly focused on social and economic issues, nothing beyond that (Heinrichs et al., 2016). Consequently, for over 150 years, economic theory, and practice, ignored nature as a key input in the commercial production processes. Heinrichs et al. (2016), in his study, listed economists such as Boulding (1966), Ayres and Kneese (1969), as the ones that brought back to the radar, the importance of nature and the environment on economic discourses, including sustainability, although indirectly.

The widespread distribution of the concept of sustainability as a societal moral compass can be attributed to the Brundtland Commission Report (WCED, 1987), following that, the United Nations Conference on Environment and Development in Rio de Janeiro in 1992 (United Nations, 1993) (Heinrichs et al., 2016). The catchiest and worrying prediction from this reports that spread all over the world, was that if the world (governments and the corporate sector) persists with its resource-intensive growth policies, the Earth would not be able to sustain that (Heinrichs et al., 2016). Meaning that, the Earth would reach a point of failing to self-recover and produce more natural resources. After this report, scientists and politicians finally had an intelligent debate from a systems lens, about the association of the finiteness of resources, especially natural resources, with social means of production and economic growth.

Heinrichs et al. (2016), reckons, that although, efforts to consider sustainability in the economic discourse the world over have been made, the realisation for fair development that impacts multiple generations and balances climate, and socio-economic needs is still a pipe dream.

Supporting Heinrichs notion above, Rockström et al., (2009) also once observed that despite international climate policy enacted in 1990, the world is quickly losing biodiversity, global poverty is still persistent and social inequality is accelerating. This perhaps more so because of economic globalization.

Since the early days of sustainability until now, the world is battling the balance between climate, nature with economics of development. The inherent tension of extracting natural resources for development sake is quite obvious, however, this status quo doesn't have to remain, thinking beyond extraction is quite critical for the very survival of humanity and corporate activity.

2.7.Sustainable Development

The term sustainability was coined initially in reference to sustainable development, with a goal to motivate for development impact that balances long long-term ecological outcomes with poverty reduction (Crews, 2010). Sustainability is frequently used interchangeably with sustainable development (Kassel, 2012). What people understand when they refer to sustainable development is that it is the thinking, discovery, and creation of fair and sustainable society (Heinrichs et al., 2016). As indicated in chapter 1, It was officially defined by the WCED in 1987 as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Since 1987, Sustainability as an idea has expanded and its focus now is on economic profits, social impact, and the environment (Crews, 2010; Hubbard, 2006; Montiel, 2008).

The environmental proposition asks that society protect its environmental assets; the social-equity principle requires all people, outside of privileges or lack thereof, to be treated fairly; while the proposition economically requires enough production of resources for society to maintain a reasonable standard of living (Bansal, 2005). This expansion on the definition of sustainable development, entails the consideration of all stakeholders with a vested interest in socio-economic development. Freeman (1984) once said: “Stakeholders are all those affecting or affected by an organization” (p. 46).

Perhaps the most comprehensive and guiding principles of the definition of sustainable development was outlined by Stubbs and Cocklin in 2008. In weighing in on this definition,

they highlighted that “it balances the environmental, social, and economic aspects of development and touches on:

- The notion of resource limits (energy, materials, waste, and land);
- equitable access to constrained resources.
- intergenerational and intragenerational equity; and
- a progressive transformation of economy and society” (Stubbs & Cocklin, 2008; p. 104).

There is no global agreement on the definition of sustainable development and many different explanations of the word are available in literature (Stubbs & Cocklin, 2008). Given the significance and importance of being on the same page of activity collectively on sustainable development, it would benefit the world greatly, if a common definition is reached on sustainable development.

2.8. Corporate Sustainability

The interest in corporate sustainability by corporates is on the increase. This is certainly a positive development because business, society and the environment are interdependent. In the Accenture CEO survey done by the United Nations Global Compact - Lacy et al. (2010) established that, despite rising globalisation and the advent of technology which has caused rapid development, the commitment of CEOs to sustainability keeps rising. The study states that 93% of CEOs see sustainability as important to their company’s future success” (p. 16). More interestingly, they found that, this rising commitment to sustainability by the C-Suite has been igniting innovation into new products, which then drives new business models and thereby new markets. Further to that, Lacy et al. (2010) noted changing industry cost structures as well as a move of sustainability from just corporate strategy to all elements of operations.

To rely solely on the government to prioritize sustainability into development is insufficient if we are to move the needle and make significant progress. The corporate sector is a custodian of massive scale resources such as human and natural capital in the value chain of production. Therefore, the Earth’s regeneration is in its interest too. Business has the basic tenet of problem solving at its core. It has the capability to innovate, and the leadership talent required to step in and make a difference in this space. Burritt and Schaltegger (2010) posit that corporations are

a logical platform for the implementation of government policy and that large corporations are the helm of industrial size resources than any sovereign nation.

Corporations have a permeating nature on all of society and the economy, hence the sustainable development of corporations is a prerequisite for the sustainable development of society and the economy (Burritt & Schaltegger 2010). Kiron et al., (2017), argued that proactive action from the business sector is critical to realizing a sustainable future.

Nine thousand companies have joined the UN Global Compact since it was established in 2000. According to Kiron et al. (2017), to track and report on their sustainability performance, seventy-four percent of the world's largest companies make use of the Global Reporting Initiative's process. On the other hand, large network of sustainability activists, practitioners, tool makers such as rating agencies, government commissions, including investors and consumer groups, have since been initiated to support sustainable business practices (Kiron et al., 2017). The website of the United Nations records all representatives of 195 countries, who in December of 2015, ratified a landmark climate agreement in Paris to set nation-by-nation limits on greenhouse gas emissions beginning in 2020 (United Nations Climate Change, 2015).

Despite significant progress, corporate leaders in sustainability are still rare, and are not evenly spread across different regions in the world and industries (Kiron et al., 2017). Only a handful of standout companies are demonstrating that sustainability can be a driver of innovation, efficiency, and lasting business value. More and more companies are needed on board to craft and implement their own sustainability strategies. What we need more of, is the integration of sustainability into core business models and operations. We need corporates to stop seeing themselves cut off from the discourse and preservation of the environment and society. As Bertels et al put it, a sustainable organisation firstly sees itself as one with the environment and society, secondly, it is inclusive of external stakeholders in its day-to-day operations and is fully aware of its existing operations future impact on the planet and people.

The main challenge for sustainability management is to operationalise sustainability by integrating the environment, society, and good governance into business models. A central theme being explored in this research, of achieving integration through business model innovation.

Often, the criticism against corporate sustainability is that to be successful, it must move from being a disconnected, ad hoc mix of philanthropic actions, such as randomly selected donations, corporate citizenship advertisements and CSR to becoming a coherent and embedded part of business strategy (Engert et al.,2016). One of the attempts by business to employ a coherent sustainability strategy was to adopt CSR (Corporate Social Responsibility). The benefits, shortcomings, and criticisms of CSR as a strategy to employ sustainability are outlined below.

2.9. Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is the realization of business contributions to sustainable development goals. CSR has been the proof, in the past ten years of the growth in realisation by business of its responsibility to the society it serves (Gugler, & Shi, 2009). As the realisation of the important role of business in driving I sustainable development grew, businesses started to establish community initiatives internally with an aim to participate within the growing trend of sustainability. Businesses wanted to be seen as responsible global citizens and whilst seizing the commercial opportunities available from this new reputation. Concepts and practices such as Corporate Social and Responsibility (CSR), the triple bottom line (Elkington, 1994), environmental management (Montiel, 2008) were initiatives in response to this growing trend of good corporate citizenship (Stubbs & Cocklin, 2008).

The purpose of business in society has been widely discussed and hotly debated with varying view the world over. For many years, corporate social responsibility (CSR) has been a hot topic among academics and business professionals (Carroll, 1999). Debates have generally focused on the role and responsibilities of business in society.

In literature, Bowen's (1953) book, *Social Responsibilities of the Businessman*, is acknowledged as one of the early attempts to conceptualise the relationship between corporations and society (Carroll, 1979). A widely used definition for CSR is by Carroll (1979, p. 500) that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time".

Friedman (2007) has publicly criticized CSR, and he argued that the social responsibility of a corporation is to solely serve the shareholder by making money. He argues that it is human beings that responsibilities, not businesses (Friedman, 2007).

2.9.1. Criticism against CSR

As much as CSR was widely perceived as a viable strategy by corporates to participate in sustainable development, this has not escaped widespread criticism. A lot of scholars have argued regarding the effectiveness of CSR in helping solve structural matters that seem to erode the people and planet. It was Visser (2010) that corroborated in his studies that CSR has not been successful nor achieved any desired effect on solving problems in society and erasing the adverse impact of business on society.

Non materiality is an argument against CSR, suggesting that most CSR programs are not closely linked to the sector that a specific company operates in, thus those efforts are non-material. Eccles, Krzus, Rogers, and Serafeim (2012) made a case that for sustainability to be meaningful it must be based on the notion of “materiality”; in other words, the standard must be relevant to the success of business in each sector. They argue that it is important for companies to know which of the many environmental, social and governance dimensions are most material for that company in terms of creating value for shareholders and stakeholders over the long term. Thus, as they point out, in the pharmaceutical industry companies face material risks from a growing market in counterfeit drugs; in the software and IT services, material risk include cybercrime; while the banking industry faces risk of extractive credit pricing.

In the book, *Economics and Morality*, Rajak (2009) levelled criticism against the effectiveness of CSR, when she stated: “It creates a pattern of categories of benefactor and recipient, on which structures of patronage and dependency are built” (p. 212). Crewe and Harrison (1998) were of the same notion when they stated: “as in a relationship between landlord and tenant, at the centre of the donor–recipient relationship is an exchange of deference and compliance by the client in return for the patron’s provision” (p. 74). Accepting uncritically that more CSR can solve complex problems associated with poverty in the global South ignores the possibility that CSR may do more harm than good (Prieto-Carron et al., 2006).

Most relevant to this research exploration is the idea that CSR, as opposed to being relegated to the periphery of a company’s core operations or strategy, that it becomes built in part of core strategy and thereby operations. On the report of Dowling and Moran (2012), a bolt on CSR method is one where organizations often give money to worthy causes or create social responsibility programs in the hope that this will appeal to their stakeholders. When approaches such as these are only loosely coupled to the strategy of the organization they appear to be

“bolted on” rather than “built in” (Moran & Dowling, 2012). Thus, they are likely to foster a sustainability practice less consistent with the principal actions of the organization and be less credible. Such practices are also easy for competitors to duplicate. CSR or sustainability initiatives grounded in the strategy of the organization has better chances of providing competitive advantage.

The bolt-on model is where the desired organizational sustainability is designed around one or more tactics unrelated to strategy. The idea here is to convince employees and outsiders that the organization is of good character. Corporate reputation is effectively managed by public relations not the executive team. The primary goal is to protect the organization’s social license to operate, and in the current low-trust business climate, to deflect the wrath of legislators, regulators, and the public (Moran & Dowling, 2012).

CSR is one of the evolutions of corporate sustainability, although, most of the time, it is bolt on. Porter and Kramer (2011) argue that despite growing corporate social responsibility (CSR) activities, the legitimacy of business has fallen and that businesses acting as businesses, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society. The development of their concept, CSV (Creating Shared Value), argues for a symbiotic relationship between the business and the society within which they operate. Porter and Kramer (2011) suggest that CSR is unsustainable and contrast the CSR and CSV methods below:

Table 1: The Difference Between CSR And CSV

CSR	CSV
Citizenship, philanthropy, sustainability	Joint company and community value creation
Discretionary, or in response to external pressure	Integral to competing
Separate from profit maximization	Integral to profit maximization
Impact limited by corporate	Realigns the entire company budget

footprint and CSR budget	
Agenda is determined by external reporting and personal preferences	Agenda is company specific and internally generated

Adapted from source: Porter & Kramer, (2011)

Porter and Kramer (2011) suggest that the role of society is not unfamiliar within the context of business strategy, however historically it has been located under the corporate social investment (CSR) umbrella, on the periphery of the organisation and that this is unsustainable. According to Laszlo and Zhexembayeva (2011), many companies now understand the need to recognise social and business factors as a part of their performance.

This recognition is however mostly bolted onto existing business strategies and is rarely embedded. An organisation’s responsibility to society and the environment has in recent times been present within the organisational context but social responsibility has created unsustainable dependencies that are not built on value creation for both parties beyond funding and compliance (Laszlo & Zhexembayeva, 2011).

Laszlo and Zhexembayeva (2011), offer a depiction of the differences in the models below.

Table 2: Bolt-On vs. Embedded Sustainability

	Bolt-On Sustainability	Embedded Sustainability
Goal	Pursue shareholder value	Pursue sustainable value
Scope	Add symbolic wins at the margins	Transform core business activities
Customer	Offer ‘green’ and ‘socially responsible’ products at premium prices or with diminished quality	Offer ‘smarter’ solutions with no trade-off in quality and no social or green premium

Value chain	Manage company's own activities	Manage across the product or service life cycle value chain
Organization	Create a 'scapegoat' department of sustainability	Make sustainability everyone's job

Source: Adapted from Laszlo and Zhexembayeva (2011)

2.10. Materiality vs Non-Materiality of ESG rankings

An issue that is of interest to the practitioners of sustainable development and top of mind of corporate managers is that of the correlation between social performance as measured in terms of financial performance. In addition to that concern, an issue of debate is that of materiality vs. non-materiality of CSR corporate actions and ESG (Environmental, Social and Governance) ratings. It is natural for businesspeople to want to understand the effectiveness of their investment efforts in corporate actions.

Like CSR, ESG has become a buzzword globally associated with sustainable development. According to a 2018 global survey by FTSE Russell, more than half of global asset owners are currently implementing or evaluating ESG considerations in their investment strategy (Eccles & Klimenko, 2019). ESG refers to the three central factors in measuring the sustainability and societal impact of a company or an investment in a company or business (Kell, 2014). For many, the term “ESG” suggests environmental issues like climate change and resource scarcity (Loop et al., 2020). These form an element of ESG—and an important one—but the term means much more as it covers social issues like a company’s environmental impact, labour practices, business ethics, diversity, talent management, product safety and data security (Loop et al., 2020).

The ESG terminology is also employed in various contexts – risk valuation, socially responsible investment, corporate responsibility, etc and refers to extra-financial material information about the challenges and performance of a company on environmental, social and governance matters (Bassen & Kovacs, 2008). Loop et al., (2020) suggest that more and more institutional investors are looking for a company’s management to articulate a sustainable long-term value creation strategy that outlines not just growth opportunities, but also the related risks.

In a 2017 CFA Institute survey, for example, 65% of investors said that their motive for taking ESG issues into consideration was to help manage investment risks. Asset managers and other financial institutions increasingly rely on ESG ratings agencies to assess, measure, and compare companies' ESG performance (Huber, 2017). Furthermore, Ling et al. (2007) posit that ESG performance may serve as a proxy for management quality, in so far as it reflects the company's ability to respond to long term trends and maintain competitive advantage. Additionally, ESG analysis leads to improved understanding of how future trends could affect a certain industry or the entire economic landscape for that matter. ESG measures bare significant importance for mainstream business valuation and investment decision-making, especially in the context of long-term performance and risk evaluation (Derwall, 2007).

In their article regarding investor shift towards ESG, Eccles and Klimenko (2019) state that in 2006, when the UN-backed Principles for Responsible Investment (PRI) was launched, 63 investment companies (asset owners, asset managers, and service providers) with \$6.5 trillion in assets under management (AUM) signed a commitment to incorporate ESG issues into their investment decisions. By April 2018, the number of signatories had grown to 1,715 and represented \$81.7 trillion in AUM. According to a 2018 global survey by FTSE Russell, more than half of global asset owners are currently implementing or evaluating ESG considerations in their investment strategy (Eccles & Klimenko 2019).

Porter et al.(2019) posit that against popular belief, it is simply incorrect to assume that companies which score higher on rankings aggregating a myriad of ESG metrics, with little consideration of their financial materiality and its relation to the competitive strategy of a company, will deliver better shareholder returns. They argue that despite countless studies, there has never been conclusive evidence that socially responsible screens or company positions on lists such as the Dow Jones Sustainability Index deliver alpha. Despite academic and business professionals' efforts, there has yet been no conclusive evidence which could universally either confirm or refute a direct causal link between good environmental, social or governance performance and a firm's financial performance (Bassen & Kovács , 2008).

On the other hand, Eccles and Klimenko (2019) point to a 2017 study by Nordea Equity Research (the largest financial services group in the Nordic region) which reported that from 2012 to 2015, the companies with the highest ESG ratings outperformed the lowest-rated firms by as much as 40%. In 2018, Bank of America Merrill Lynch found that firms with a better ESG record than their peers produced higher three-year returns, were more likely to become

high-quality stocks, were less likely to have large price declines, and were less likely to go bankrupt (Eccles & Klimenko 2019). The argument has more to do with materiality.

Porter et al. (2019) suggest that so many CSR or ESG metrics by companies are irrelevant to the core operations, purpose, and strategy of those business and this renders their projects non-material. ESG criteria have been developed without regard to the causal link between a company's social impact and its bottom line (Porter et al., 2019). There is compelling evidence that superiority in identifying and harnessing selected social and environmental issues relevant to the business can, over time, have a substantial economic impact on companies and even entire industries (Porter et al., 2019).

The concept of shared-value investing offers a fundamentally different approach than ESG rankings or SRI screens by directly tying social impact to competitive advantage, Porter et al. (2019) argue. In many cases, ESG factors are not material to the performance of a business, nor do they highlight areas where the business has the greatest impact on society.

Sustainable investing is about materiality states Eccles and Klimenko (2019). Materiality is the relevance of a particular ESG measure to a company or industry sector (Raubenheimer, 2019). A company that spends vast sums of money trying to address every conceivable environmental, social, and governance (ESG) issue will likely see its financial performance suffer; however, companies that focus on material issues tend to outperform those that don't (Eccles & Klimenko 2019). Mainstream investors now look for evidence that their portfolio companies are focused on the material ESG issues that matter to financial performance, rather than on some ill-defined commitment to "sustainability", argue Eccles and Klimenko (2019).

Shared value embeds sustainability to strategy and offers virtually every business important transformational opportunity to drive growth, profitability, and competitive advantage by improving social performance (Porter et al 2019), thus making the efforts material. This makes it fundamentally distinct from making incremental improvements in a long checklist of ESG factors that tend to converge over time in any given industry. The levels indicated by Porter and Kramer (2011), that CSV can touch strategy and be executed are:

1. Creating new products that address emerging social needs or open currently unserved customer segments.
2. Enhancing productivity in the value chain, whether by finding new efficiencies or increasing the productivity of employees and suppliers; and

3. Investing to improve the business environment or industry cluster in the regions where the company operates.

In their article, Porter et al.(2019) give a practical example of non-materiality by putting the carbon footprint of a bank on the spotlight. They argue that it is not material to a bank's economic performance, nor would reducing its footprint materially affect global carbon emissions. In contrast, banks' issuance of subprime loans that customers were unable to repay had devastating social and financial consequences. Yet ESG reporting gave banks credit for the former and missed the latter altogether, in part because the voluntary and reputation-focused nature of sustainability reports tends to leave out bad news (Porter et al.,2019). Porter et al (2019) conclude by stating that such broad and upbeat ESG reporting may make investors and consumers feel good by encouraging corporate window dressing, but it distracts from incentivizing and enabling companies to deliver greater social impact on the issues most central to their businesses.

As stated above, Porter and Kramer (2011) are proponents of integrating sustainability into core company strategy to achieve materiality. The solution they explore with their research is one of creating shared value, which creates a symbiotic relationship between the business and the society within which they operate (Porter & Kramer, 2011). They suggest, unlike Visser (2010), that the role of the corporate extends beyond responsibility and needs to be orientated around creating shared value. They define CSV (Creating Shared Value) as corporate policies and practices that enhance the competitiveness of a company while simultaneously advancing social and economic conditions in the communities in which it operates.

The rationale for stakeholders globally to question business as it were and capitalism was as a result of the overwhelming degree of environmental and social global issues and the concern around the state of the world at a future time when future generations have to inherit it. Porter and Kramer (2011) posits that the pursuit of shared value represents the next evolution of capitalism in that, concern with societal issues will be a defining characteristic of the post-crisis era . They argue that incorporating societal issues into strategy and operations is the next major transformation in management thinking.

The concept of shared value redefines capitalism by transforming the definition of value, which was historically taken to mean profit, to value as defined by how society and the economy are growing together in a way which is more holistically beneficial to all stakeholders (Jaffit, 2016).

CSV proposes to transform social problems relevant to the corporation into business opportunities, thereby contributing to the solving of critical societal challenges while simultaneously driving greater profitability (Crane et al., 2014).

2.11. Shared Value definition and Criticism

Crane et al. (2014) praised CSV for its popularity among practitioners and academic audiences and connecting strategy and social goals, however criticised it for not being original; that it ignores the tensions inherent between social and economic goals to responsible business activity; it is naïve about the challenges of business compliance; and it is based on a shallow conception of the role of the corporation in society.

They also criticised Porter and Kramer's (2011), article for defining CSR as separate from profit maximization, and state that they ignore several decades of work exploring the business case for CSR. Whether or not it pays to engage in CSR has always been one of the main research questions for scholars in the business and society.

Additionally, Crane et al. (2014) point to the lack of acknowledgement by Porter and Kramer of other well-developed stream of work before their CSV article of 2011. Instrumental stakeholder theory, for instance, which contends that adherence to stakeholder principles and practices achieves conventional corporate performance objectives as well or better than rival approaches" is largely synonymous with the characterization of CSV as "creating economic value in a way that also creates value for society by addressing its needs and challenges."

CSV bears resemblance to Emerson's "blended value" concept "in which firms seek simultaneously to pursue profit and social and environmental targets" as well as having "an overlap" with Hart's Capitalism at the Crossroads (Crane et al., 2014). The two critics further point to the overlooking of social innovation and social entrepreneurship by Porter and Kramer's article on CSV.

Moss Kanter (1999) articulated the notion of "social innovation" as a process where companies take "community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve long-standing business problems.

Thus far in this exploration, the closest corporate action that could achieve relevant, material and financially rewarding returns is one where a corporate strategy is about solving an

environmental or social ill relevant to its core business strategy. Thus, referred to herein as business model innovation for sustainability.

2.12. Built in Sustainability

Given the criticism against CSR and non-material ESG, it follows then that there exists an opportunity for business to have a paradigm shift and view sustainability as an opportunity to create more value. Embracing sustainability in business is not only about managing issues external to the business, but more about leveraging the business's purpose and business model to solve external issues. Hence the alternative of corporate sustainability from bolt on methods to built-in methods. Built in sustainability can be achieved through innovating new business models that significantly achieve both financial and social returns.

Neither theoretical nor empirical research offers enough answers to the question of what that sustainable business model might be (Schaltegger et al., 2012; Stubbs & Cocklin, 2008), but a business model for sustainability (Lüdeke-Freund, 2009) and triple bottom line business models (Osterwalder & Pigneur, 2010) are two proposals. The former treat sustainability as "built-in", as it integrates sustainability within the model. The latter suggest that sustainability should be treated as "bolt-on".

For the purposes of this study, the focus was on the drivers of business model innovation for sustainability as embodies a built-in method and as research states, it, is a more durable method of executing sustainability by businesses.

2.13. Business model innovation for sustainability

A business model for sustainability is the structural template of a business logic that creates the business case for sustainability. (Lüdeke-Freund, 2009, p. 56). Business model innovation is emerging as a potential mechanism to integrate sustainability into business (Schaltegger et al., 2012; Jolink & Niesten, 2015). A growing number of authors suggest that one promising way to overcome the barriers to simultaneously being profitable and benefiting the natural environment and society is to adopt business models for sustainability, which means to develop new architectures of organizational value creation, delivery, and capture (Massa & Tucci, 2014; Schaltegger, Hansen, & Lüdeke -Freund, 2016).The ability to innovate in the domain of

sustainability represents a necessary business capability, whether related to small incremental steps or to radical, disruptive innovations (Adams et al., 2012).

A business model for sustainability helps to describe, analyse, manage, and communicate (i) a company's sustainable value proposition to its customers and all other stakeholders, (ii) how it creates and delivers this value, and (iii) how it captures economic value while maintaining or regenerating natural, social, and economic capital beyond its organisational boundaries (Schaltegger et al., 2016). At the heart of such a business model lies a sustainable value proposition that goes beyond a mere customer value proposition. It is an offering, based on a product and/or a service, that is valuable not only to a company's primary and paying customers but also to its other stakeholders.

Innovation is what enables sustainability to take place, as we move from the traditional to the new, never done nor seen before, innovation is needed. Innovation is what enables the sustainability to be embedded into strategy. Innovation is the bridge from traditional ways of capturing value that are one dimensional to business models that satisfies on multiple levels to a multiple stakeholder. Zhou and Wu (2010) stressed, innovation is critical for firms to adapt to turbulent environments and achieve a sustainable competitive advantage. Hence, the fields of innovation and sustainability are more and more recognized as the major concerns of business in the 21st century. Whilst firms need a continuous innovation process to respond to the everfast environmental changes, the goal of sustainability requires new ways of doing business (Cabral, 2010).

Business model innovation has seen a recent surge in academic research and business practice. Changes to business models are recognized as a fundamental approach to realize innovations for sustainability (Evans & Vladimirova, 2016). Improving sustainability often implies change, innovation, or adjustment of an entity in relation to its surroundings or supporting environment (Faber et al., 2005). It requires a fundamental mind shift towards business. Steyn and Niemann (2014) argue that this implies that corporate sustainability needs, simultaneously, to become part of the company's vision, method of generating revenue, culture, governance, management and performance systems.

However, sustainability integration into business models through innovation is not as easy as it sounds in theory. As a result, many companies end up going back to their old ways of doing

business as they get overwhelmed by what it takes to introduce new value creation methods into their businesses.

Business model innovation is increasingly recognised as a key to delivering greater social and environmental sustainability in the industrial system as noted by Freund (2010). Bocken et al. (2014), investigated whether corporate innovations can be leveraged significantly to change the way companies operate to ensure greater sustainability. On the back of Freund's (2010) conviction, Bocken et al. (2014) went on to develop eight (8) sustainable business model archetypes to describe groupings of mechanisms and solutions that could contribute to building up the business model for sustainability. The trio noted that eco-innovations, eco-efficiency, and corporate social responsibility practices define much of the current industrial sustainability agenda, but that, while important, they are insufficient in themselves to deliver the holistic changes necessary to achieve long-term social and environmental sustainability.

What Bocken et al.(2012) deem as a better option is business model innovation as it offers a potential approach to deliver the required change through re-conceptualising the purpose of the firm and the value creating logic, and rethinking perceptions of value. The assertion is that with careful business model redesign it is possible for mainstream businesses to integrate sustainability more readily into their business and for new start-ups to design and pursue sustainable business from the outset, as suggested by Stubbs and Cocklin (2008) and Porter and Kramer (2011), and business model innovations can support a systematic, on-going creation of business cases for sustainability (Schaltegger et al., 2012).

During the development of their eight archetypes, Bocken et al. (2014) conceded that understanding of sustainable business models and the options available for innovation for sustainability seems limited at present. While there is extensive literature on the theory of business models for delivering sustainability (e.g. Stubbs & Cocklin (2008), and examples on specific companies (e.g. Xerox, Canon and Océ 'pay per copy' models (Baines et al., 2007)), there is no comprehensive view of how firms should approach embedding sustainability in their business models.

Porter and Kramer (2011) argue in *Creating Shared Value*, that achieving the twin goals of innovating to meet society's needs and building a profitable enterprise represents the next competitive frontier for companies.

Companies are trapped in an outdated, narrow approach to value creation, focused on optimizing short-term financial performance; they overlook the greatest unmet needs in the market as well as broader influences on their long-term success (Porter & Kramer, 2011). The duo argue that this does not have to be so, as companies could bring business and society back together if they redefined their purpose as creating “shared value” - generating economic value in a way that also produces value for society by addressing its challenges, thereby reconnecting company success with social progress.

According to Gao and Bansal (2012) prior research on sustainability in business often assumes that decisions on social and environmental investments are made for instrumental reasons, which points to causal relationships between corporate financial performance and corporate social and environmental commitment. In other words, social or environmental commitment should predict higher financial performance. The theoretical premise of sustainability, however, is based on a systems perspective, which implies a tighter integration between corporate financial performance and corporate commitment to social and environmental issues (Gao & Bansal, 2012). In their work, Gao, and Bansal (2012) describe the important theoretical differences between an instrumental and integrative logic in managing business sustainability. Firms following an instrumental logic typically discriminate social and environmental issues from other traditional strategic issues such as product design and new investment (McWilliams & Siegel 2001). They tend to manage various social and environmental issues discretely and sequentially, as if such decisions are emerging distractions. Such a tendency artificially polarizes business and society, as if the two are at odds and need to be reconciled (Gao & Bansal 2012).

This approach reinforces the tension between business demands and social expectations, which can create a self-fulfilling paradox (Lewis, 2000; Smith & Lewis, 2011), further polarizing business and society. Managers seek immediate financial gains from their social and environmental investments, rather than embracing the tension among the economic, social and environmental elements of the system and creatively integrating solutions into firm activities (Kleine & von Hauff, 2009; Margolis & Walsh, 2003).

Consequently, the three pillars of business sustainability: corporate financial performance, social performance, and environmental performance, are produced and reproduced as part of a system (Bansal 2005 & Elkington 1998). No individual elements can be isolated, and a change

in one of these elements will result in changes throughout the tightly woven interconnected system (Shrivastava 1995; Starik & Rands 1995).

This integrative logic refers to an approach to business sustainability that recognizes and embraces the contradictions among the financial, social, and environmental dimensions of business and seeks solutions for the system of interrelated elements (Gao & Bansal, 2012). In other words, an integrative logic does not dismiss the tension between business and society by emphasizing one performance measure over another, nor does it downplay the incessant tension between stakeholders. Instead, it accommodates paradoxical thinking and attempts to transcend these tensions through creative solutions (Lewis 2000; Smith & Tushman 2005). Further, the integrative logic encourages “behavioural complexity,” recognizing that people work together in novel ways that permit the simultaneous pursuit of seemingly contradictory goals (Denison et al. 1995).

The link to this study and the above literature on instrumental vs integrative methods is that this study seeks to explore the drivers of integration of sustainability into business models. It seeks to embrace the complexity of this matter and use a system’s view to come to answers as opposed to treating the matter in a one-dimensional manner.

While many studies were initially focussed on product or process innovation, in business model innovation for sustainability, the focus now is on ground up, transformational innovation. A key reason for this is that it becomes increasingly clear that realising organisations’ sustainability ambitions will often not only require the development of new products and technologies, or incremental refinements in the companies’ operation, but a holistic value system changes through business model innovation, resulting in sustainable business models (Rashid et al, 2013).

An annual survey carried out by the Boston Consulting Group and BusinessWeek identified that business model innovators had an average premium that is four times higher than product or process innovators (Lindgardt et al., 2009). Accordingly, a global survey on innovation – conducted by IBM with over 750 corporate and public sector leaders – found that companies whose operating margins were growing faster than their competitors were also twice as likely to highlight business model innovation in contrast to product or process innovation 2. Business model innovation does matter, and it adds value (Amit & Zott, 2012).

Business model innovation differs from process and product innovation in that it is a more systems-oriented approach (Laukkanen & Patala, 2014; Peric and Djurkin, 2014; Rohrbeck, Konnertz, & Knab, 2013; Sakao et al., 2009). While product innovation— in itself difficult enough — involves related activities such as product design and testing, business model innovation deals with complex activity systems, bringing together tasks such as supplier identification and recruitment, value proposition design, development of customer channels, and revenue models (Breuer, 2013; Zott, Amit, & Massa, 2011).

An increasing number of researchers have seen business model innovation as a crucial part of the approach to improve sustainability for entrepreneurs and managers (Boons & Lüdeke-Freund, 2013; Girotra and Netessine, 2013). However, the field of sustainable business model innovation is still under-researched, although interest is growing (Nidumolu et al., 2009; Schaltegger et al., 2012; Wells, 2013). There is a need for a more comprehensive understanding of the value system and approaches to promote sustainable business model innovation.

Business model innovation refers to a new integrated logic of how the firm creates value for its customers or users and how it captures value, and is the implementation of a business model that is new to the firm (Björkdahl and Holmen, 2013). Contrasted with product or service innovation, business model innovation does not necessarily discover a new product or service; instead, it uses new ways to create and deliver the existing product or service, and new ways to capture value from it.

Business model innovation is changing how to do business, rather than what to do, and it goes further than purely innovations in technology, product, and process (Amit & Zott, 2012). Business model innovation is argued to unlock the potential value from advanced technologies and transform it into market outcomes (Zott et al., 2011). Similarly, advanced technologies can also influence business model innovation (Baden-Fuller & Haefliger, 2013).

The same technology through different business models will yield different market outcomes, so it is important for firms to develop capabilities to innovate business models (Chesbrough, 2010). Business model innovation has been regarded as a valuable way to bring business opportunities; however, its implementation is challenging (Chesbrough, 2010). The development of a new business model might conflict with the existing prevailing business

models (Amit & Zott, 2011), and to many firms, it is even not clear what the appropriate business models ought to be (Chesbrough, 2010).

The business model becomes a relevant factor for corporate sustainability when companies try to improve their sustainability performance (Schaltegger & Müller, 2008; Weber, 2008). As business models express the business logic of the firm – what gaps/problems a business solves, what tools/resources it needs to solve this problem, for whom, at what price (Osterwalder et al. 2005), it seems that sustainable development and business models are inextricably linked.

2.13.1. Business Models

As stated above, business models are a mechanism to integrate sustainability into business, we therefore delve deeper into the meaning of this concept. The business model becomes a relevant factor for corporate sustainability when companies try to improve their sustainability performance (Schaltegger & Müller, 2008; Weber, 2008).

Osterwalder and Pigneur (2009) describe business models as the rationale of how an organization creates, delivers, and captures value. In recent years, business models have received much attention due to their importance in determining the fundamental logic of a company (Rauter et al., 2017). As defined by Boons and Lüdeke-Freund, (2013), a business model specifies how a firm can earn money from providing products and services. It then follows that a business model for sustainability specifies how a firm can earn money from providing products and services sustainably.

Business models and strategy are central terms in management that are often used in a fuzzy manner (Afuah, 2004; Magretta, 2002; Porter, 2001; Stähler, 2002). Both terms stand for important management concepts that are interrelated in many ways, but instead of clarifying the differences, the boom of the business model rhetoric covered up the boundaries (Porter, 2001). One difference is that the business model does not consider competition, and that strategy specifies how to differentiate the firm from its competitors (Elliot, 2002; Magretta, 2002; Seddon et al., 2004). Another distinction is that strategy focuses on value capture, creating value for the shareholder and requires careful analytic calculation and choice, while business models concentrate on delivering value for the customer, create value for the business and it assumes the information is cognitively limited, and biased by earlier success of the firm (Chesbrough & Rosenbloom, 2002).

Several authors argue that the business model reflects a firm's strategy (Casadesus-Masanell & Ricart, 2010; Richardson, 2008; Seddon et al., 2004; Shafer et al., 2005). One view is that strategy and business models are related, but that they are two different concepts, and that strategy is a contingent plan as to what business model to use (Casadesus-Masanell & Ricart, 2010). Another alternative is that business model explains how the activities of the firm work together to execute its strategy, hereby bridging strategy formulation and implementation (Richardson, 2008). Shafer et al. (2005) see business models and strategy as two separate things, but one thing they have in common is the element of making choices. They are a powerful way for executives to analyse and communicate their strategic choices (Shafer, Smith, & Linder, 2005). Business models reflect these choices, and they facilitate the strategic choices that have been made. A business model can also be an interface or an intermediate theoretical layer between the business strategy and the business process (Al-Debei et al., 2008; Al-Debei & Avison, 2010; M. Morris et al., 2005; Osterwalder et al., 2005).

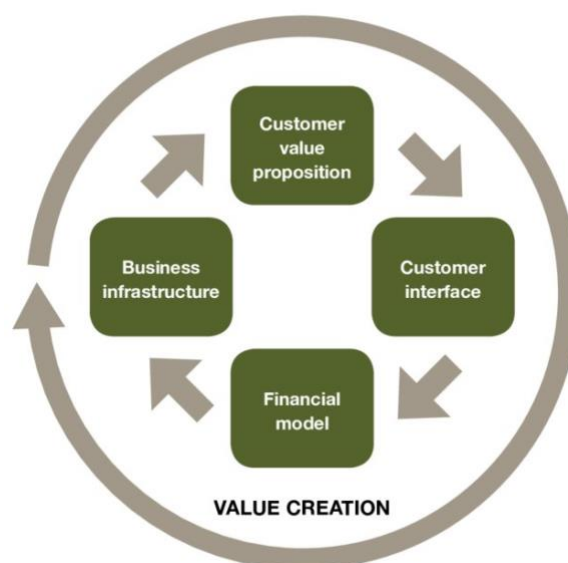


Figure 1: Business models describing value creation

Source: Adapted from & Osterwalder Pigneur, (2009)

Figure 2, which is a modified version of the Osterwalder and Pigneur (2009) concept, indicates a quasi-circular value flow. The main goal is to support a company's value creation by modelling the interplay of the above-mentioned elements. Their interplay creates value for

different business model stakeholders, such as suppliers (within the business infrastructure), customers (within the customer interface), owners, and shareholders (within the financial model). The value for these stakeholders is delivered through multiple channels (e.g., supply contracts for partners, shops for customers, or dividend payments for shareholders), and captured in diverse forms (e.g., payments for suppliers, use value for customers, or profits for shareholders). Figure 2 expresses this more holistic view by embedding all business model elements within the overall function of value creation.

The interrelations between strategy and business model reveals an important causality for consideration, when a company pursues a sustainability strategy, its business model may have to change. The need to develop a particular set of activities necessary for the realization of a strategy may require changes to a given business model, or a completely new one, if the given model is too rigid and not adaptable to the sustainability strategy in question (Lüdeke-Freund, 2009) and hence innovation.

Influenced by the Balanced Scorecard approach (Kaplan & Norton, 1992) and more generally business management literature (Markides, 1999), Osterwalder (2004) suggests a framework consisting of four areas that a business model must address: product, customer interface, infrastructure management, and financial aspects. Table 3 describes the four business model pillars.

Table 3: The four business model pillars

INFRASTRUCTURE MANAGEMENT	PRODUCT	CUSTOMER INTERFACE
How the company efficiently performs infrastructural or logistical issues, with whom, and what kind of network enterprise	What business the company is in, the products and the value propositions to the market. It covers how it differentiates itself from its competitors	Covers all customer related aspects. Who the company’s customer segments are, the channels to reach, how to communicate with them, and how it builds a strong relationship with
FINANCIAL ASPECTS		
What is the revenue model, the cost structure and the business model’s sustainability		

Source: Osterwalder, (2004)

2.14. Sustainability Conclusion

Embedding sustainability is a complex, multi-activity, and multi-actor challenge; no simple recipes are possible. Unlike the streamlined and often linear steps taken for bolt-on sustainability efforts, the task of embedding social and environmental value into the DNA of a business is iterative, repetitive, and chaotic. It demands new thinking and unorthodox solutions that can spring from unlikely sources and in improbably ways.

A management philosophy based only on selecting from existing strategies is likely to be overwhelmed by new developments at home and abroad. What is needed are new choices – new products that balance the needs of individuals and of society as a whole; new ideas that tackle the global challenges of health, poverty, and education; new strategies that result in differences that matter and a sense of purpose that engages everyone affected by them. An approach to innovation that is powerful, effective, and broadly accessible.

Holistic thinking is the final skill needed to master the complex challenge of embedding sustainability across entire business systems. It requires an ability not only to see the big picture, but also to understand the linkages within the system

2.15. Theories: Business Model Innovation for Sustainability

There are two theories that essentially build on each other that further helped to advance the thinking around business model innovation for sustainability. The two theories are: Resource Based Theory and Dynamic Capabilities Theory.

Resource Based Theory is used to study the strategic resources available to a firm with the potential to deliver comparative advantage to a firm (Barney 1991; Hamel 1993; Prahalad, 1996). These resources can be exploited by the firm to achieve sustainable competitive advantage.

How these theories are useful to this study is that they highlight a company's internal resources that are available as a motivation for business model innovation for sustainability. It follows then that company resources form part of the motivations to innovate for sustainability.

These theories indicate that for resources to hold as sources of sustainable competitive advantage, they should be valuable, rare, imperfectly imitable, and not substitutable. Hooley et al. (1998) state that a key insight arising from the resource-based view is that not all resources are of equal importance, nor possess the potential to become a source of sustainable competitive advantage. In the resource-based view, strategists select the strategy or competitive position that best exploits the internal resources and capabilities relative to external opportunities. Given that strategic resources represent a complex network of inter-related assets and capabilities, organisations can adopt many possible competitive positions (Hooley et al., 1998)

The Resource Based Theory lens, as applied to this study, implies that the resources a company has at its disposal are part of the drivers for the innovation of business models for sustainability, as one cannot begin to innovate without the means to innovate. It implies that, the extent to which a company can innovate, is limited to the internal resources it possesses and will have to consider these before forging ahead with an innovation agenda.

Dynamic Capabilities theory is used to study the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano, & Shuen, 1997). The theory indicates that the ability of organisations to react adequately and timely to external changes requires a combination of multiple capabilities. According to this theory intangible assets are the ultimate source of sustainable value creation and that the processes/skills/routines/capacities that are not just valuable but also difficult-to-duplicate by competitors can be the source of competitive advantage.

Integrating this theory into this study shed light to the reality companies have to face when innovating, to react quickly to external changes using their own resources and the intangible assets that the companies own, that they can draw from, to build sustainability models.

Strong dynamic capabilities are needed for Business Model Innovation (BMI) (Achtenhagen et al., 2013; Teece, 2018). Given the complexity of Sustainable Business Model Innovation (SBMI), corporations need to invest in dynamic capabilities to move beyond the dominant logic they are accustomed to, which is no longer appropriate in the face of growing societal and environmental issues (Hart and Dowell, 2011; Sommer, 2012).

Dynamic capabilities are defined as an organization's ability to “integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997, p. 516), dynamic capabilities are integral to BMI (Teece, 2018). At a base level, ordinary capabilities as repeatable patterns of action allow corporations to operate their current business model (Winter 2003). At a higher level, sensing (identifying and assessing opportunities), seizing (mobilizing resources to address opportunities and capture value from doing so), and transforming (continued renewal of the organization) as dynamic capabilities enable corporations to adjust, recombine and create ordinary capabilities (Teece, 2018). By being concerned with change, dynamic capabilities are critical for corporations to craft, refine, and transform their business models (Harreld et al., 2007; Teece, 2007).

The world in which today's businesses operate has become not only riskier but also more volatile, uncertain, complex, and ambiguous (VUCA). Organizations that hew too closely to traditional ways of operating will be hampered in their ability to succeed. In contrast, those that focus on new product and process developments coupled with business model innovation will leverage their dynamic capabilities (Schoemaker, Heaton, & Teece, 2018). An essential overlay is entrepreneurial leadership from top management teams. Strong dynamic capabilities are impossible without it and so is business model innovation.

2.16. Drivers of business model innovation for sustainability

Many authors notice that iconic companies who are frequently cited for leadership in sustainability, such as Interface, Novo Nordisk, the Body Shop, or Patagonia, are known in the first place for their normative values (manifested and communicated through corporate visions,

strategies, and operations) in addition to their ability to create forms of shared value (cf. Stubbs & Cocklin, 2008). Additionally, the literature agrees corporate environmental and social initiatives can be based on a mixture of three fundamental motivations (cf. Carroll & Shabana, 2010) such as:

- Competitiveness, also known as instrumentalization, which is defined as the search for profiting from engaging in social and environmental value creation.
- Legitimacy, which is the search for complying with what society is expecting and is typically characterized by a defensive approach.
- Ethics, the genuine belief that addressing social and environmental problems “is the right thing to do.”

The International Corporate Sustainability Barometer, a survey of the largest companies in 11 developed countries worldwide (Schaltegger et al. 2012), shows that the main reasons for dealing with sustainability issues are to secure legitimacy (i.e., social acceptance). Compliance and economic interests are some of the drivers. This speaks of the human nature to be selfish when putting effort and resources in doing anything worthwhile.

Bregman (2020). balances and challenges the notion and assumption of human being’s selfish bend. In her book, *Humankind*, she challenges a deep-seated myth: that humans are intrinsically selfish, uncooperative, and aggressive, and without the civilizing influence of governments and leaders, order would soon break down and chaos reign. Over 200,000 years of human history shows that we are hardwired to be kind, cooperative and caring. But we run our countries, civic institutions, companies, schools, often even our families based on this deeply negative and incorrect assumption about human behaviour (Bregman, 2020).

The crux of this research exploration is to discover the drivers, both hard and soft of business model innovation for sustainability. Business Models are driven by humans that have values that then weigh on the values of the businesses they operate. This exploration aims to discover all forms of motivations and capabilities of business leaders in shaping the future. Corporate management may be motivated by various reasons, including intrinsic, personal reasons (as is the case among the pioneers of sustainable entrepreneurship), seeking social acceptance and

legitimacy, reducing risks and costs in production processes, or striving for market success (Schaltegger 2010; Hansen 2010; Schaltegger et al. 2012).

Below is a depiction of what is deemed as the most prevalent reasons why managers change their business models to be sustainability centric. In the following text, other factors are explored.

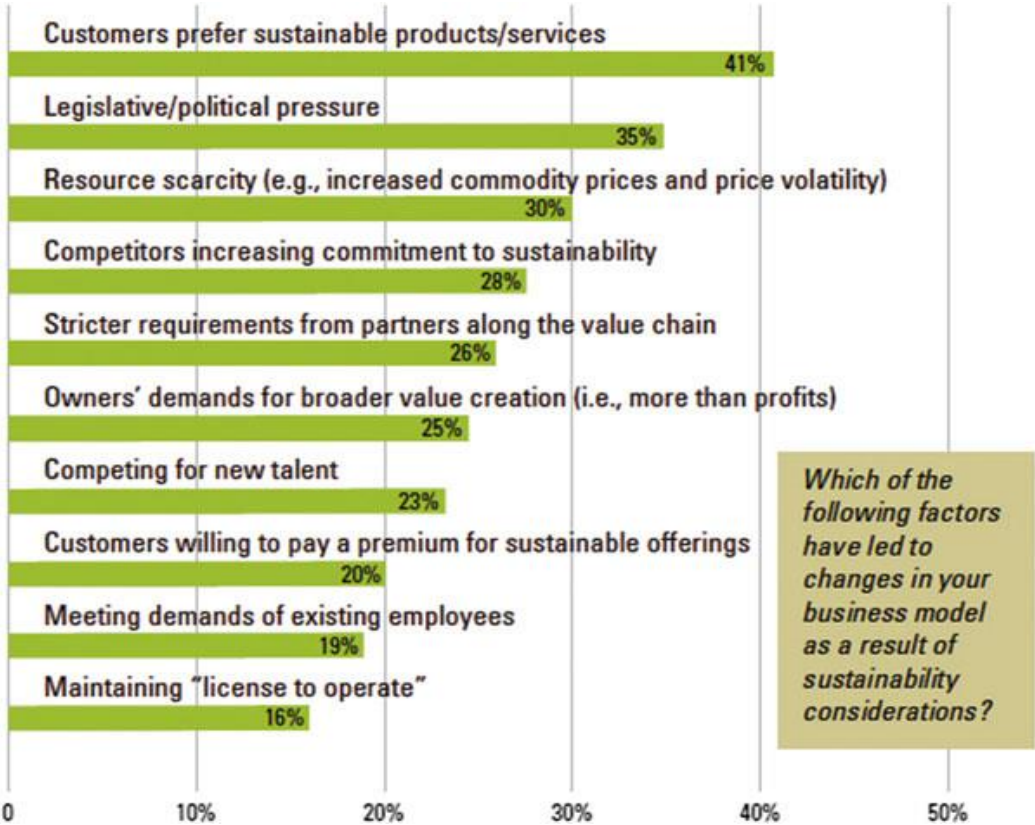
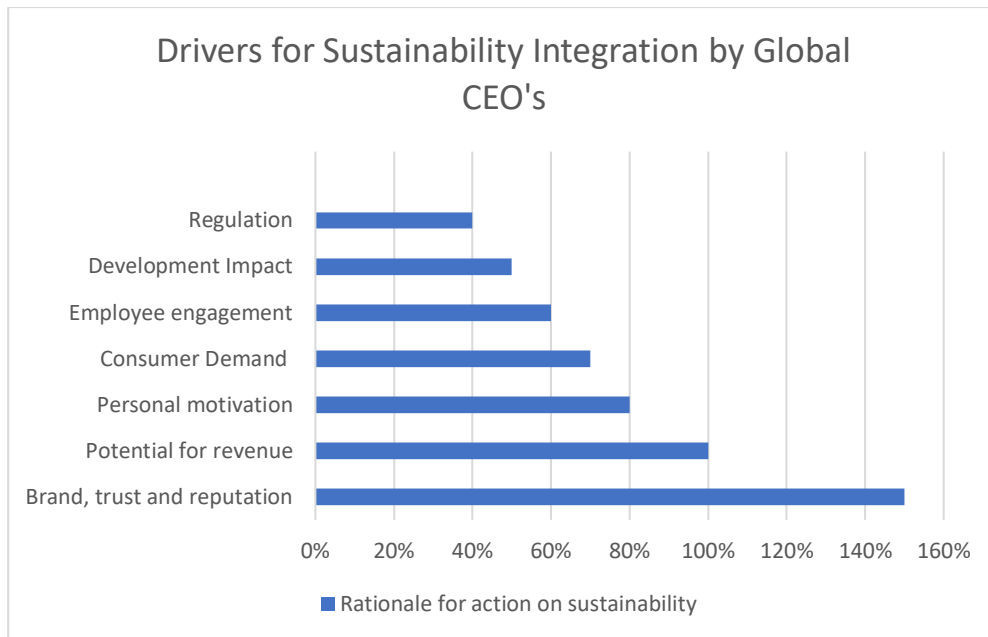


Figure 2 :Factors motivating companies to consider sustainability in their business model

Source: Haanaes et al. (2012)

On the contrary, the 2010 UN Global Compact-Accenture CEO Study stated that the most cited factor motivating CEOs to act on sustainability issues is brand, trust and reputation, selected by an exceptionally high 72 percent of CEOs as one of their top three factors—followed by revenue growth and cost reduction (44 percent), personal motivation (42 percent) and consumer/customer demand (39 percent) (see Figure 4 below).



Source: United Nations Global Compact CEO Survey 2010

Figure 3: Drivers for Sustainability Integration by Global CEO's

2.16.1. Internal drivers

According to Kiron et al. (2012) internal drivers are related to operating cost benefits, revenue growth, brand integrity, effective internal champions, and organisational structures that help embed sustainability into business processes.

Leadership, values, and beliefs. According to Schaltegger and Wagner (2011), when company leadership is driving the social agenda based on their personal belief system and own set of values, rather than when social and environmental issues are viewed as a task for the CSR manager with requirements to fill, the company is directly affected by their values and beliefs and is shaped by them. These traits are often defined as soft skills. Soft Skills give Hard Skills the required plasticity to develop and keep up to date in changing circumstances (Cimatti 2016). This includes in times where management needs to keep up with changing macroeconomic environments and adopt new innovative business models.

Business models are run by companies that are inevitably based on individual organizational models, including specific organizational cultures and identities. Behind every business model is an organizational model that contains a structure or hierarchy, and complex social traits such as individual and organizational values (Matos & Silvestre, 2013; Stubbs & Cocklin, 2008). It

includes, inter alia, an organizational culture, ways of collective decision making, control systems, flows of information, and operational processes. These somewhat “soft” aspects are often neglected in the business model literature but can have a fundamental effect on a company’s ability to devise innovative business models (Anderson & Kupp, 2008; Matos & Silvestre, 2013).

Long-term vs. Short-term View. Sustainability is a long-term commitment and practice. Often depicted as short-termism and mainly encountered in the presence of governance structures characterized by dispersed ownership seeking short-term gains, the tendency to manage for the short term is, in many ways, at odds with developing sustainable business models. A key characteristic of sustainable organisations is their ability to balance both meeting short-term shareholder expectations whilst ensuring they are making decisions with long-term sustainability benefits (Massa et al.,2016). New business models do not come into being in the short term. They cannot be fully planned ex-ante and involve significant experimentation and trial-and-error processes.

The temporal orientation of corporations is also shortened by quarterly financial reporting practices. In their research Bocken and Geradts (2020) mention that managers grapple with balancing short term financial performance with long range planning, with managers in their research stating that a feature of a publicly listed firm is that every quarter you must show good results. Further to that, a mid-level manager explained this negatively affected the seizing of opportunities: When the CEO is going to stand up every three months to the external world and show progress on the financial side, particularly if you are not where the analysts want you to be, then that is quite hard to find a way of marrying that up with some of the long-term thinking that sustainability demands (Bocken & Geradts 2020). SBMI suffers from a focus on profit maximization and financial performance indicators to satisfy shareholder value.

2.16.2. External Factors driving sustainability in the business sector

Environmental and Social injustices - For too long business, and the capitalist agenda, has been maximising the environment and society of resources, as though the resources are infinite and abundant, as opposed to the reality, where natural resources are finite. Bitzer et al. (2015)

suggest that there is a growing need for business to play a role in responding to the global crisis and addressing problems around inequalities and resource degradation.

Competition and customer preferences are some of the factors noted as external drivers (Ernst & Young & GreenBiz, 2013; Grant Thornton, 2014) which show that customer and supply chain demands are drivers of the move towards more sustainable business practices.

The role of Society and the Environment within Business. Increasingly the notion of a mutual beneficial partnership between the economy and the environment within which it operates is becoming more relevant. In their article Porter and Kramer (2011) argue that the capitalist system is under siege and business can no longer profit at the expense of society. The role of society is not unfamiliar within the context of business strategy, however historically it has been located under the corporate social investment (CSR) umbrella, on the periphery of the organisation.

Emerging markets opportunities. Porter and Kramer are of the view that there are equal or sometimes even greater opportunities for creating shared value in emerging markets and developing societies (Porter & Kramer, 2011). According to Hamann (2006) business can contribute to sustainable development in emerging markets if they are able to redirect their focus away from a purely profit-making mind-set and channel their energy into finding means of creating value within the broader social and environmental context within which they operate. According to Hamann (2006) some of the challenges that are currently inhibitors to economic growth in South Africa have the potential to provide innovative companies with new business opportunities.

Organisational reporting such as integrated reporting and the SABS (improve this) **across** all facets of business operations is becoming a requirement amongst all organisations wishing to retain relevance in an evolving sustainability context with a growing need for transparency across all organisational activities to restore trust in business (Krzus, 2011).

2.17. Conclusion of the Literature Review

The literature review reveals that sustainable development is a mega trend that cannot be ignored, that has directly impacted business. It has also revealed that business is continuously engaged in discovering the optimal methods of not only engaging in this global initiative just for the sake of securing a favourable image, but that business is challenged to leverage off the

significant commercial opportunities presented by this phenomenon. The transition from ad-hoc initiatives to sustainability methods and processes that aim to be part and parcel of the main objective of doing business signal the ever-growing importance of the need for business model innovation for sustainability. There is widespread acknowledgement of the evolution of sustainability. What is missing over and beyond the obvious push is the soft skills aspect and requirements of taking on this complex journey, which is reflected more in the motives, hence our research is focused on the drivers or motivations.

3. RESEARCH METHODOLOGY

3.1.Introduction

This chapter outlines the research methodology used for this dissertation. It aims to explain the research strategy, research process, data collection methods sample selection, data analysis, limitations, and finally ethical considerations.

3.2.Research Method

The purpose of the research was to investigate the internal and external drivers of business model innovation for sustainability in a company setting. The research method was a qualitative case study research, which explores human behavior to gain insight and comprehension. It relies on primary research methods such as open-ended interviews. This method closely observes the subject to conduct proper analytical probe (Babbie & Mouton, 2001). The aim was to explore emerging insights that explore how organizations are making sense of the new sustainability environment within which they find themselves and the decision to innovate business models for sustainability.

Walker (1985) posits that in depth interviews enable the respondents to relate their lived experience and sentiments to the researcher in their own words, and that was found to be case with this exploration. Secondary research was conducted to inform current research with past data. Secondary data sets were analyzed and utilized to corroborate the findings of the primary research. Sources for secondary research for this study included both internal and external data sets relevant to the research questions.

3.3.Research Approach

This exploration utilized case study research, focused on one company, Discovery Health. Case study research is concerned with probing single or multiple units of study, using known research methods such as interviews and consultation of secondary research sources for collecting data. Launched in 1992, Discovery Health is South Africa's largest healthcare funder and manager of medical schemes and has initiated consumer centric health care in South Africa. It introduced new solutions like the Medical Savings Account and its Behavioral Science inspired wellness program, Vitality. The company constantly innovates new products including

Health ID, an iPad-based application for doctors launched in 2012. All this to improve the quality of health care its members receive. Discovery Health was voted the top health care product supplier three years in a row, until 2012 by the Financial Intermediaries Association of Southern Africa Awards.

Yin (2009) emphasised that a key part of case study research is to use different sources of information within each case. Data used in this exploration include both primary and secondary data sources. Thus, the research exploration sourced data from both the primary and secondary sources.

3.3.1 Primary Research Approach and Sources:

The study involved in-depth interviews with Discovery's executive team. This team is equipped to help answer the research questions by virtue of their seniority in the organization. As stated in prior chapters, strategic decision making is a common executive level function. Therefore, company business models and innovation of any form is approved at executive team level. As a result, the sample was made up of the executive team of Discovery Group as well as industry experts in the private health insurance sector in South Africa.

3.3.2 Secondary Research Approach and Sources:

The study also involved secondary research with diverse secondary data sources. Secondary data sources mainly covered government publications, technical documents, academic research papers on Discovery and annual reports of the companies. Valuable insight was also gained from the analysis of research studies conducted by The Competition Commission (Health Market Inquiry of 2019). Secondary data covered different sources and provided an essential preparation for the interviews. Secondary data helped to cross-check official information, learn about major events, technical details, historical decisions and main organisational players and roles. They also supported the exploring of particular responses during interviews.

Other secondary sources consulted include equity analyst reports, local newspapers, journals, and magazines.

3.4. Sample Selection

3.4.1 Primary Research Sample

Business model innovation and strategy are discussed and managed from the top down and by highly experienced professionals. Therefore, the population was a set of highly experienced, health insurance sector executives, business and academic professionals qualified to put forward insights on a business matter such as sustainable business models and innovation. The sample selection method was based on the principles of Purposive Sampling, a technique mainly used in qualitative research to identify and choose information-rich cases so as to get the most insights out of the limited resources (Patton, 2002).

Experts on the business model and strategy of Discovery and on the workings of the private health insurance market were identified and selected. The sample was made up of fourteen respondents, some working directly with Discovery's strategy as executives and some external to Discovery but with intimate knowledge of the company and industry with the following attributes:

- Outside of Discovery, six (6) experts were identified and interviewed because of their health insurance sector professional experience, published research, and public commentary about Discovery and chosen for their advisory roles at either government or institutional investor level on Discovery and the private healthcare market.
- Within Discovery, eight (8) executive directors leading all the key different departments of Discovery were identified and interviewed (Outline is in Appendix C)

In addition to knowledge and experience, and as emphasized by Bernard (2002) and Spradley (2016), the participants have to be both willing and available to communicate experiences and opinions in a clear, broad and reflective manner, which they did in this case. The researcher was aiming for saturation of the data and based on the literature (Saunders & Lewis, 2012), the guidance is that this would likely mean fourteen interviews. Eight interviews were successfully scheduled and undertaken over the course of eight months involving all Discovery key senior executives. Six more interviews were successfully scheduled and undertaken post the Discovery interviews. They entailed two equity research experts, three medical Doctors that are part of the health market industry regulatory bodies and one academic professor constantly studying the health industry in South Africa. The total sample size was fourteen. The rationale

to stop at this number the emergence of saturation of data at interview twelve (12) with the Discovery executives and four external participants.

3.4.2 Secondary Research Sample

Sample selection for secondary research focused on choosing the most relevant internal and external secondary data sets regarding Discovery, that would most closely help answer the research questions asked and corroborate the primary research. Thus, only secondary data that entailed themes that aligned to or specifically addressed Discovery's business model, innovation, sustainability strategy, business operations, products and services and history were selected.

3.5. Data Collection: Primary and Secondary

Data was collected through primary means such as in-depth interviews and secondary means such as internal and external sources of data to the company in focus. As Yin (2009) guided, it is primary in case study method to use several different sources of data when answering questions of how, why and who. Such data sources can include both primary and secondary data sources. Such was the case in the Dibb and Meadows (2001) matter, with sources made up of internal industry reports (secondary) as well as sets of interview data (primary).

By utilising different sources of information or different styles of data collection, the research findings are corroborated as the evidence is triangulated.

The interviews were pre-arranged by an invitation letter over email followed up by a phone call. The invitation entailed a short summary on the research objective. Interviews were conducted at their respective corporate offices. This was convenient to the respondents, kept them in their comfort zone and helped preserve the language of business. Data was collected on the body language and expressions of the respondents. The respondent's location offered an opportunity to study their working environments. Interviews were recorded and handwritten notes kept in detail. The researcher notified all the respondents that she was going to record the interviews and. Upon response from the participants on their comfort level with the recording, the interview proceeded. None of the participants objected on the recording. Recordings afforded the researcher the advantage to go back in moments of seeking deeper understanding or clarity.

Keeping the confidentiality of participants was emphasised by Groenewald (2004) in his study and in this research, his suggestion considered, by using code names to conceal the identity of the participants. A smart phone, which requires a password to log in, was used for the recordings. As a result, the researcher is the only one that has access to the data. The password is known only to the researcher.

Collection of secondary data was mainly done through desktop research made possible by the internet.

3.6. Data Analysis: Primary and Secondary

The researcher used qualitative content analysis to analyse the data. The strategy used to analyse the data is inductive analysis. This strategy is attributed by using methodical procedures for identifying most common, repetitive, and strongest themes in the data that stand out (Dufour et al.,2019). The conclusions of Patton (2002) also describe qualitative content analysis as an effort in making sense of the volume of qualitative material to spot the main consistencies, meanings, and themes. Hsieh and Shannon (2005) explained it as decoding of content of text data using a methodical process of coding and identifying themes.

Interviewees were mainly asked the same set of questions about Discovery so as to be able to establish patterns. As this is a qualitative study, manual transcribing was done, albeit quite long. Post each interview, the audio recordings, were then transferred into a word document to enable pattern recognition. The recordings were manually transcribed to understand basic trends by first converting them into text and then coding all key themes from each interview. The average themes per participant were compared to all participants themes and filtering of the most recurring themes was then noted. The researcher developed a summary table to categorise all the coded themes. Once coded, these coding sheets were analysed to induce themes that were prominent. New themes were considered as they emerged and consideration was given to whether they too were grounded in the literature.

To ensure meaningful secondary data analysis, the researcher spent significant time reading various alternative data sets, learning about its origins, and finally selecting the most relevant ones that had themes resonating with the research questions. Through careful reading and

selection, the researcher established the validity and relevance of the selected data set by determining the following:

- The purpose for which each material was collected or created
- The specific methods used to collect it
- The population studied or the audience the content was intended for.
- The credentials and credibility of the collector or creator of the content
- The limits of the data set (what information was not requested, collected, or presented)
- The historic and/or political circumstances surrounding the creation or collection of the material
- How the data was coded and categorized and how this might influence the researchers' own narratives and conclusions of the secondary data analysis.

All the data was not adjusted but adapted prior to conducting final analysis. Secondary data analysis involved tracking insights that closely helped to answer all research questions as outlined in Chapter 1.

The secondary data research findings summary is entailed in Appendix C of the research paper and the outcomes of results from secondary data is captured in Chapter 4 (results) and 5 (discussion of results) of this report.

3.7. Trustworthiness

Lincoln and Guba (1986) state that data that can be trusted, is data worthy of attention. Lincoln and Guba (1986) further developed the concept of trustworthiness by putting forth that credibility, transferability, dependability, and confirmability need to be considered similarly to the standard quantitative criteria of validity and reliability. Credibility has to do with the truth value of the data (Lincoln & Guba 1986), It can be defined as the comfort one gets in the authenticity of the findings.

Transferability means that the findings can be used in other contexts, while dependability means the findings are repeatable. Confirmability describes the degree of neutrality where the results of a research exploration demonstrate the participants views and experiences rather than the interests and biases of the researcher.

Known approaches to ensure credibility are lengthy engagement, continuous observation, and triangulation. In this study, to ensure that the research findings are vigorous, comprehensive, and fully developed, the researcher used methods triangulation. This involves using different

data collection methods to verify the uniformity of the findings. This study used both primary and secondary data research to triangulate.

In the sections above, the researcher provided a detailed profile of the participants and the research process to enable the reader to gauge whether the findings are transferable to their own settings. Transferability in research is assessed and utilized by the readers of study. Lincoln and Guba (1986) mentioned that the discernment in transferability has to do with how applicable data is to other settings. While the issue of dependability has to do with consistency (Lincoln & Guba's, 1986). To achieve dependability, the researcher ensured the research process is analytical, accountable, and documented as suggested by Tobin and Begley (2004).

Confirmability is an aspect of trustworthiness concerned with ensuring that the researcher's explanations and findings are taken from the data, demanding the researcher to outline how conclusions and theories were reached (Tobin & Begley, 2004). In this research, conclusions and interpretations were derived solely from the primary and secondary data by detecting themes and patterns of messages that emerged from the data.

3.8. Research Limitations

The study was based on a case study research method on Discovery Health, a South African business. Therefore, it was limited to South Africa and to the health care industry. The focus was on Discovery's innovative business model, business model decision making as well as sustainability practices. The limitation of studying a small number of cases it might not be extended to other situations. This limitation is offset by the fact that, despite a single unit of study, the depth and understanding one gains from this case contributes to knowledge in business in the sphere of strategic decision making regarding embedding sustainability.

This study was dependent on a small group of the population, it has a small sample and therefore few respondents that lead a big corporation and therefore have limited time resources. An agreement to participate was to be achieved, however cancellations were possible that could have delayed the data collection. All endeavour was taken to ensure respondents do respond to their commitment.

The research findings from this study cannot be generalised because the sample was small and due to the non-random sample selection process.

3.9.Ethical Considerations

Participants were informed about the nature of the study. Matters such as the time it is likely to take, the nature of questions, and privacy, that could affect their willingness to become participants was disclosed. Commitment to the confidentiality of participants was prioritised. All sources were referenced anonymously for verification purposes. The participants were also required to give their consent to being observed. UCT Ethics policy was strictly adhered to, and that ethics approval was obtained.

As part of the research process, the ethical clearance from the university would help ensure all ethical concerns are addressed.

4. RESEARCH RESULTS

4.1. Introduction

As outlined in the previous chapter on the research design, the methodology has been structured to induce insights that answer the question: What are the internal and external drivers to business model innovation for sustainability in a South African health insurance company.

Research findings are presented in two sections: primary data findings collected from open ended interviews with Discovery Group's senior executives as well as industry experts in the private healthcare sector. Secondly, secondary data findings using relevant, available sources that contain substantive insights into research questions, are presented with an aim to augment, and corroborate the data collected from primary research by tracking consistencies and contrasts. Secondary research was in addition, utilised for the purposes of triangulation. The chapter outlines the themes that emerged from both the primary and secondary research data.

4.2. Sample demographics

4.2.1. Primary Research

The practice of business strategy and thereby business model design is the responsibility of the executive directors in a business. It then follows that senior level executives are at the frontline of incorporating sustainability into business models. The choice of eight Discovery executives and six private healthcare industry experts, is based on this frontline premise. Five out of eight (P1-P8) interviewed Discovery participants are CEOs of key divisions within Discovery Group. These are the Chief Executive Officer along with the CEOs of Discovery Health, Discovery Life, Discovery Short Term Insurance and CEO of Discovery Sustainability. The remaining three hold key strategic positions of staff leadership, product development, Research and Development within the business. Three of the Discovery executives interviewed, were involved in the founding stage of the business.

To achieve a mix of balanced views about Discovery, external voices were sought from the health and regulatory sectors of the economy. Six additional participants (P9 – P14), in the form of three health sector equity analysts and three health experts with deep health legislation knowledge were interviewed.

The minimum academic qualification for all fourteen participants is an undergraduate qualification from varied backgrounds such as Actuarial Sciences, Academia, Social Sciences, Medicine, Strategy, Finance, Investments, and Management Studies. Each participant has experience handling changing market and legislation factors, which is the premise for their insights on rapid change and innovation in the health sector.

All fourteen participants were not known to the researcher prior the interviews. Participants shared information generously and freely and were entirely cooperative and transparent with their lived experience and knowledge. This enabled a collection of a rich content sample.

4.2.2. Secondary Research

In addition to interviewing relevant participants, credible secondary data sources were consulted, firstly with an objective to help answer research questions asked and secondly for these to add to the richness of the primary data, either by highlighting consistency in participants narratives or deviations from participant assertions. Lastly, to clarify technical aspects of the business model that could not be obtained from interviews and to fully grasp stakeholder and market sentiment regarding Discovery Group's commercial performance, business model and sustainability strategy

Secondary data sources consulted were made up of both internal (Discovery's own) and external data sources:

- Various commercial information sources:
 - Financial Magazines
 - Newspapers
 - Internet Articles
 - Institutional Investor, Where ESG fails.
 - Laurie Diepenaar Presentation at the ABSIP young professionals conference

- **Primary research by the Competition Commission of South Africa:**
 - Health Market Inquiry Report of 2019

- **Discovery's internally generated investor and stakeholder related communication:**
 - Discovery Group website

- Discovery 2019 Full Year Results
- Vitality Group website
- Discovery GIBS Innovation Masterclass presentation: Innovation 20/20, A Masterclass with Discovery Vitality
- Evolution of Discovery, an internal Discovery report

The above secondary sources and data underscored the primary research data. All the results from secondary data sources are clearly articulated in the results for all research questions. Albeit to a small degree for research question one (“RQ1’), as compared to (“RQ2 and 3”). The latter research questions address external drivers to business model innovation and how Discovery innovated, respectively. It is safe to assume that availability of secondary data to respond to external drivers and innovation methodology is plausible, while insights on internal drivers for business model innovation are elusive and best held by those closely linked to the business or those closely observing the business. Responses to internal drivers were best solicited through personal interviews and as evidenced below, are usually of a soft skills nature which cannot be deduced easily through market commentary.

4.3. Results

This section outlines the underlying themes that emerged from both the primary and secondary data in the context of the research questions. The results are outlined using the three research questions already stated in Chapter One.

4.3.1. Research question 1 results: Internal Drivers

Most internal drivers to Discovery’s business model identified were soft issues. Most of the participants touched on the theme of values, particularly purpose, while innovation ranked second in mentions. Leadership quality was highlighted as well, both by internal and external participants of Discovery Limited.

4.3.1.1. Purpose

P1, one of the founding executives of Discovery, was crystal clear and passionate in explaining the reason for their existence: “So, the company was built on quite a simple purpose, to make people healthier and a set of core values. That was it!”.

He continued to say: “Our core purpose is the golden thread that has held us together from the beginning. Everything we have done has been measured against how we are achieving this core purpose. It applies to everything, Discovery Insure, Discovery Life and now Discovery Bank. We used to recite it at the beginning of every presentation to highlight the importance of values in our business. It is not just a mission statement or a thought. It is a measure or action that holds our people accountable.”

P5 highlighted that the fundamental factor at Discovery, is indeed purpose: “The starting point is our core purpose of making people healthier, we test everything we do against that. Our whole business is aligned to that. Even if something does not seem causally related, we will test it against that core purpose. The second is, is it true to our model of shared value?”

P2’s comments supported P5’s: “The founders at the beginning, had an idea of what could happen if they aimed to make people healthy and reward them, sort of make them bank their health and that was sort of the breakthrough. And it was all built since the beginning and now that’s the business model and its very compelling”.

P6 then stated exactly what this core purpose is: “And that’s where I think our core purpose came from. To make people healthier and protect their lives. And that became the guiding principle for all business models and product innovation thereafter”.

On a purpose driven culture, P3 had this to say: “You have to constantly remind people about purpose. Culture does not happen by mistake. You must employ the right people that care about your vision and not employ people that only care about the next buck. You get bonus culture everywhere. You must look after them of course. You must get the right people upfront and make sure they understand the foundational values.

P3 went on to explain how the business practically incorporates this sense of purpose with employees: “Adrian Gore talks at induction presentations every month. If he cannot, then there is a video of him that covers his presentation to new hires. We have a very extensive induction program, we have a person that has been running that induction program, largely for the past 20 years. She is passionate about Discovery’s core purpose as Adrian, the CEO is. If Adrian does not cover it then Amanda does. Discovery runs through her veins, she does, and it gets knocked into them as to why they are here. The workspace is consistent. Your manager lives those values, and we do not get it perfectly all the time, but we are constantly evaluating as to if we are living those values. Every time we do a culture survey, it is about rating your manager on the values”.

P6 explained how this core purpose ultimately makes commercial sense to the business: “So in essence what our business model does is rooted in our complex actuarial equation, but it is not actually that hard. In essence what our model does is, it says, if I can make you healthier and change your behaviour, that will lead to a decrease in your risk, a decrease in your risk leads to an increase in your profit to us, and if I can take a portion of that profit and re-invest it in incentives, I will make you healthier and it will make me more profitable. That’s the business model”.

External market expert, P10 agreed: “The reason Discovery has succeeded is because of their purpose which drives their strategy, that also drives employee satisfaction. There is a whole cycle to it, the one drives the other. Once they have this core purpose and this strategic direction which doesn’t change, then outcomes become better and better.

P10: “Innovation is secondary to Discovery, first is the purpose”. In summary and according to P10, a health market research expert, a sense of purpose is the reason behind Discovery’s success and why the company is ahead of the health insurance industry.

The quality of having a strong purpose and reason for existing, has translated to commercial value for Discovery and points to the importance of often overlooked leadership “soft” skills to craft a compelling vision in a company. Both external and internal participants aligned on the competitive edge gained by Discovery over its peers through its compelling purpose.

4.3.1.2. Continuous improvement

P3 emphasised the fast paced, meritocracy culture of Discovery when he said: “It’s about this daily improvement methodology. Thousand daily improvements! That is what makes a company sustainable, grow and fresh all the time. Always be on your toes, sometimes people come and join and leave within a few days or months because this is a tough place. Its ridiculously fast, you get challenged”.

P1 had this to say, about the philosophy: “So when we got the model to work well, I got obsessed with giving it qualities that are scalable and repeatable. I didn’t allow any deviations for that, we made sure that innovation is in line with that”.

P2 highlighted the value of growth and continuous improvement and shared a bit about new products in the making “Yes, it means you have to be really smart about rapid changes and to test what works, what doesn’t. It is all about being attuned to how customers are reacting. The other big change is that we are moving from only encouraging healthy eating, exercise, and

prevention, because it was always about go get your Mammogram and Pap Smear etc. Now we are aware that we have lots of sick members too. Seven hundred people on our book have at least one chronic condition like diabetes, high blood pressure and cholesterol. Those guys do not properly engage with Vitality; hence they are sick. So, we are now launching a new set of rewards specifically targeted for those that are sick such as encouraging them to take medication each day and giving you them reward. Go see your Dr every 3 month etc. So, we are expanding from the healthy to also the sick because the return on investment on those that are sick is even better if you can change their behaviour”.

P4 listed new products that the company has recently worked on: “one of the current big trends is around wellness, one is about mental health, and you will see that with our Vitality, we’ve now launched a mental health play program. That is going to focus on how we get people fit mentally”.

Rapid creation and development of new products in an organisation is testament of the value of continuous improvement and growth. At the time of interviewing the participants, Discovery had a dedicated product development department as well and Research and Development efforts.

4.3.1.3. Innovation

Second to purpose, innovation emerged as an important principle to the internal participants in their decisions making and dealings at the company. Discovery’s recent internal publication, that was shared with the researcher by one of the participants, with a title: Revolution: the story of Discovery’s revolution in product innovation and design, stated: “We do not innovate simply for innovation’s sake. Innovation is a process that helps to realise the company’s core purpose through products, which might explain why Discovery has revolutionised healthcare and insurance systems in South Africa and around the globe”.

This position on innovation was validated by P4 and he emphasised how these are not just words, but a plan, a process and how business gets done at Discovery: “Innovation is the lifeline of our business. It is one of those hard-edged values because it is not just a value, there is a process behind how we drive innovation. There is a system of how we kind of do it. The word I would use is that we have an extraordinarily strong innovation capability. And my definition

of capability is that a capability is a set of practices enabled by systems, technologies, processes, and people. So, it is behaviours, systems, technology, and there are processes”.

P5 supported P4’s assertion by giving examples of the capabilities, the systems, process and ways in which the company ensures innovation is part and parcel of how they do business. He mentioned: “Definitely, it comes from the founders and some of the enablers. One I have mentioned, is the innovation cycle every September, now it is twice a year, just to keep the momentum and pace up. Mid-year new products and year end innovation. Another enabler is that we have in the different business units, full time R&D labs. In the South African team and vitality, we have a team of 22 people full time, whose job is to think innovatively about our offerings. And then we have a meeting, half a day a week, where all the CEOs, and senior people e meet in the lab with the team, and we go through this stuff. So about 10% of my entire work life is focused on that. And then there are lots of other enablers such as annual competitions. Competitions to encourage innovation. People can get into teams and come up with ideas that can change the business and we go through a whole process and in the end, we choose three teams. We have a big conference, and the winners get a million-rand bucks. It is big money and big rewards. So, it means everybody in the business is always thinking about new ideas. We do the same for Actuaries, who have their own conference as well”.

P2 told of how the culture of innovation flowed from the top-down: “Adrian Gore, the founder looked at the whole insurance market in 1992, and he said there must be a better way to do this. Let us disrupt this market, this was almost 30 years ago before Silicon Valley, before it became fashionable to do so. The basic idea was to disrupt, he said: ‘I am not going to come into this business unless I disrupt it’. And what got built in from day one was an annual innovation cycle. It became a rhythm that from early days got built into the culture of the business, that to truly innovate, you can never stop at current products”.

P3 reiterated: “the ability to innovate and change quickly has been one of our successes”.

P1 “We were approached by the Health and Racquet club. Remember those guys? They approached us with this whole idea that, why not sell their products into our client base? Like cross sell. So, we thought, gees that is too traditional, for us. So maybe the other way could work, like what if when you belonged to Discovery, you get a health club membership for free? If we could figure it out, how to do that feasibly, it would be unbelievable. I learned in innovation, it is the end in mind, it is the vision. The how and the process, you can always figure that out later”.

Given the internal participants responses on innovation, it then follows that, a culture of innovation precedes an innovative business model. A culture of innovation comprises, upholding that value by planning for it, investing in it and having systems in place to ensure innovation takes place in an organisation.

External private health sector participants, argue Discovery is not innovative in a fundamental manner that adds value to the ultimate consumer. They argue that although Discovery does well to promote itself as innovative, it has failed to structurally enable equal access to healthcare. Further to that, they argue that it is elitist, profiteering and void of fundamentally prioritising the unequal status quo the South African government so desperately wanted to do away with pre-democracy.

External respondent P12, argued that: “if you are going to have market competition, you must have competitors. What we have now, is two third party administrators who own over 80% of the market, and 3 hospitals groups with over 94% of the admissions. We have 5 players essentially who dominate the market and in classic market failure, none of the economies of scale that could be produced are ever passed on to customers, that is you and me. So, we have a market failure and I guess a dysfunctional and corrupt government, the less said about that, the better...At the end of the day, if you are waiting for the market to fix it, you are going to wait a long time. Discovery is not fixing this”.

The point P12 is making, although mainly about competition, indirectly speaks of the lack of innovation because of the absence of market competition, and that because of Discovery’s domineering position, nothing incentivizes it to innovate in a fundamental manner that addresses lack of access to healthcare to the masses.

P13 added, referencing the recent Health Market Inquiry (“HMI”) by the Competition Commission: “So the HMI’s conclusion was that health insurance is not a competitive market in South Africa, hey don’t exercise any market power in favour of the consumer and that the levels of innovation are next to nil. But if you say that to Discovery, they will say we are very innovative...”.

Discovery lists innovation as an internal driver for its business model, but according to external health market experts, the business model is not innovative in a sustainably for reasons stated above. This was a fundamental outcome of research question 1 (RQ1) as the researcher, at

inception, had assumed Discovery's business to fully meet the tenets of business model innovation for sustainability. This concept is further unpacked in the analysis and discussion of the results section, Chapter 5.

4.3.1.4. Team Capability

Team capability and effort is quite crucial to innovative companies. Great ideas become great businesses because of the skills and execution ability of the team.

P1 made it clear that without a capable team, the success achieved would be realised: "But what I'm saying to you is that the complexity of the journey and solutions was the function of the incredible smartness of our team. It is an incredibly clever group of people".

P5 indirectly spoke of the expected meritocracy from team members and the work ethic at Discovery: "You have to kind of constantly be evaluating. So training and ensuring you have the right people is critical. It is all integrated. If you mess up one piece, it all gets affected and it's about improving, this daily improvement methodology. Thousand daily improvements. That is what makes a company sustainable and grow all the time. Always be on your toes".

This theme on team capability ties in well with the theme on continuous improvement, as highlighted above and corroborates the importance of having the right people in the team who are willing to go the extra mile in improving their contribution to the overall strategy and operations.

4.3.1.5. Leadership Vision

Discovery recognises the importance of leadership and there were five out of eight participant references to this. P5 stated: "It's all about leadership, if you have the wrong leader, they start chipping away from the culture and they could be brilliant at what they do but if they don't live the values, they will destroy the culture. We credit the founding team to that culture. I was not part of that founding team, but when I came here, you could smell the culture, live it... If it were not like that, I wouldn't be able to spread the culture to the team here".

P1 summed up the value of a relentless leadership that strives for innovation and a culture of meritocracy. "We have a determination and ability to innovate and disrupt, and to do so at scale in major industries. We do this not for the sake of it but because of a deep conviction that there

is a better way. This creates a sense of expectation around us, from both members and competitors”.

One of the external market experts P9, who has reservations about the widely celebrated Discovery business model and leadership observed: “There is this kind of fallacy/ fantasy in Discovery that, the reason Discovery health succeeded was because they were so clever. The reason they succeeded was because Rina Venter, former government minister post democracy in 1994, created an environment of for profit and underwriting and some life insurance people came into an environment where people didn’t know how to do that stuff and so they are not so clever, they were just lucky, and then they started going overseas and they discovered making money in healthcare is actually quite hard and it’s easier to sell life insurance”.

P9 continued to say: “They are loved by the financial markets, but they have blocked any innovation over the last 17 years, I guess. As one of the Discovery executives said to me, why would we want to change the environment? Why would we want to risk doing something that would change our control over this environment?”

External participants and internal participants have contrasting views on the talent of Discovery leadership. With external participants stating the luck Discovery experienced on an opportunity to piggyback on a regulatory moment in the history of South Africa as well as to use that moment to its sole advantage by cosmetically addressing the unequal access to healthcare. Which according to external participants sentiments is not a sign of great leadership, but an opportunistic and extremely capitalist leadership.

4.3.2. Research question 2 results: External Drivers:

Post transcribing and later coding the conversations with the participants, the themes below emerged as the top external drivers that influenced Discovery to develop its “sustainable” business model and to continuously innovate. As mentioned by some of Discovery’s executives, the company describes its business model as a “shared value” type of a business model. Shared value as a concept was defined and critiqued under the Literature Review section of Chapter 2. The discussion on whether the Discovery business model fulfils the benchmark of a business model innovation for sustainability is unpacked in the analysis of results, Chapter 5. Figure 5 below is a summarized visual representation of all the external drivers of business model innovation for sustainability.

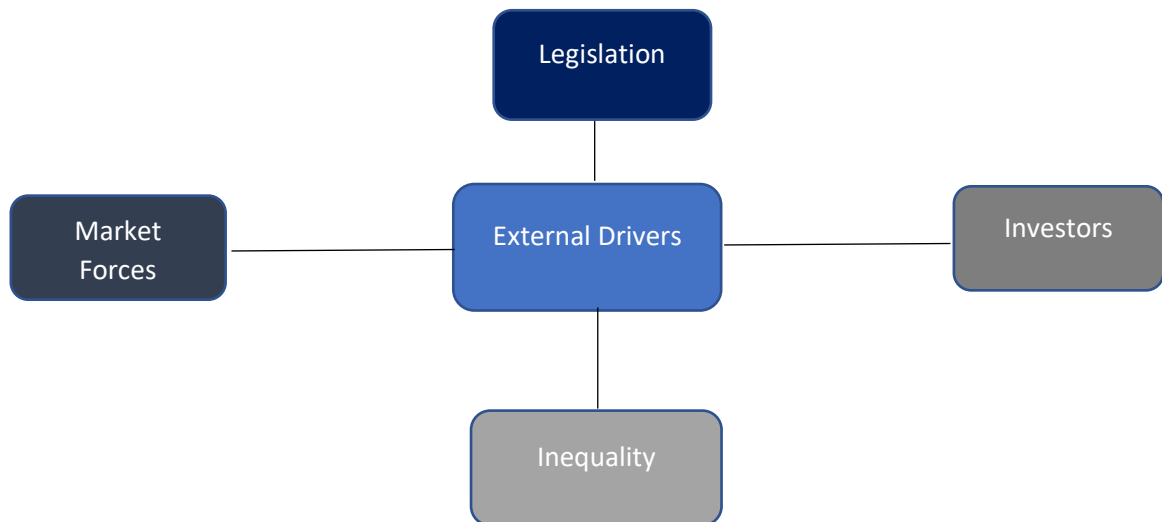


Figure 4: External drivers of business model innovation for sustainability

4.3.2.1. Legislation

South African laws in as far as the health insurance industry is concerned had a significant impact on Discovery’s business offering from inception. All the participants cited regulation as one of the major external forces continuously keeping Discovery on its toes with having to account and be compliant to legislation regarding its offering in the market.

When Discovery was founded in 1992, the winds of political and socioeconomic change in SA were blowing, as the country transitioned from the apartheid system to a democratic state. Under the democratic state, the government sought to reduce the level of poverty and inequality brought about by apartheid. One of the early government policy resolutions was access to quality healthcare for all and this implied changes to the private health sector. It was an area the government highly sought, to turn the tide of inequality, as masses of poor black citizens experienced exclusion from health services even as that specific demographic battled a high burden of disease.

P3 gave an account of the legislation situation at inception of the company and stated: “We started with healthcare. Healthcare services were available to most in 1992 and this was going through legislative change. And uhm the government wanted healthcare to be as fair as possible and available to many people as possible. So, this concept of community rating came about - where you could not charge a healthy person less than a sick person. Traditionally, pre democracy, the norm was to charge people differently, according to their life profiles”.

P6 shared a similar story: “So how this business model came around is that we started out in 1992 and at the time, there were unique conditions around the healthcare environment in SA. Firstly, there was high burden of disease, communicable disease, and lifestyles diseases. So, we had a high burden of disease. At the same time, we had a shortage of doctors and, regulation was changing, which means you had to charge everyone the same rates and couldn’t turn away anyone”.

P7 mentioned an “egalitarian regulatory system” with guaranteed issue, community rating, high mandated minimum benefits as some of the issues Discovery has to grapple with at the time of its founding, she said: “It is not only at the time of founding Discovery that the issue of healthcare regulation forced them to introspect and innovate inclusively. To this day, the company grapples with regulatory issues that it has to continuously solve to maintain the success it has achieved thus far in this sector”.

When P2 was probed as to his thoughts regarding the impact of regulation on Discovery’s business, he shared that: “legislation is a bit of a damp in our corner, we respect the law, we never try cut corners, but tough regulation can force you to be more innovative as you find your way around”.

Healthcare expert and external respondent, P11 had this to add: “The healthcare industry is highly politicised and highly regulated. So, in terms of premium increases and what the scheme can put through – it is dependent on external forces and regulatory environment – what the regulator allows. What ultimately the regulator allows matters, to a great extent”.

The above is a clear indication that in the past and to this day, Discovery, and its competitors, are trading in a sector fraught with regulation that keeps them on their toes with having to navigate accordingly and evolve with regulation.

P14, a medical doctor who sat on the government panel of experts for the execution of the Health Market Inquiry stated that: “The constitution in section 27 says clearly that the government has an obligation to progressively come up with policies that help realise health as a human right. Healthcare is a life and death matter, and the government is empowered to come up with regulation that makes sure the average South African has got a better chance of getting healthcare services. Government has an obligation to ensure there are practitioners in rural areas

for example, within reason. Where there are market failures, regulators must step in and bring sense into these areas”.

One major finding of the Health Market Inquiry (“HMI”) was that there is market failure in the South African healthcare sector. There are several factors cited, including lack of competition and innovation and hence the criticism levelled at Discovery’s model in failing to address access to healthcare. Interestingly, even as regulation is noted as a key external driver of the health market innovation, one of the factors cited as a contributor to market failure, in the same Health Market Inquiry of South Africa is regulatory failure.

P14 commented on this regulatory failure during his interview: “Regulatory failures, that is a big one. There is failure of oversight of existing law. The existing laws are not fully implemented. Laws that are in existence yet there is poor oversight by responsible organisations that are supposed to be responsible for these. Secondly, there are laws that are not there and areas where there is no regulation at all. The supply side has no regulation at all – hence the recommendation of the completely new supply side regulator”.

P14 continued to say: “Regulators have not done what is needed to be done, especially because a lot of the problems or solutions are covered in the National Act. As for industry players, we did not find one that is without blame including the consumer from the perspective of anti-selection, where for example, they buy cover when they know they are about to need it. So, it is true that the issue of regulatory gap is deeply flawed. But it is not one thing that contributes to market failure. There are 3 aspects to it: demand side, funding side and the supply side”.

In an attempt to undo the damage of regulatory failure and lack of access to healthcare by all citizens, the South African government On 30 June 2017, gazetted the National Health Insurance (“NHI”) policy document, after approval by Cabinet. This health policy embodies the principles of the universal health coverage (“UHC”) and is comparable to the United Kingdom’s NHS (National Health Service). The website of the South African government (www.gov.za) defines the NHI as: health financing system that is designed to pool funds to provide access to quality affordable personal health services for all South Africans based on their health needs, irrespective of their socio-economic status. NHI is intended to ensure that the use of health services does not result in financial hardship for individuals and their families.

NHI seeks to realise universal health coverage for all South Africans. This means that every South African will have a right to access comprehensive healthcare services free of charge at the point of use at accredited health facilities such as clinics, hospitals, and private health practitioners.

This decision by the South African government, shook up the private healthcare market and saw the likes of Discovery shedding off market value upon the announcement of the introduction of the NHI by the government. The NHI seems to threaten the very structure and business model of the private healthcare sector, hence the uncertainty and shake up. This market response was indeed testament of the impact of regulation on business models in the private healthcare market.

P13 commented on the impact of the NHI's announcement on Discovery's share price: "The share price immediately fell because all of the investors who are pension funds, struggle a bit with the technical detail that by 2026 between about 50% is going to the NHI and not to the private sector. The share price dropped the minute the NHI bill was published. The reason it dropped is because of section 3 of the Act which states that ultimately medical schemes were not allowed to cover what is covered by NHI. That is a very obscure provision and unconstitutional. It makes no sense, and it is not implementable".

P14 had this to say about universal health coverage and the NHI's impact on the private health market: "There is no way we will ever have the absence of a private sector, even when we implement the UHC – we say there is an inefficient use of resources – so there needs to be realignment of resources – we released a study on the demographics of private health practitioners in SA and the numbers are not too encouraging...where you have more Gynaecologist in Sandton than in 3 provinces in the whole country. Gauteng has a lion share of practitioners. There are certain things that have to do with equity that you can achieve with the NHI, that you cannot do with just the private sector. UHC is trying to address inequality. UHC will never address every health care need. In the constitution Section 27 talks about provision of healthcare services only to the extent that they are affordable. It means there will always be rationing. In the medical aid sector, there is rationing. There must be better alignment, the government can offer these services, then the rest will be offered by the private sector".

P14 went further to comment on the public and private partnership that could emerge out of the NHI for the benefit of the customers. There is doubt from the market about proper execution of the NHI by government and healthcare distribution issues: “Are we able to implement such a huge program within such a short space of time? Our history with corruption and just pure incompetence, that history, everyone must worry about it. The HMI studied the private sector. Our terms of reference were to look at the private sector where there is competition and public sector only to the extent that it interacts with the private sector. So, we did look at the public sector, but it was restrained. So, we do comment about the NHI. You will not have a viable or efficient NHI when it comes to this industry that is poorly regulated from a delivery perspective. Because remember even the NHI will buy services from private hospitals. COVID19 has raised the debate about the NHI. The government mentioned COVID19 as a perfect example of the rationale behind the NHI. The aspect the government has not addressed is about funding and how NHI will be funded.”

P14 continued: “The correction that I would prioritise is the pricing of health services. As it stands there is no guideline on what practitioner’s charge and customers do not know what they are going to be charged. That is not ok. The pricing must be fair and affordable. That is an urgent issue, fixing the pricing of healthcare services. In a country with the masses in poverty and living in rural areas, where you cannot find a specialist health professional, management of resources will be quite key. Distribution of healthcare services will be quite key under the NHI. currently there exists a maldistribution of resources and the private health sector has not solved for that”.

It can be deduced from the respondents’ insights that regulation rattles the private healthcare market and affects individual private healthcare business valuations directly. It thus puts private business in a position of introspection around value add in society, a priority of the government. This is clearly demonstrated by the impact of the NHI on Discovery’s business. However, ineffective legislation that fails to uphold its ideals and does not follow through on its objectives contributes to market failure as well. It is not enough to have legislation in place if it is not upheld by the government. The dire consequences are evidenced when companies know they ought to transform but they do not, based on the premise of lack of policy execution by government. A case in point is Discovery, as stated highlighted by one of the external

participants, that Discovery is comfortable in the knowledge that SA's government is poor in executing policies. This dual double-edged sword which harms the customer the most, is the responsibility of both the private and public sector.

4.3.2.2. Inequality

This theme was also cited by almost all participants as one fundamental reason why Discovery was driven to pursue its business model. However, given the misgivings around Discovery's not so sustainable model, as explored by the HMI, critiqued by external participants, and sought to be challenged by governments NHI, it is safe to say Discovery sought and found a way around the desire by government to solve for inequality instead of directly solving for it, as argued by external respondents.

Inequality does extend to the marketplace, where wealthier individuals are offered convenient products and services that only they can afford to purchase. Many times, suppliers rationalise that there is not enough economic muscle in the lower income groups for the offering of goods and services to make commercial sense in that category. This can leave masses of those at the bottom with basic needs such as food, healthcare, education, and sanitation go unserved. This was the case with the health sector when Discovery was established. It then follows, as has been witnessed with many trailblazing companies, that inequality can be equivalent to a market gap that can be an opportunity for budding entrepreneurs to embrace and create unique businesses. However, it seems Discovery's target market is not and was not intended to be inclusive of the bottom of the pyramid.

P1 acknowledges the gap in the manner insurers were pricing risk and the turning point where the founders of Discovery started to think differently about insurance products: "As actuaries we try to price risk accurately. We declined you; we priced you, based on age, gender, risk, health status. We were now disallowed to do that by the government. Then the question was how do we build? because our underwriting method was excluding a lot of people. The government rightly said that we were coming from an environment of discrimination and apartheid and that it can't tolerate that".

P1 continued to elaborate on the company's Eureka moment emanating from walking away from an unjust system: "So, the only other route to control cost, was to manage the risk. You either manage the care or you manage the risk. So, we could not manage the care, with too few

Dr's. So, we had to manage the risk, but we could not manage the risk because we could not use any actuarial pricing, because this excluded the majority. So, what do you do? Right? So, our kind of issue was, let us focus on making people healthier”.

P3 painted a picture of how pricing used to be done under traditional insurance models and how this put citizens on different playing fields: “Actuaries were good at putting different prices on different people depending on their profiles, but the government said that’s not acceptable because the healthy will get covered and unhealthy won’t get covered and it puts a burden on the state”.

The state pushed back on behalf of society and advocated for fair insurance pricing to enable more access to healthcare to the masses. Discovery responded with a solution focused on getting people healthier, which was never offered before by any insurance company the world over. In that sense, their model was innovative and sought to benefit customers beyond just insurance.

P14 mentioned health is a basic human right when he said: “The constitution in section 27 says clearly that the government has an obligation to progressively come up with policies that help us realise health as a human right. Healthcare is a life and death matter, and the government is empowered to come up with regulation that make sure that the average South African has got a better chance of getting healthcare services”.

Unjust business practices often point to a market gap and can therefore be a catalyst for innovative and sustainable business practices. In this case, the pre-democracy situation gave Discovery founders insight to tackle risk from a pricing point of view. However, in tackling risk by making people healthier, it solved for its own margin problem, as they could then disburse lower pay-outs. But their product was excluding the marginalised. Their health offering caters mainly for the middle class and did not meet the poor at their point of need. Given the HMI and the criticism levelled at Discovery for anti-competitive behaviour it can be safely deduced that Discovery’s intention was not to run an inclusive entity in its product offering as the government envisaged, it was to smartly navigate around that inclusive regulatory standard and find profitable ways of continuing to serve only the middle class and thereby a profile of less risky people. Which ultimately means less liability risk on Discovery’s part. Its business practices point to an entity that cleverly crafts legal structures, systems and products that seem cooperative and sustainable and not so in essence.

4.3.2.3. Market Forces:

Market forces are generally understood to mean the actions of buyers and sellers that cause the prices of goods and services to change without being controlled by the government: the economic forces of supply and demand (Merriam Webster Dictionary). This refers to levels of supply, demand of goods and their distribution as well as the prices of these goods and services.

At the timing of Discovery's founding, the health insurance sector was ripe for change regarding product design and solutions, with a shift towards customer centric solutions. In the way insurance was made available to citizens. Legislation was changing, South Africa was moving from a system of separateness ('apartheid') to one of democracy. Medical inflation was a reality back in 1992 and insurance providers margins were tight.

All participants highlighted the issue of the timing and business environment at the time of starting Discovery as one of the external drivers. Under the theme of market forces, there is a list of sub-themes that emerged:

- a) Demand.
- b) Competition.
- c) Partnerships; and
- d) Investors

a) Demand

The twin problem of a shortage of Dr's and a high disease burden back in 1992 meant that a gap in the market in the form of shortage of health providers existed and thereby demand.

P7 stated that, South Africa had a Dr shortage of only 4 Dr's available per ten thousand patients compared to developed market peer, the UK, which had 43 Dr's per ten thousand patients. Further to that, South Africa had a high disease burden and as a result had three times more age standardized years of life lost than in America.

To validate this, P6 mentioned: "So we had a significantly high burden of disease, at the same time we had a shortage of Dr' and a changing regulation, which means you had to charge

everyone the same rates and could not turn away everybody. So, this created a unique opportunity for adverse change. We were faced with how we were going to make our health systems sustainable. So, I think that led to an idea around core purpose on how Discovery can intervene on the demand side.”

P1 confirmed the gap and thereby demand by referring to the market conditions at the time: “The start of the organisation was in health insurance. The issues were that health funds and medical schemes, this is in the 90’s, late 80’s, were experiencing dramatic medical inflation and insolvencies etc. Discovery was started by first thinking that we could build a health insurance entity that would be more sustainable. What did our analysis show? It showed at the time, terrible levels of disease burden, HIV, so all the issues of infectious diseases and lifestyle diseases. Terrible levels of disease burdens to a few Dr’s, that’s not a great mix”.

P14 shed light on healthcare demand in light of what customers really needed: standardised health service: “Discovery has got more than 20 benefit options, same as Bonitas and with the proliferation of these products, the objective has become marketing s rather than healthcare reasons. So, because you want to cast a net wide and a client can hopefully find something they like, which makes it hard for someone to understand. So, there are two issues for the consumer: the first one is the issue of lack of simplicity of benefit options. The HMI also highlighted that. We support the notion of a common benefit. That is standardised across all schemes. A person can know that there is this basket of services that includes everything primary health-wise that they need. Then if they need secondary health stuff that are a luxury, they can get them here. That will reduce admin costs because with 20 benefit options, you need product designers for each, and calls being tended for each product as customers call”.

Macroeconomic issues such as lack of health infrastructure and resources can impede on demand, as was the case with the lack of Dr’s at the time of Discovery’s inception and a high disease burden which in turn weighs heavily on the health resources. Perfect storms such as these can ignite innovative thinking and solutions, and this was the case with Discovery thinking outside the box by aiming to prevent diseases in the first place than to be concerned with high-risk customers who are already sick.

b) Partnerships

The many partnerships that Discovery has forged since inception are proof that partnerships enable big purpose driven companies such as Discovery to thrive. Discovery certainly could not roll out its business model without depending on partnerships that enhanced its offering.

P7 validated this by saying: “Partnerships is a big part of innovation. On partnership, we partnered from the very beginning. We had partnership with health clubs – the first partnership. Three things with partnership: selecting the best of breed, for example, Apple and Virgin Active. It must be something amazing, it must take customers’ breath away. The commercials must work for both stakeholders with each one getting value from the partnership”.

P3 stated another interesting partnership in another division of Discovery: “So we partnered with Formula 1 and we bought in the concept that, Formula 1 people drive around the track at huge speeds, but it is actually safe, people don’t get killed in formula 1, they used to in the 60’s and 70’s but not today. You would not normally think, formula 1 and driving well have anything to do with each other. Uh, we do not encourage people to drive like F1 drivers on a normal road, but on the track, yes. Within the rules of the environment, you drive in, we say, drive well. We brought in the top designers of Formula 1 of all time, the person who designed Michael Schumacher’s car for Ferrari. We brought him into our board, he is our director. Just to challenge ourselves...”.

Mega and multidimensional societal problems require systems thinking approach to solve them. Physical health of a nation such as South Africa with deep inequality and poverty is a complex matter. This is where mutli stakeholder partnerships come into play. Discovery understood the importance of strategic, value adding partnerships and that they cannot on their own solve this complex national health problem

c) Competition

P3 highlighted that: “There are lots of start-ups – doing apps. Insurance is tough and is not about developing a sexy app. Insurance is more complex than that. The unknown competitors are the Amazons and Googles as they have incredible brands, that if they wanted to get to insurance, they probable would. Google tried and failed. Other competitors are probably in the future, where we are going, where people will not own cars. A world of driverless cars”.

P2 pointed to international competition as a driver: “Certainly abroad, the competitors are fierce, UK, US, and China. In SA, without sounding arrogant, our competitors are not that potent. I think what motivates us here and abroad is the fear of disruption by fintech, and so, even though we are not seeing it anywhere yet, we are always looking at our back and wondering when somebody is going to suddenly arrive and have a completely different product. So, we have this unbelievable health insurer in China, that sells a million policies a month (Ping A Health) and is doing well, but suddenly, because the market looks so hot, Alibaba and Tencent with their million customers are starting to sell cheap insurance products on the internet, lousy value and nothing real.”

P5 emphasised the competition pressure as a driver to innovation by comparing one of their innovations, the payback benefit to the traditional insurance product: “So it changes that whole equation. Uh, today we pay over a billion rand a year in payback benefits in Discovery Life. We pay-out about a third of what we pay-out in claims in paybacks. Which is fundamentally different. I think it differentiates the product from the rest quite significantly. So today if you look at Discovery Life, it is by far the largest writer of new business, we are number one in market share”.

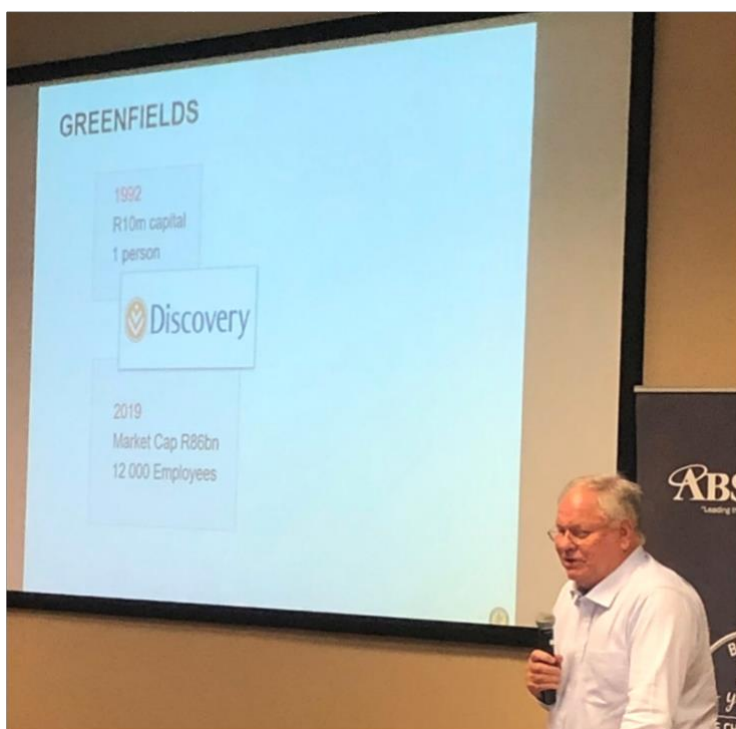
Discovery seems to have a good focus over the horizon on where their disruptor could be coming from. Which is testament to the discipline it requires to improve and be globally competitive. Understanding the local and foreign competitive landscape is smart on their part and helps them to take great opportunities of differentiation as they come. However, locally, as stated, Discovery is criticised for being a winner take it all entity and obscuring entry into the market and becoming significantly dominant through legal structuring which ultimately hurts the entire market ecosystem as it stalls new entrants and thereby healthy competition. Health competition in a market favours the customers as it delivers reasonably priced options.

d) Investors

The seed capital of R10 million that Discovery obtained back in 1992 came from the founders of RMB (Rand Merchant Bank). Laurie Dippenaar, one of the three investors that took a leap of faith in Discovery, was the keynote speaker at a recent business conference organised by ABSIP (Association of Black Securities and Investment Professionals). At the event, he outlined how this decision to invest in Discovery followed a discussion he had with the founders

which he narrated and is paraphrased as: “The founding shareholders of Discovery pitched to me that they would like to use one RMB’s dormant insurance licences to start an insurance business. That pitch was not good enough. I told them I would only consider investing if they came up with something unique that would address all the business issues affecting the insurance sector at the time, particularly the low margins in that sector at that time.”

Below is a picture of Laurie Dippenaar explaining their motivation to invest in Discovery. The researcher attended the event.



Source: Author

Figure 6: Laurie Dippenaar, ABSIP’s year-end function, November 2019

Investors have a significant impact in driving the establishment of businesses that have a twin goal of profits and social impact. If the investor requires, as an investment criterion that businesses be responsive to sustainable development, more entrepreneurs and business leaders would respond accordingly because without financial investment, not much can be accomplished in a start-up that requires huge capital investment.

P4 mentioned an interesting investment trend that they want to position themselves for, which indicates the power that investors have, in enabling sustainability business models. He stated: “There is big opportunity to tap into investment companies that are looking for companies that are sustainability inclined. We are sustainability inclined. Look at Dow Jones, MSCI... There are certain funds that specifically say we will only invest in companies practising sustainability. We want to be one of those companies that are selected by investors”.

The force is well understood by P5 who indirectly stated investor influence: “We are not a charity, we have shareholders, they are putting in capital and they expect an IRR (“internal rate of return”) on their capital. We cannot just do this to just save the whole world and yet not see any return on our money. That does not make sense and is not sustainable from a capital perspective. So, you’ve got to find that win-win and if you find that win-win, it is like the holy grail, you can just focus all your attention on it. Investors are going to like it”.

Investors hold the strings to the purse of financial resources that are needed for the just transition into a climate, social and governance friendly society and markets. In 2021, the United Nations published a report issued by the United Nations Conference on Trade and Development about the rise of the sustainable fund market and its role in financing sustainable development. Below is a highlight of its key findings (UN, 2021):

- The number of sustainable investment funds has almost doubled in the last five years, reaching 3,987 by June 2020, with assets under management (AUM) of over \$1.7 trillion, just over 3% of the assets of the world’s open-ended funds.
- Net investment flows to these funds reached \$159 billion in 2019 and are estimated to surpass \$300 billion in 2020

The availability and access to investment capital is a key factor in driving sustainable development and thereby business model innovation for sustainability in individual companies as demonstrated by how financial capital catalysed Discovery.

Various secondary sources were consulted and the Competitions Commission’s (“CC”) report after conducting its Health Market Inquiry (“HMI”) into the private healthcare market provided key insights regarding the impact of external factors on Discovery’s business model. This report covered sufficient data points on market forces of regulation, competition, customer demand and supply. Post consulting all secondary data, including the dissecting the approximately, 450 pages of the HMI report, the researcher put together a detailed analysis which can be found under Annexure C. The summary of the HMI findings is outlined below.

Overall, the health market is characterised by (HMI report, 2019):

- Disempowered and uninformed consumers
- In 2016, the national average ratio of beds/1000 population was 4.2 in the private healthcare sector (compared to 2.7 in the public sector).
- High and rising costs of healthcare and medical scheme cover,
- Highly concentrated funders and facilities' markets,
- Sustained levels of profitability have been found across the funder market. Discovery Health has, over a sustained period, earned profits that are a multiple of those of its main competitors, with no sign of effective challenge from incumbent or new firms. Under normal competitive conditions, DH's profitability would attract new competitors and stimulate competition from incumbents. There is no sign of this.
- The CC observed no meaningful entry in the medical scheme market over at least a decade
- Discovery Health Medical Scheme is open of two dominant open medical schemes. Two medical schemes constitute approximately 70% of total open scheme market as measured by number of beneficiaries. Although there are 22 open medical schemes, this market is concentrated
- A general absence of value-based purchasing where there is no standardised means of measuring and comparing quality of healthcare services or outcomes. There is no measure of cost-effectiveness.
- Ineffective constraints on rising volumes of care and significant overutilization without stakeholders having been able to demonstrate associated improvements in health outcome and

Based on the outlined key outcomes of the HMI, the health insurance sector is a distorted market that is highly concentrated by a few suppliers, it is inefficient in providing optionality to customers and has created high barriers to entry for competitors, thereby destroying innovation. Discovery operates and thrives in this market because it enjoys the dominant position it has obtained. This speaks to the inherent tension that exists between doing good in society and being profitable. A balance that a business model innovated for sustainable always aims to strike.

Given the failure by government to uphold legislation effectively in favour of the citizens, there are concerns in the market of SA's government ability to execute the NHI as planned.

Therefore, given both the failure of government and private business, South Africans find themselves between a health insurance rock and a hard place. On the other hand, to wait for market correction of a deeply distorted market in the absence of regulation, is a fallacy.

4.3.3. Research question 3 results: How did Discovery innovate?

There is consensus amongst participants that there is some level of business model innovation at Discovery. Thus far, the question is if this innovation is sustainable according to the principles of sustainable business models. This is discussed in the following section, Chapter 5.

Given the responses from the participants, it appears that Discovery innovated on two levels. Firstly, by basing their entire business model on the principles of behavioural science, rewarding their customers in the short term for good lifestyle choices that will stand customers in good stead in future. Secondly, by utilising big data collected through the Vitality product for the purposes of formulating new products.

P1 notes the valuable and innovative nature of Vitality: “Vitality underpins all Discovery’s businesses and supports them by enabling product integration and cross-selling opportunities across the portfolio of businesses and products. This is one of Discovery’s greatest innovations. Vitality is the largest health-promotion programme in the world. It was built on the understanding that insurance risk is dependent on behaviour, which changes over time. Drawing on behavioural economics to support and incentivise change, Vitality helps members to improve risk-related lifestyle behaviour and, consequently, their health. This cycle, when integrated with insurance, allows for the continual assessment of risk to price insurance dynamically based on engagement by customers with Vitality. Premium discounts and other benefits act as further motivation to improve health. This ground-breaking model, with Vitality at its core, manifests in shared-value insurance that provides material benefits to clients, insurers and society”.

But before this code of behavioural science was cracked, Discovery first had to have a core vision and purpose.

P1 continued: “Discovery Health sought to differentiate itself in the market by not pricing their products based on an assumed pre-existing risk in consumers. Instead, the company had an intuition to rather focus on making clients healthier and factoring this bold goal in the actuarial calculations of premiums. The goal was to create a win-win situation whereby clients that

engaged with the designed product to get healthier will gain points that will lower their monthly premiums and Discovery would ultimately lower their pay-out ratio of claims because of a lower risk pool from healthier clients. Thus, unlocking new demand from younger and healthy conscious clients, opening a new uncontested market space, and creating new demand”.

According to P1. It appears there were three issues that drove the executive team co-founding team at inception:

- The understanding of behaviour. In most financial services silos, whether it is banking, motor insurance, health insurance, or life insurance, only a few behaviours drive the risk. That emerged quickly for Discovery.
- Technology, which is an enabler in this case and
- Purpose. The purpose to make people healthier.

P1 outlined it that it was not a process or model of innovation that they first came up with, but that it was intuition, well considered thinking and realising a purpose that came first before innovation: “Now we understand the wisdom of it but at the time it was just an idea, but the concept of if you incentivise behaviour change, you can then focus on prevention. And if you can take that and built it into health/life insurance and all these different things, you can run a model of shared value, right? In other words, we incentivise you today to make the right choices. By making the right choices, you make us more profitable right? And as we become more profitable, we can fund the incentives. It is good for you, good for society, good for us. We’ve then created the shared value cycle”.

It is safe to say that the most pertinent principle around Discovery’s innovation as narrated by its executives, was its core purpose. This assertion is backed by all internal Discovery participants who say that it all starts with a purpose before successful innovation.

P11 commented on the company’s business model: “All Discovery does is that they manage the actual scheme itself, so they basically get the payments in, they negotiate on behalf of the scheme with healthcare providers in terms of rates and benefits to cover etc but there is no actual underwriting risk that sits with Discovery. The underwriting risk and actual risk of the pool of participants that you have on the scheme sits with Discovery medical scheme itself...so if you think about it in corporate finance terms, just think of it as kind of like an off-balance sheet Special Purpose Vehicle structure. None of the capital requirements and the solvency requirements of the scheme, will ever be called by the listed entity (Discovery and shareholders

to look after the scheme). It is separate, and they just administer the scheme. But the long and the short of that is that the actual healthcare scheme is very profitable – if you look at financials, the CAGR is at 12-15% over the last 10 years. It is very profitable. They have been able to use the proceeds from health segment and reallocate capital and reinvest in other parts of the insurance market where they thought that there were opportunities for them to be disruptive. Then they went after life insurance in SA”.

P10 added and said, “Discovery is unique in terms of its strategy, value proposition and exporting their intellectual property. It is a fintech business that they are building, which will be their future and makes their investment case interesting. They have a track record of building businesses from scratch. As an investor, I can give them credit for that. They are selling tech platforms of industrial strengths, to manage customers at a global scale and experiencing once off expenditure of building the platforms and continuous maintenance”.

P11 stated what makes Discovery successful; “What has made them successful, the health business was started, it was the epicentre of the business. They had the innovative concept, the shared value concept – charge premiums but with incentives when you get healthier – which helped bend the mortality curve. They gave a tailored product to a client base that was used to a stale traditional offering. The shared value concept resonates, those clients that are fanatical about this product of Discovery as a brand. Clearly what is quite nice is that, compared to back in the days, people used to sell the health insurance policy, or life policy and only in a year you renew or hear from your life policy provider. But clearly with Discovery, what is quite nice is that Discovery engages with you”.

P11 continued to add: “clients get rewarded for ultimately being healthier. And hopefully over time what starts happening as we have seen it to some extent with Discovery’s business model, is you know, your lower quality kind of clients, the ones with higher mortality risks will cost you more money as a business. Those clients end up leaving you and the cohorts of what you end up with is the clients that are healthier, better-quality clients and that is really what you want. This was the epicentre of Discovery; they built their business model around successful healthcare offering”.

P15 reiterated this norm in addition to P11’s claim:”- Every scheme has a double hump – young people and older people. Discovery’s model was to try and attract the young people. So they can pay for very long. Discovery comes with Vitality that involves non-health things like gyms, airplanes etc – this is a marketing element – trying to attract young people”.

P15 continued his assertion, claiming it is because of Discovery aiming to outdo its competitors that Vitality exists: “Vitality is a tool; it assists with wellness but there has not been an attempt to validate the quality of the wellness. Other schemes lack a competitive tool like Vitality to attract members. It is because of competition that we are here”.

External expert, P13 with reservations on the effectiveness of Vitality as a tool enabling wellness, stated the following on how Discovery differentiated itself: “Vitality is a loyalty program. There is no evidence of that thing having any positive effect on health costs, and on how it influences behaviour...So Vitality is essentially a marketing gimmick. Discovery used it and it became a powerful marketing gimmick, it is a loyalty program. It gave them information on your demographics, which is highly likely that the information is passed on to other insurance divisions like Life insurance. Which increases their ability to underwrite you in those environments, with a much more detailed understanding of your risk and claiming”.

P11 emphasised how Discovery leverages the data as P13 mentioned above: “The value of what Discovery has is the data. Discovery built the data and have millions of it. They can interpret it. The value of what they have – is a client on their books, who starts off unhealthy and starts engaging with the Vitality product, shedding off loads amount of data in the meantime, which remains with Discovery. Vitality can be replicated by competitors, MMI has tried, but the value is in the data, which Discovery has been collecting for over many years.

P13 had this to say about data at Discovery: “So how the open scheme market has evolved is that it is not principally around medical scheme cover, that the corporations are competing, they are competing around the array of financial products that medical schemes have – car insurance, life cover etc. Vitality gives them a lot of information on a continuous basis of their clients’ risk status. So even if they are not using it to re-risk, you on the health side, they can use it for the life insurance side. The moment you sign into Discovery, you will have all the short-term insurance brokers call you, despite that, that your information is not supposed to be shared, the moment you join, you will have the car insurance and life cover brokers call you. The information is being transferred and it is not regulated. So that is part of what they are competing on, it is that data and information”.

P9 insinuated that not much real innovation took place but a lot of marketing at Discovery: “There is a lot of PR around Discovery. Technical marketing run by actuaries, such as the current CEO of Discovery, who was head of marketing before becoming CEO of Life and is an actuary by profession”.

Sentiment in the market is that Discovery is good with marketing itself more than they are at innovating. Respondents went on further to mention the broken structure of the private healthcare sector market and failure to create the best experience and products for the end consumer which then implies lack of fundamental innovation.

P13 had this to say about the structure of the private healthcare market in South Africa: “Medical schemes are not in charge, but the administrators are in charge. Those are the dynamics. The problem with this market is that it is getting structurally expensive overtime because there is no incentive to innovate, no incentive to change the contracting arrangements and competition is not having any influence. Competition that I am talking about here is that of a choice a consumer makes, which is currently not putting pressure on what the scheme does...customers are irrelevant in this market. That is the risk, the consumer is effectively sidelined as a decision maker in the market system. Market systems only work when the consumer has an active role to play in decision making”.

P13 referenced the Health Market Inquiry (“HMI”) conducted by the Competition Commission in 2019 on the private healthcare market and highlighted the point on consumer service: The HMI looked at the problem from that perspective, it tried to learn, how the consumer can be put in that position of power, and they could influence decision making. And the conclusion on the current market which affects Discovery is that in fact the market is uhm, very consolidated, there are enormous conflicts of interest, there is virtually no competition of significance, the competition that matters to consumers. There is competition but not competition that benefits the consumer. It is like two criminals fighting over who will rob you. That is no competition of any value. If you ever review any merger tribunal cases, you will find that the industry tends to hoodwink the tribunal into thinking only of competition in simplistic terms, because it is very convenient, and they know that you are totally disempowered. That the competition you are getting is not valuable”.

P13 added on how it perceives Discovery’s level of innovation:” Discovery innovated as a degree of demographic competition and demographic mitigation. But the real thing they compete on is broker kickbacks- basically marketing and Vitality plays a role in that...So with the broker kickbacks arrangements, they pay the broker the advisory on where clients should go. This also happens on the Dr side. This means the gatekeeper to demand for medical schemes are brokers. In most environments you do not have a gatekeeper to demand. When you go buy

an iPhone or another product, you decide whether you want to upgrade or not or need a new phone. You do not go to an intermediary, nobody goes and tells you buy this one and you accept without negotiating, but you do that for medical schemes. Once you have a gatekeeper for demand, the temptation is, for the beneficiary of that demand, which is the medical scheme administrator, to influence decisions with the broker, so once they have the broker on their side, they don't need to worry about you. You are irrelevant as a customer. Therefore, it is first important to keep you out of the picture and secondly, to make sure the gatekeepers are captured”.

P13 continued to criticise the structure of its dealings with customers: Discovery has not shifted into more creative contracting with service providers on behalf of customers, to lower down customer costs. They have no interest and I have engaged with them a lot, on these issues. The discussions I have had with them on contracting designs is elementary variations. They have no structural investment into new ways of contracting.

It is quite clear that, internally at Discovery, the narrative is that the company is very innovative while the external respondents on their business model tend to think the opposite. External respondents acknowledged Vitality is a creative concept, that is a nice to have as a marketing tool and a way to differentiate Discovery from its peers, but that it has not solved the big access to healthcare problem and that to some extent has contributed to the distraction of new entrants and much needed necessary competition that would make way to access to equitable healthcare in South Africa. taking care of this problem.

Insightful answers to RQ3, ‘how Discovery innovated’ were obtained from internal secondary sources such as:

- Vitality Group website
- Discovery GIBS Innovation Masterclass presentation: Innovation 20/20, A Masterclass with Discovery Vitality
- Evolution of Discovery, an internal Discovery report
- Harvard Report, Porter....
- In the company newsletter shared with the researcher (Vitality: Transforming financial services for good, 2019)

These sources are available from the company's website, while other data, such as 'Discovery GIBS Innovation Masterclass presentation: Innovation 20/20', and 'Evolution of Discovery Report' listed above, were personally shared by one of the executives who participated in the primary data collection interviews, after stating to the researcher that these presentations outline Discovery's business model more clearly in a manner not publicly shared before.

According to the collective narrative of these sources, Discovery's leadership created a product called Vitality which would later evolve into a fully-fledged company, the Vitality Group. The Vitality Group website describes the business as a behaviour change company that helps leading organizations around the world improve the health of their employees, clients, members, and customers. While it describes the Vitality product as a behavioural-change programme that encourages and rewards customers for living healthier e.g going to the gym, running races, and choosing healthier food options (Vitality Group website, 2020).

The company translated its purpose into strategy and operations by integrating a powerful set of economic incentives for customers to engage in healthier behaviours into its health insurance offering (Porter et al 2019). Customers are rewarded for reaching weekly exercise goals and receive rebates on the purchase of healthy foods through a sophisticated set of incentives developed by behavioural economists and monitored through apps and wearable fitness devices as the Vitality Group website states.

According to the company website, Vitality Insurance focuses on the key risks (smoking, no exercise, unhealthy food) underpinning chronic diseases, using incentives to boost engagement in assessments and preventive screenings, and providing discounts for things like healthy food purchases and gym memberships. It turns out that just four risk factors (poor diet, physical inactivity, tobacco use, and excess alcohol intake) lead to four chronic diseases (cardiovascular disease, diabetes, chronic lung disease, and various cancers) that contribute to 60% of deaths worldwide and 80% of the disease burden (Vitality: Transforming financial services for good, 2019). These incentives encourage customers to make healthy lifestyle choices and the changes are incorporated dynamically into the price they pay for Discovery insurance.

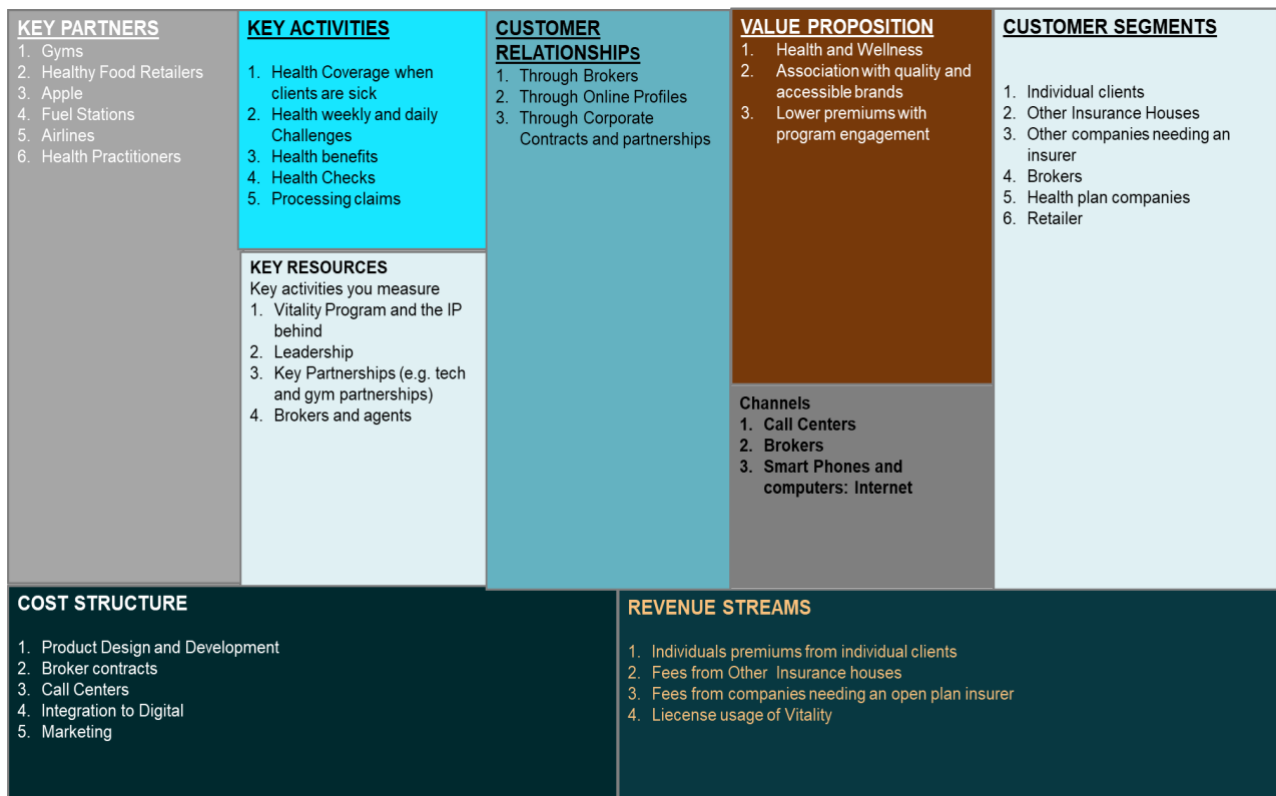
According to the Vitality Group website, the connection between prevention through healthy lifestyle adoption, leading to lower insurance premiums, results in a virtuous cycle called

“Shared-Value” Insurance, which shares material benefits between the insurer (more profits), clients (greater health and financial rewards) and society (lowered healthcare costs and a healthier, more productive workforce), generating economic value which funds the incentives that lead to behaviour change.

Ultimately, Discovery ends up experiencing lower claims, higher margins, positive selection (quality clients-young and not sick, therefore not high risk), lower lapses, and its clients experience less disease burden, improved productivity, and overall healthier society, this according to the company website. The company has licensed its proprietary approach to many of the largest life insurance companies in the world, dramatically expanding its market reach (Porter et al). To date the business model has been rolled out to 19 markets, impacting close to 10 million members, in partnership with leading global insurers that use Vitality Shared-Value Insurance in their markets.

In the company newsletter shared with the researcher, (Vitality: Transforming financial services for good, 2019) the leadership of the business narrates that the model is also responsive to dominant trends, including increased social expectations of institutions to be purpose-driven, and the growing role of technology in health and wellness (for example, the explosion of wearables and self-tracking). Vitality embraces technology as a catalyst to deliver shared value, for example, partnering with Apple to create Vitality Active Rewards with Apple Watch, which combines Apple Watch with incentives to encourage healthy behaviour (Vitality: Transforming financial services for good, 2019).

Borrowing from Osterwalder et.al (2005) business model canvass framework and drawing from all insights gleaned from secondary data sources, the researcher unpacked Discovery’s business model below into the different key elements of the business to highlight how the business operates and creates value. A layer of eco-social benefits and costs could be added to highlight the “shared value” impact of the business to stakeholders. The eco-social benefits are mainly to clients in the form of overall health benefits from engaging with the vitality program.



Source: Osterwalder, Pigneur & al. 2010

Figure 7: Discovery's Business Model Canvass

Discovery's business model above is a depiction of the interdependence which strategic partnerships and cooperation with stakeholders had to be forged for the entire idea of shared value to work effectively. This aligns with assertions from internal participant interviews about how partnerships were forged to realise the business model fully.

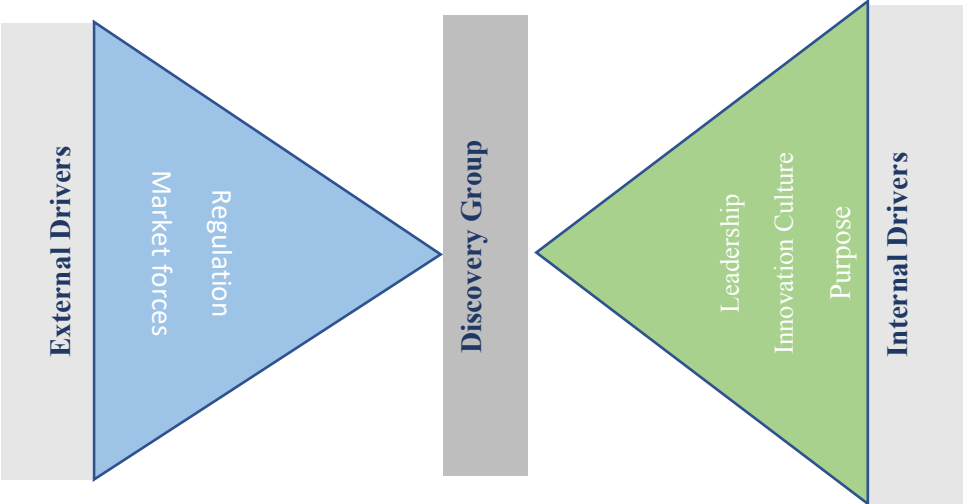
On how Discovery innovated, the secondary data sources align with primary research in that they both highlight the importance of first having a purpose, technology as an enabler and how strategic partnership catapulted them to success. Where there is a contrast in the primary and secondary data is just how fundamentally innovative Discovery is, with external participants criticizing the company of over hyping their story using marketing and selling a rewards program as a lifestyle changing tool.

The difference in company perceptions and sentiments around the causes of success between the internal and external participants has been very interesting to observe. At the end of the day, Discovery is a very successful company commercially and, in our time, there are a lot of

companies that are run successfully but are not fundamentally sustainable. In future though, combining strategy with sustainability will have a direct impact on commercial success as multiple stakeholders' demand to see this value in every company, for the sake of fair and just markets.

4.4.Summary

Based on the findings above, the following is a figure summarising the outlined themes from the two main questions: internal and external drivers of business model innovation for sustainability:



Source: Author (2021)

The purpose of the research interviews was to facilitate a deeper understanding of the experiences of the research participants. This had specific reference to their lived experience as executives at Discovery, for the internal participants and the careful observation and lived experience of the external participants.

With these findings, the Business Model for Sustainability framework and literature on the subject was used as a lens through which to analyse the experience of the research participants and develop a more systematic understanding of the problem to be addressed.

The following chapter provides a detailed analysis of the answers to the research questions posed earlier in chapter 1.

5. DISCUSSION OF RESULTS:

“...we have come to believe that if we expect to overcome the forces of injustice and inequality, we need to expand our imaginations and our arsenals.”

(Walker, 2017, p.1)

5.1 Context to the Results Analysis

This chapter discusses the themes that emerged in the results section, in relation to the literature review in chapter 2. It discusses that which was consistent, not consistent, and new in comparison to the literature review as well as the rationale for that. Analysis and insights are provided to the in-depth interviews conducted with all the participants and to the secondary research that was used to triangulate the survey findings.

The objective of this research was to investigate the drivers behind Discovery’s business model, how it was developed and if a similar framework can be used by other businesses. The researcher’s assumption from the onset was that Discovery’s business model is one innovated to integrate sustainability. However, insights from both the primary and secondary research indicate that the researcher’s assumption was incorrect. The data studied revealed that Discovery’s business model does not fully satisfy the tenets for a business model innovated for sustainability, this was a fundamental discovery.

Discovery refers to its business model as a Shared Value business model. It is important to note that Discovery never claimed nor set out to innovate a business model for sustainability. The researcher assumed this based on the public messaging Discovery shares with the market about its shared value business model, which does sound to a great extent, like a sustainability one. The analysis that Discovery’s model is not a business model innovated for sustainability is discussed below. This is done by contrasting a business model for sustainability and a shared valued business model as well as highlighting findings from secondary data that speak to the gaps in Discovery’s business model. The analysis of the secondary data aligned with external participants’ views on the lack of impact of Discovery’s business model on structural issues in South Africa.

The secondary research aspect that clearly articulated Discovery's gaps in fully addressing sustainability were mainly found in the Health Market Inquiry (HMI) report. While this exploratory research was conducted, the Competition Commission ("CC") of South Africa undertook a Health Market Inquiry (HMI) into the workings of the private health care sector. Discovery is a direct participant in this inquiry. The CC initiated the HMI after observing above inflation price increases in the private health care market. Most of this research is compiled under Appendix C, which outlines the different secondary data sources and the summary of the findings.

As stated by Voigt (2020), these medical price increases had reached a level that only an elite few South Africans [could] afford. This was proven by the (small) share of the population with access to private healthcare. This exclusion of the masses raised concerns about the workings of the private health care market. The HMI report deduced that the health industry in South Africa was "neither effective nor competitive" with grave implications for private medical care consumers (Voigt, 2020). Therefore, the HMI report made several recommendations to correct this.

In this same report, Discovery was found to be one of the major contributors to the skewed playing field of the health sector. In summary, it was found to be materially dominant in the health sector in a manner that averts competition. It was found not transparent enough with its products, obstructing access to health for the masses and entry of competitors, thus ultimately blocking innovation. For these reasons, Discovery's business model was found to be wanting on the sustainability side.

Discovery's critics in the form of external interview participants labelled Vitality a marketing gimmick, as outlined in the results section, chapter 4. They speak of how Vitality was created to serve healthy people only while leaving the vulnerable and unhealthy for someone else to insure. When studying Discovery's secondary sources, one gets a sense that it is happy with the pool of clients it tends to attract, and it is not interested in the fundamental problem of universal access to healthcare, even as pointed out above by the HMI report findings.

The above deductions are in contrast with BMIFS's definition and theory, which is fundamentally about accountability, particularly to marginalised groups of people. Business Model Innovation for Sustainability (BMIFS) is about the build-in of accountability, inclusivity, and fair business practice in strategy.

This is a classic case in the tension that exists between doing well and doing good often cited in the discourse of the purpose of business in general. As revealed by the HMI report of the CC, the socioeconomic problem of health inequality present when Discovery got established in 1992, is still prevalent to this day. The Discovery founders understood quite clearly the demographics and socioeconomic challenges of the day when they started the company. However, instead of solving for it, they found a way around the problem, resulting in a cosmetic caring image through their purpose marketing message. Through a smart legal structure, strong marketing message and business model, they became a stumbling block to overall competition and thereby innovation, whilst raking in significant profits for their shareholders. This reflects the complexity of not only operating in the health sector but also of innovating a new business model that tries to balance profits with doing good. In Discovery's case, the issue is that they solved cosmetically instead of fundamentally. Sometimes when a problem is solved, another is created.

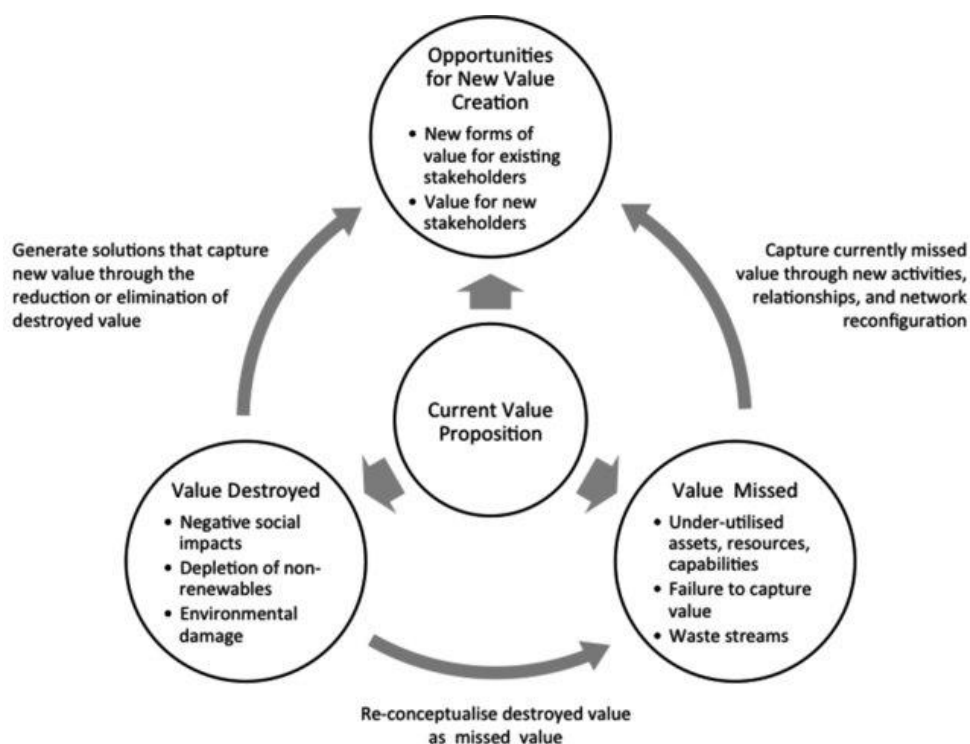
The rationale for Discovery's business model choice provides further insights into the evolution of the corporate sectors understanding of business models for sustainability. This missed opportunity by Discovery to contribute much more significantly by fulfilling the tenets of sustainability, is very telling of the knowledge gap and thereby readiness for big business to adopt business models for sustainability. This finding is worth noting and highlights the inherent tension between economic and societal objectives.

This fundamental deduction about gaps in the sustainable aspect of discovery's business model, does not invalidate the research questions asked as answers discovered about Discovery's "Shared Value" business model provided even richer insights. The researcher obtained insights not only into drivers but hindrances to true BMIFS as well as the rationale as to why companies that try to embed sustainability often fall short. The research questions and answers are therefore relevant to what the researcher aimed to discover.

5.1.1 Business Model Innovation for Sustainability Tenets:

The definition of a business model innovation for sustainability illuminates to the fore tenets that ought to be fulfilled for a business model to be centred on sustainability. In comparison to this definition and given the contrasting reviews from the interviews and secondary market data on Discovery’s failure to address and instead exacerbate systemic inequality in healthcare, the conclusion that Discovery’s model is flawed regarding sustainability was reached.

Bocken et al., (2014) defined business model innovation for sustainability as “innovation that creates significant positive impact, and significantly reduces negative impacts for the environment and society, through changes in the way the organization and its value-network create, deliver, and capture value or change their value propositions”, (pg.47). With the backdrop of this definition and the value map below, Discovery’s business model was tested.



Source: Bocken,, Short, Rana, & Evans, S. (2013).

Figure 8: A value mapping tool for sustainable business modelling

The value map describes and develops four forms of value uncaptured: value surplus, value absence, value missed, and value destroyed. According to Yang et al (2017), the findings show

that the new mindset around value uncaptured can help companies grasp the negative elements of their business models whilst also helping them identify new value opportunities which lead to innovative business models with higher sustainable value.

Table 4: Four forms of Value uncaptured

Value uncaptured: the potential value that could be captured but has not been captured	
Value surplus	Value which exists, but is not required
Value absence	Value, which is required, but does not exist
Value missed	Value which exists and is required, but is not expected
Value destroyed	Value with negative consequences

Source: Yang et al (2017)

It follows then that Discovery’s business model has both destroyed and missed value even as it has created new value, according to the findings of both primary and secondary data. It has destroyed value because of the negative consequences of not being transparent in its products, obstructing access to health for the masses and entry of competitors and ultimately blocking innovation. It has missed value by not offering and innovating affordable health insurance products for the potential customer at the bottom of the LSM (Living Standards Measure). Based on these shortcomings, it does not qualify as a business model innovation for sustainability.

5.1.2 Shared Value Model vs Business Model Innovation for Sustainability

Discovery’s business model, as self-proclaimed, is a shared value model. Porter and Kramer (2011) described shared value as the blueprint and operating activities in a firm that improve competitiveness, at the same time advancing the socio-economic conditions in the communities in which it does business. The Shared value model has been widely criticised for oversimplifying the execution of environmental and social impact by companies while making profits.

Crane et al. (2014) criticised CSV (Creating Shared Value) as not being a solution to the problems that come with capitalism, but a symptom of a bigger problem in management that is itself confined to the current shortcomings of the capitalist system. Crane et al (2014), argue that shared value is designed as a tool that supports the oversimplification of the purpose of business. That CSV still highly rates the creation of economic value, while adding the strategic search for win-win potentials with societal development as an afterthought (Crane et al 2014). They continue to add that shared value is thus an instrumental approach that does not add new knowledge or broaden the reason for being of business in society but seeks profit-driven win-win situations (Crane et al 2014).

The other issue with CSV is that, while seeking win-win opportunities is clearly important, this does not give direction on how to deal with complex events where social and economic results are not aligned for all stakeholders. A case in point is Discovery. In that in aiming to achieve its own profit objectives while making their customers healthy, also created the unintended consequences of exacerbating structural inequality with its product. This by only attracting the already privileged and healthy customers, while leaving out the sick and underprivileged customer base. It destroyed value as defined above in the Four Forms of Value Uncaptured diagram. Although it helped clients tackle health head on, it simultaneously exacerbated unequal access to healthcare. In fact, inequality widened in the private healthcare sector because of the dominant offerings of Discovery's business.

As such, CSV ignores the pull between social and economic goals (Crane et al, 2014). This ignorance can trigger and create missed value moments for companies, in the form of value uncaptured, destroyed or missed. This can give rise to negative social contribution in aspects such as equality and limited advances in terms of poverty alleviation, despite a company expanding the numbers of clients and becoming more profitable.

5.2 Analysis of Results

The following is the analysis of the results for all the research questions explored:

5.2.1 Research Question 1 Analysis:

As mentioned above, the questions were posed with an assumption that Discovery's model is one that integrates sustainability. It was discovered post research and through the process of

collecting answers and coding the themes, that Discovery's model is not typical to one that integrates sustainability. The contrast between Discovery's model and one that integrates sustainability was also outlined above in section 5.2 above.

Below is an analysis of the themes that emerged from the research question answers. The aim of the first research question was to explore the factors within Discovery, that drove it to successfully pursue a unique and highly competitive business model that innovated a reward program for healthy behaviour. Discovery's model might not be a full sustainability one, but it goes without saying that the market recognises it as a successful, innovative shared value model.

As per the findings, leadership capability, purpose and innovation culture were the consistent internal drivers of Discovery's shared value model. It was interesting to discover that leadership capability, is the reason for the adoption of the other two values: purpose and innovation culture.

a) Leadership Vision and Capability

Leadership vision and capability emerged as a leading theme and one of the internal drivers to Discovery's shared value model. Ten (10) out of fourteen (14) participants made direct reference to the leadership of Discovery as a clear contributing factor to the success of the company. Twelve (12) out of 14 (fourteen) participants indirectly referred to the dynamic capabilities displayed by the Discovery leadership.

Aware of their capabilities, the market opportunity and resources at their disposal which included access to start-up capital, the founding team at Discovery set out on a mission to disrupt the traditional health insurance market. Without these capabilities to navigate the treacherous start-up years and respond to rapidly changing customer and regulatory needs, it would have been very difficult to create a compelling and profitable business model.

The results from both internal and external participants interviews, point to Discovery possessing not just ordinary leadership capabilities but dynamic capabilities. There is a stark difference between the two. Ferreira et al., (2020) defined dynamic capabilities as the ability to solve problems methodically, empowered by the capability to discern market gaps and, to act quickly whilst evolving in the execution of strategic decisions. Competitive advantage and

firm performance are directly linked to dynamic capabilities and innovation (Ferreira et al., 2020)

Table 5: Difference between Ordinary capabilities and Dynamic capabilities

	Ordinary capabilities	Dynamic capabilities
Purpose	Technical efficiency in business functions	Achieving congruence with technological and business opportunities
Mode of attainability	Buy or build (learning)	Build (learning)
Tripartite Schema	Operate, administrate and govern	Sense, Seize and transform
Key routines	Best practices	Signature processes
Managerial emphasis	Cost control	Entrepreneurial asset orchestration & leadership
Priority	Doing things right	Doing the right things
Imitability	Relatively imitable	Inimitable
Result	Technical fitness (efficiency)	Evolutionary fitness (innovation)

Source: Stoyanova. (2015).

Winter (2003) stated that at the most minimum level, ordinary capabilities (low order capabilities) are the daily actions that allow companies to survive and function their current business model. They are monotonous and require little design or strategic thinking. Teece, (2018) made a case for dynamic capabilities as higher-level capabilities which involve sensing, seizing, and transforming. Teece (2008) decoded sensing as the ability to spot opportunities in the market and make good judgment about the feasibility of that opportunity. Seizing as the ability to then put together resources to respond to the opportunity and create value. Lastly, transforming as the continued evolution of the company when new opportunities present themselves. Based on the rationale that dynamic capabilities have everything to do with change, they are therefore critical for corporations to create, rework and change their business models (Teece, 2007). Given that Discovery founders were concerned with change, it was critical that they possessed dynamic capabilities. Teece (2018) further argued that the building and operation of business models is linked to a firm's capabilities.

The following are practical demonstrations of how Discovery’s leadership utilised not only the important ordinary capabilities, but also evolved into dynamic capabilities of sensing, seizing, and transforming to build a differentiated business model.

– Vision (Sensing Ability):

All interviewed Discovery executives shared the story about the socioeconomic and political landscape of South Africa at inception of the company. They all weighed in on how their ability to sense the needs of that moment, influenced their choice of business model. The sensing ability of Discovery's leadership was well demonstrated, when they opted for a model that managed the pay-out risk by lessening the number of sick clients, instead of grappling with tight margins as experienced by traditional insurance. The founding team therefore read the market right when they observed the high disease burden caused by AIDS and lifestyle diseases in the early 90's.

Each executive clearly understood the macroeconomic environment within which the business was started, the rationale for the business model and the company's unique selling proposition and their role in delivering company strategy.

– Adapting: (Seizing)

The executives demonstrated the ability to evolve and adopt different business practices never seen before in the market. An example of this was when Discovery partnered with health clubs to offer gym memberships to their clients in alignment to their company mission to make people healthier and protect their lives. The interview participants gave an account of the company's ability to engage external stakeholders for strategic partnerships with an aim to overcome business hurdles or pursue innovative ideas. The company has since established similar multiple partnerships with the likes of airline companies, grocery retailers, and restaurants. The ability to partner with external stakeholders to achieve an objective demonstrates the high order capability of adapting and seizing.

– Transforming: Technology and Marketing skills

Transforming is reference to the continuous improvement of skills and capabilities. It is the quality to continuously learn and obtain new unrelated skills or to elevate the quality of the same skills. During the interviews with the participants, it was discovered that this is the case at Discovery. The founding CEO is known for his intentional marketing tactics in the market

and his outspoken nature regarding their vision and business model. Discovery's CEO is an actuary by trade but very well known in the market as a consummate salesman and marketer.

One of the external respondents, in criticism of the business model at Discovery, let in on how Discovery's CEO went as far as offering to teach a case study on Discovery, at Harvard Business School. This led to him obtaining Discovery a mention in journal publications and case studies of the professors that hosted him, Michael Porter and Mark Kramer, the very minds behind the CSV (Creating Shared Value concept). This, the participant interpreted as a desperate CEO seeking to claim credibility and relevance in the international business community, particularly as the company was planning a global rollout of the Vitality product.

All interview participants referred to Discovery's culture of consistently offering unique products, technology, and achieving impressive financial results compared to their peers. The internal participants referred to a very dynamic fast paced culture that challenges employees to keep up and or leave. All this can be attributed to the ability of Discovery to transform through learning and evolve at the same time.

In the literature studied, there is support for the view that the right type of sustainability leadership, is needed in the leadership ranks, to be able to take advantage of the opportunities offered by sustainability. Teece (1997) and Winter (2003) argue that to understand the success and failure of Business Models for Innovation and by extension for sustainability, dynamic capabilities are of relevance, as strong dynamic capabilities allow the firm to adjust and redesign its business model (Teece, 2018). This was the case with Discovery needing to move away from the traditional health insurance business model that was no longer profitable but was also not addressing the socioeconomic needs of lower LSM health customers.

In conclusion, a shift from traditional business models to novel business models that centre sustainability is almost always preceded by strong visionary leadership with strong dynamic capabilities. Strategy always flows from the top down. The choice of this unique business model by Discovery was very much designed and delivered to market by the executive team. In the literature studies, leadership as a driver for innovation and moreover sustainability innovation can never be over emphasized.

The theme on leadership capability is very much aligned to the Resource Based Theory and Dynamic Capabilities Theory discussions in the Literature Review section of Chapter 2. Nothing new was discovered under this theme compared to that which is found in literature. Discovery was equipped to take advantage of the health market opportunity at inception

because of its dynamic capabilities. The quality of its CSV business model and its prospects for success is very much dependent on the quality of the capabilities inherent in its leadership

b) Purpose

Purpose in this research study emerged as one of the dominant themes, with most of the participants referring to it. The most interesting referral in this study to the purpose theme was of an equity analyst that went as far as stating purpose as the sole reason Discovery is the most resilient and profitable compared to its counterparts. Yet this theme is not so prevalent nor widely captured in the literature studied around drivers for business model innovation for sustainability. It is therefore not aligned with what was found in literature.

In the case of Discovery and as deduced from the survey interviews, the design of their novel health insurance model was a response to the socioeconomic realities of South Africa which demanded that companies include and care deeply about the wellbeing of citizens. This pushed the founding team at to solution beyond the normal traditional objectives of profit maximisation for shareholders and to think creatively about how to prioritize the health and wellbeing of South Africans. This external pressure forced the founding team to internally introspect and design a suitable response in the form of a company premised on a purpose. Discovery describes its purpose as: Making people healthy, protecting, and preserving their lives”.

Purpose is defined as the reason behind action. It is the “why” behind what we do. From an organizational lens, purpose is the reason behind the activities of creating products and services and selling them to customers. Purpose is the glue that binds sustainability with business strategy or business models. It is usually the reason to integrate sustainability into business models. In Discovery’s case their purpose to make people healthy, protect and enhance their lives led to the creation of the Vitality product which sought to reward the healthy habits of their clients. It is this purpose that enabled them to centre sharing value with different stakeholders into their everyday activities.

Commitment to sustainability usually emerges through company leadership in an organization. This is often in the form of personal and individual value system as opposed to collectively. The relationship between leaders’ personal values system and their ability to draw from that in designing the vision, mission, and purpose of a company is hardly discussed in business literature. Yet, this is a theme that emerged with this Discovery case study. The link between value systems of leaders and choice of business models is not researched and reported on

sufficiently in corporate strategy. Companies are led by humans with innate drive that leads the vision and purpose under which companies are led.

Sensing the tension between doing good as legislated on by the post-apartheid government and profits, the founders realised that business as usual would not succeed and that they needed a bigger purpose to stay long in this business. All internal participants alluded to this purpose and pointed to it as the primary driver for all product innovations following Vitality.

The key takeout from the purpose theme, is that, for a sense of purpose to emerge, the founders first needed to introspect on the macroeconomic forces in the market and the reality of the low social standing of South Africa's citizens. Therefore, it would be too simplistic to assume that purpose as a driver for sustainability is easily arrived at and inherent in great leaders. It is first forged by a desire to do better than what is currently the case in each businesses sphere or community. In Discovery's case, the ability to phrase their purpose was because of a confluence of specific events and seismic changes to that which no longer worked as an offering in the market

c) Innovation Culture

While purpose is the glue that binds sustainability to business models, innovation is the conduit through which sustainability happens in corporates. Much like the purpose theme, the researcher picked up a pattern with the innovation theme from all survey participants. All participants referred to the innovation reputation Discovery has gained in the market and thus its competitive advantage. The innovation theme in this study is very much aligned to the literature reviewed on innovation as a key driver of business models for sustainability. Business model innovation has seen a recent surge in academic research and business practice mainly because sustainability has become a business imperative. At Discovery, the culture of innovation, the commitment to innovation and the thinking around it is demonstrated in the following manner:

Founding Strategy: At the outset, in 1992, the founding team set out to be innovative and not follow the traditional insurance market that was struggling to make money.

Innovation not the goal but an enabler: In the discussion with the participants, it was clear that, although innovation is highly regarded in the company, it is not an end but a means to achieving the purpose of the company, which is to make people healthy. As one respondent put

it, Discovery doesn't innovate simply for innovation's sake, but that innovation is a process that helps to realise the company's core purpose through products.

Innovation as a rhythm, a system and culture: At Discovery, innovation is embedded in operations, in the ways of working and inculcated as part and parcel of the company's culture. This position on innovation was validated by one respondent when he emphasised how innovation is not just a buzz word, but a plan, a process, and a system of how business gets done.

The rhythm of innovation at Discovery is entailed in activities such as annual competitions, which encourage innovation and the R&D labs.

Play the long game: Discovery certainly plays the long game and financially invests in new novel businesses and products that keeps it at the top of the insurance market. The company has a dedicated product development division that is backed by a Research and Development team. Many scholars in literature have noted that truly innovative companies invest in Research and Development to be at the forefront of the latest competitive tools and products. Which means that they are willing to wait the long haul for the design, market testing and sometimes pivots of their design to launch new products that align with customer needs.

The answers to the first research question all fall into the category of "soft skills". This aligns to our literature review chapter that states that soft skills help companies navigate volatile, uncertain, challenging, and ambiguous times (VUCA) and are critical for optimal business model innovation.

It is safe to conclude that Discovery has established its brand as a highly innovative company since inception. The areas in which it innovates and whether that is material to the stakeholder is open for debate. A select number of external participants disagree on the significance or importance of what Discovery has innovated on. This seems to be supported by the Health Market Inquiry report of 2019 that is attached to this research as Appendix C. The report states that although Discovery is seen as innovative in the market, it has not innovated products that structurally and positively changed the status-quo of previously excluded citizens. It further goes to mention that Discovery hinders real structural innovation from happening in the market by other providers, as it has in essence 'played the game' to obtain a very dominant position in an industry with high barriers to entry. More on this take was outlined in Appendix C and in the introduction section of this discussion chapter in terms of the differences between a Shared Value model and a business model for sustainability

5.2.2 Research Question 2 Analysis

The aim of the second research question was to explore the factors outside of Discovery, that drove it to pursue its unique competitive business model. Based on the survey, the following external qualities of the company were found to be the consistent themes.

a) Regulation

Healthcare is a highly regulated sector. In this research survey, most participants agreed that regulation plays a significant role in keeping Discovery and its peers on its toes. Literature widely acknowledges regulation as the external driver for business model innovation. In this study, it was clear to see from the results of the interviews and the secondary data that since the beginning of Discovery, regulation played an important role in shaping the trajectory of the company. Regulation demanded that previously excluded black people from healthcare, be granted access.

As gathered from literature studies on socioeconomic dynamics of SA, and the research results in chapter 4, when Discovery started in 1992, it was right at the point of the greatest political moment in South Africa. Political power and apartheid policies were shifting. The new democratic power, the ANC (African National Congress), envisaged that black people share in the basic resources of the country. This had implications for the health sector too.

It is quite clear that in recognising the government's objective of access to health for all and how commercially unsuccessful this would be for the new health insurer, Discovery responded with a product that would significantly differentiate itself from the competition. Discovery's mission was to secure profitability through a purpose strategy of getting people healthier to then experience a low insurance pay-out ratio.

In analysing the results on regulation as an external driver from chapter 4, the following was observed:

Discovery quite understands the challenge of being in a sector that is highly regulated and the impact thereof: Participants referred to how regulation does force innovation. This was aptly put by respondent P2 when he shared that: "legislation is a bit of a damp in our corner,

we respect the law, we never try cut corners, but tough regulation can force you to be more innovative as you find your way around”.

Discovery’s business model is threatened by the looming National Health Insurance:

Following the National Health Market Inquiry findings that there is market failure in the South African healthcare sector, the government sought to correct this by introducing the NHI (National Health Insurance) bill. The role of the NHI will be to bring equal access to every South African. What this means is that most of the work done by the likes of Discovery, will be the responsibility of the government thus taking business away from Discovery. However, many participants mention uncertainty of policy and poor public sector ethics record as a barrier to NHI’s execution.

Compliance to regulation is one of the top three reasons why businesses feel compelled to adopt business models for sustainability. This implies the power the government has as a driver for sustainable development. Governments act to a large degree as catalysts for businesses to be the force for good that they can be, if governments create the right legislative environment for this to be a reality.

In SA’s constitution, access to health, more like housing, water and education is seen as a basic need and a human right and thereby a driver for any innovation that seeks to provide access to health care.

b) Market Forces as a driver (Inequality, Demand, Investors)

The analysis of the market forces results from chapter 4 led to the conclusion that the systemic issue of unequal access to healthcare led to increased demand by society and thereby the government. Consequently, the medical inflation at the time of Discovery’s genesis, meant low margins for health insurance providers. This ultimately led to investors demanding a change in the traditional business model of the health insurance sector. Investors, realising that the current health insurance offering will not offer high returns pari-passu the risks, demanded a change in the business model from any new company seeking to compete with the traditional health insurers. This is what Discovery founders experienced from investors when they raised capital to start their business.

The central human and societal issue in this research exploration was access to quality healthcare by all South Africans. An issue that directly affects the disadvantaged families, who

during pre-democracy did not have access to healthcare and still face this significant challenge today.

The theme of market forces as drivers for BMiFS (business model innovation for sustainability), in the context of the healthcare market, was resonant with most of the internal and external participants. It was stated as a natural response to the economic environment. Much about the genesis of Discovery was discussed under the preceding themes of purpose and regulation and how unequal access to healthcare influenced Discovery's business model. Most participants mentioned the socioeconomic landscape and subsequent market demand as main external drivers for Discovery's shared value model.

Investors as drivers for BMiFS are an exception when comparing the research findings of this study to the literature review. This study showed pressure from investors to develop a different profitable business model that is long term focused – innovation is a long game. However, in literature, investor pressure is centred on demanding quarterly performance from companies. The pressure emanating from investors, in Discovery's case, was not for the short term nor was it for the development of a BMiFS. The investor pressure was for Discovery to develop a new model that was profitable and yet innovative.

Given the socioeconomic dynamics in the healthcare sector, Discovery came up with the purpose and products centred on making people healthier. This helped them manage their liability (pay-out ratio) and to become more profitable. Therefore, investors are an indirect yet potent driver for innovative and inclusive business models. This was not consistent with the literature studied, because in the current literature, investors are criticised for favouring short term results over long term results. They are criticised for being passive around sustainability matters and not educating themselves on the long-term benefits of investing in business models for sustainability.

Market forces refers to the macroeconomic landscape that business operates in and finds its relevance from. Secondary data findings also highlighted how demand and supply, competition and regulation are key to business model design. If businesses do not respond to this external landscape, they will not survive.

5.2.3 Research Question 3 Analysis

Given the results in chapter 4 from primary data participants and secondary data sources on how Discovery innovated, the following analysis was reached:

- By responding to the reality of the market forces (regulation, low margins found in traditional health insurance models, structural inequality), the company realised it had to dig deeper and do something different compared to the usual offering in the health insurance market.
- In their case, a realisation to be disruptive led to the ultimate idea of managing the risk (having less death and less sick people on their database) instead of just costs, to increase their margins and thereby profitability.
- This led to the big aim and purpose of making people healthier through incentivising their healthy behaviours. This based on understanding the relationship between behaviour and short- term rewards to achieve long term goals.
- By having an end goal of managing risk and lowering liabilities of the company, they were able to work backwards to the exact details of actioning this goal. Traditionally, liability risk had not been tackled in this manner, hence the novelty of their Vitality product.
- By utilising the reward program to collect data about the health behaviour of their clients, they were able to understand their clients better and therefore cross sell other insurance products based on this same health behaviour.
- They utilised technology to collect the data and engage with their customers for rewards and better health content. The technology became a source of big data which gained industrial strength and momentum. This they used to manage customers at a global scale, by selling off the platform to other international insurance providers. The cost was a once off expenditure of building the technology platform and continuous maintenance.
- From the onset, Discovery's model was to try and attract the young people to have clients that will pay for the longer term for Discovery to reduce their pay-out ratio even more.

Critics state that Vitality is a loyalty program that Discovery built to market itself and other products, however, there is no evidence of the product having any positive effect on health costs, and on how it influences health behaviour.

Discovery through technology owns big data sourced from client files. Its competitors do not have the same level of big data about their own clients. It is now a big data company. Because of this big data, the company understands the correlation between exercise and health deeply. No insurance company in the first world has achieved that. The customer profiles are the result of ten million life years of data and 30,000 mortality events that link back to it. This was mentioned to the researcher by the product specialist at Discovery who participated in our interview survey.

In conclusion a company from face value, can seem to be committed to sustainable development. Sustainability sounding marketing messages, customer rewards programs and a grand vision and mission are not enough to contribute significantly to sustainable development. For corporates to be true agents of sustainable development, they will need to commit to structural changes and not just cosmetic changes to their business activities. This is usually carried through an overhaul of old business models that seek to enrich shareholders at the expense of other stakeholders. True sustainability business models achieve that balance of serving all stakeholders without taking from any.

A company can succeed financially, grow internationally and be the standard for dynamic capabilities in action and simultaneously create the negative social consequences of widening inequality. Case in point is Discovery. Going forward, it is imperative that the business sector moves beyond self-serving management theories such as shared value, that easily gain momentum and yet do not comprehensively change the socioeconomic dynamic in a positive manner.

6. CONCLUSIONS, RECOMMENDATIONS AND FURTHER RESEARCH

6.1 Conclusion – Research Question 1

Leadership dynamic capabilities, innovation culture and purpose emerged as the three answers to research question one. All these qualities are in essence defined as soft skills or values. Soft skills matter a lot in business and matter more than strategy and the execution of that strategy as they determine the type of strategy that will be adopted in the first place. It follows that, prior to executives' teams devising innovative business models for sustainability, it is critical to ensure the availability of the soft skills within their leadership team. Soft skills are a prerequisite to the successful design of appropriate and sustainable business models.

Dynamic capabilities as outlined in chapter 5, are critical as every strategy is executed from the top down. In business, it is as important to know that which you do not know, as it is to know that which you do know. This helps with identification of resources that are missing and are necessary to the adoption of innovative business models for sustainability.

Innovation is the glue that drives the vision of sustainability to become a reality. Sustainability is a long, daunting game that is complex and requires new creative ways to succeed. Innovation as a prerequisite works best if embraced as culture, a way of operating and thinking as demonstrated by Discovery's culture, as opposed to a once off activity. Discovery lives and breathes innovation. It budgets for it, creates systems to develop innovative products, employs for it, invests in it through Research and Development and rewards innovative employees.

The quality to be purposeful, from the inside out, is critical as it helps executives to move away from external motivations of responding to sustainable development, which are often compliance based. Compliance based motives are directly linked to the high failure rate of business models for sustainability. Possessing a strong internal conviction of embarking on designing business models for sustainability is important. Purpose is the ability to begin with the end in mind, with an overarching vision to make significant positive impact to core business activities. It gives the team the conviction to stay the course during tough seasons and when technology evolves.

6.2 Conclusion – Research Question 2

Government regulation and market forces of demand, competition, inequality, and investor expectations were found to be dominant themes answering research question two. Macroeconomic indicators and market forces cannot be ignored when responding to a critical global issue such as sustainability. For a business to be profitable, it has to offer a product or service that fills a gap, it must do so while adhering to government regulation. Thirdly, for a business to participate in sustainable development, it must choose a material environmental, social or governance issue that it can help solve. In Discovery's case, health inequality was a significant material problem that made sense for a health insurance company to try and solve for. Materiality regarding sustainability integration into core business models is key as it is proven to be a more effective way for businesses to get involved in sustainable development. Materiality refers to the relevance of an ESG problem being solved by a company in relation to the company's core business activities.

The importance of governments' role as a catalyst for sustainable development and a creator of a conducive environment for fair and good business practices, can never be overemphasized. At Discovery's inception, the post democracy government desired healthcare to be as fair as possible and available to many people as possible. An "egalitarian regulatory system" with guaranteed issue, community rating, high mandated minimum benefits were some of the matters Discovery had to grapple with. Had it not been for the intervention and policies of the new democratic government, calling for the inclusion of the previously discriminated black group in health services, Discovery and its peers would not have conceptualised products that had to consider the overall population.

Government is an enabler of sustainability and innovation. However, it needs to continuously be alert of all the ways in which business can keep taking advantage of regulatory loopholes to avoid policy adherence.

Interestingly, even as regulation is noted as a key external driver of healthcare market innovation, one of the factors cited as a contributor to market failure was regulatory failure, as noted in the recent Health Market Inquiry of South Africa. The report stated failure of oversight of existing law. This means that existing laws are not fully implemented. Firstly, that there are laws that are in existence yet there is poor oversight by organisations chiefly responsible for these. Secondly, that there are laws that are necessary and yet not available and thereby lack of regulation.

It is not enough to only have policies for sustainable development, it is even more important to ensure completeness of laws and execution of all applicable laws by all parties.

6.3 Conclusion – Research Question 3

In chapter 5, Analysis of Results, technical ways in which Discovery innovated were provided, from the big data creation, stakeholder partnerships and technology adoption. However, the central theme of the findings on the drivers and how Discovery innovated hinge mostly on the soft attributes. The ability to play a long game, begin with the end in mind – prevent lifestyle diseases in customers, preserve and protect their lives, work backwards in innovating or creating products that would entail that purpose, was what set Discovery apart. Soft skills, to a large degree determine the innovation capabilities of companies. Most great companies start with a grand purpose and work backwards to achieve it.

6.4 Recommendation – Implementation Steps Towards Business Models for Sustainability

The main objective of this research report was to determine the motives and drivers behind companies pursuing Business Model Innovation for Sustainability (BMiFS). On the back of that knowledge, the researcher aimed to demonstrate to other companies considering BMiFS, the degree of conviction it takes to succeed on this path, to lower implementation risk. Further to that, to provide a framework that companies can utilise with a high degree of success.

Discovery's motivations were deliberated through trial and error and feedback obtained from the market (customer demand, investors, and regulators). Internal resources in the form of leadership capability and innovation culture gave Discovery an advantage.

Based on the research findings of chapter 4 and analysis of chapter 5, the foremost recommendation is for companies to prioritize soft skills capability as they do hard skills, when planning for BMiFS. The contribution to knowledge by the researcher is the combination of the insights gleaned from this research exploration on the importance of soft skills with the insights obtained from the Sustainability Strategy Roadmap (“SSR”). The culmination is a more nuanced SSR in increasing the implementation success rate of BMiFS by companies. The Sustainability Strategy Roadmap (“SSR”) was formulated by Massa et al., (2016) and aims to help managers identify and prioritize opportunities for corporate sustainability. The

combination of the critical soft skills as drivers for BMIFS into the SSR culminates as the recommended framework by the researcher for companies committed to designing a business model for sustainability.

Secondly, the recommendation is for Discovery to consider this blended framework, as a pathway to a business model for sustainability, as opposed to a shared value model that cosmetically and not fundamentally solves structural socioeconomic problems. Outlined below are recommended steps for Discovery to investigate the move from a shared value model to a BMIFS.

6.4.1 Recommendations on Discovery's business model:

As highlighted in the preceding chapters, Discovery's business model fell short as a BMIFS. Sustainable business models are inclusive of a much wider group of stakeholders and specifically prioritise society and environment as stakeholders (Bocken et al 2013). Beyond value creation for stakeholders, they are concerned about the harms to society and the environment by the way business is done. This is a much more comprehensive way of doing business than just making profits by delivering benefits and value to customers (Bocken et al, 2013).

As analysed in the preceding chapter, and discovered from the HMI, Discovery, alongside its peers have done social harm. Discovery was found to be a dominant player in the sector, not transparent in its products, blocking access to health for the masses and entry of competitors, blocking innovation as a result. Part of the harm entails: disempowered and uninformed consumers. The HMI reported that, there is no pathway for customers to realise the value of the services that Discovery procures on their behalf. Without understanding this, consumers cannot successfully hold Discovery to account.

To remove the decision-making moment from a customer's journey altogether is seen as the holy grail of profit making and quite smart. But with a service or product in the health sector, for a marginalised people whose constitution states that health is a basic right, this gives off lack of sensitivity to human rights and inclusivity. Inclusivity and human rights protection are two critical principles that underscore business models for sustainability.

To effectively deal with the gaps in its business model, Discovery will need to consider the following factors to embed sustainability into its business model:

1. **Value destroyed and value missed.** As outlined in section 5.1.2 of the results analysis, Discovery would do well to identify value it has destroyed and missed with its current business model. By tracking value uncaptured in current business model, Discovery can then then turn this new understanding into opportunities of value that can lead to new business models with higher sustainable value.
2. **Discovery's social impact.** Consumers have become very discerning and demanding of the environmental and social impact of companies. Consumers vote not only with their wallets but personal value systems and care to see these reflected by products and services they buy. This is not a passing trend and will continue long into the future, where consumers seek to support truly sustainable businesses with their money. This is exacerbated by investor, lenders, and rating agencies pressure on companies to fully report and be transparent about their ESG impact. Therefore, beyond the direct and stated "social value" of health benefits Discovery seems to create under its shared value, the company needs to measure on a fundamental basis, the true social impact of its business. Discovery needs to consider transformational changes, to improve their reputation well into the future. Customers and other stakeholders demand more than just a cosmetic solution or sustainability talk without real and fundamental action.
3. **Company structure:** according to the HMI research, Discovery is in the same group of companies (holding company) as some of its competitors (MMI) and the hospitals (Mediclinic) in its network. This is one of the indicators of its dominant nature and inability to negotiate better terms for its customers. Failure to negotiate on behalf of the customer, profits the entire group and maximises shareholder wealth. For Discovery, to truly empower its customers through an effective health market, it might need to restructure its legal structure to be independent from likely collusion with its sister companies.
4. **Regulation:** Discovery operates in a heavily regulated market, and this will not go away, especially with the advent of the NHI and health as a human right in South Africa. Instead of hoping for this to go away or rely on the inefficient and inaction of government in executing the NHI, Discovery will do well to face this challenge head

on and find tangible ways, such as creating an affordable health insurance product line, to respond. to the human right to health and demands by customers for an inclusive conscious capitalism.

6.4.2 Recommendations for business exploring business model innovation for sustainability.

As outlined in section 6.4 above, the researcher's suggested framework below combines insights gleaned from this research exploration with the Sustainability Strategy Roadmap ("SSR"). SSR fits into Business Model Innovation for Sustainability ("BMiFS") as it is mainly concerned with integrating sustainability into core business operations. The framework below details the implementation steps that can be taken by companies considering a BMiFS. It also details all the questions to be asked with each step of the process.

Before the combined framework is outlined, the SSR steps and questions to be answered prior employing a BMiFS, are detailed below:

1. Why they engage in sustainability?

As demonstrated with the Discovery case study, it is important for businesses to be very clear about why they would want to engage in sustainability. The motive almost sets the path for identifying and prioritising opportunities. Therefore, beginning with the why is critical for successful choices on the path to sustainability.

2. From why to opportunity:

This step entails proceeding from identifying motive to selecting sustainability opportunities as informed by both internal and external data. This process requires that the why is clarified first.

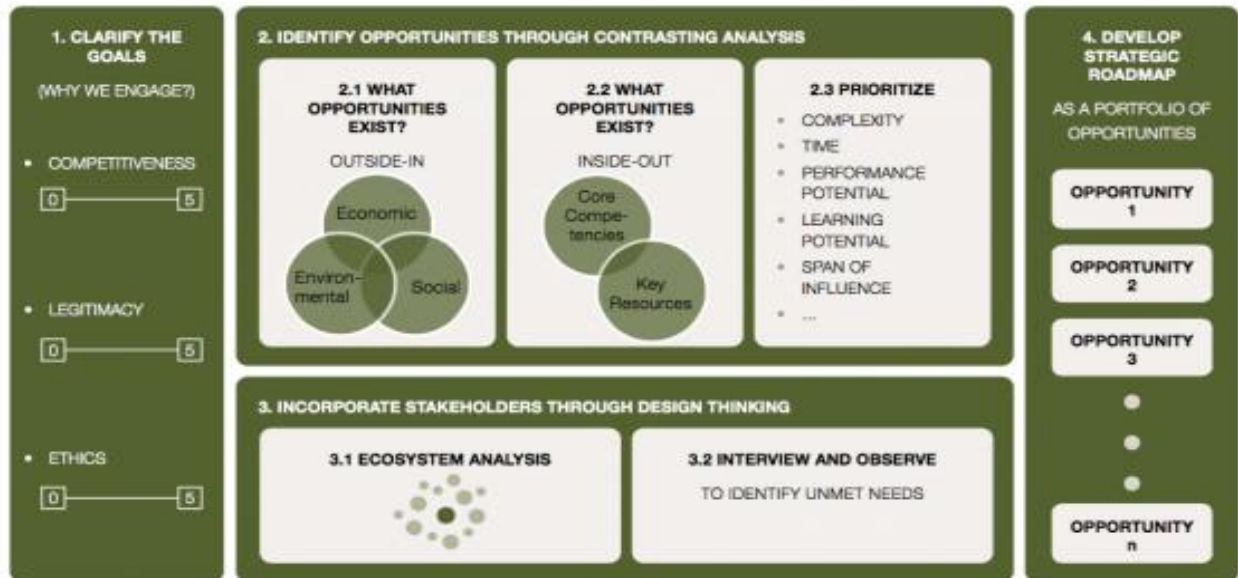
3. Utilising Design thinking (DT)

This step is a complement to the analytical thinking used to identify opportunities in step 2. This aspect involves observations in the real world of what potential clients might need. It involves interviews, and design that is human-centred.

4. Developing a Strategic Roadmap defining a portfolio of opportunities

Based on the firm's reason for engaging in sustainability and intention (as captured by the overall motivation for engaging in sustainability) and other strategic criteria, it is now possible

to evaluate and prioritize opportunities and create a coherent set. This set of initiatives a firm decides to focus on provide a strategic roadmap for sustainability.



Source: Massa, Lüdeke-Freund, & Bocken. (2016).

Figure 9: Sustainability Strategy Roadmap

The recommendation is not to re-invent the wheel by creating a new implementation roadmap to a sustainable business model but to add the key insights gained from this research to the implementation steps of the outlined SSR. Thereby building on a pre-existing model.

The three additional recommended steps are all envisaged to happen prior the current step process of the SSR. The rationale is that, with this blended implementation roadmap, companies will be able to design business models that build sustainability into business models instead of putting sustainability on the periphery of the business. The new roadmap as a result, will have seven steps as compared to the original four steps of the SSR roadmap. The additional three steps entail the following:

1. Conduct a culture audit of the company and assess the following:

- a) Short term returns expectations vs long term investment into R&D, new products, and solutions
- b) Aptitude for creativity and innovation
- c) Leadership attributes and capability

- d) Purpose and proactivity towards structural socioeconomic challenges or is the company aimless, defensive and compliance based only?

Discovery's history and current activities revealed the importance of having the right culture required for innovation and long-term success. Without the right culture, even the best strategy would struggle to be implemented. This step is probably the most critical and hence the first step in our recommendation. Having studied market commentary and external respondents' views, it is apparent to see that Discovery, did not solve for the structural socioeconomic challenges but cosmetically designed a product that fundamentally served as a pacifier to the real issues.

2. Recognise internal and external stakeholder requirements, needs and training:

- a) Board buy in
- b) Investor buy in
- c) Employee buy in
- d) Government needs
- e) Customer pain points, concerns, and preferences
- f) Environmental considerations
- g) Community needs

This step is necessary to assess because having the right internal support from company structures is key to ultimately implementing any significant company growth strategies. Without the support of the internal stakeholders a strategy will not succeed. The external stakeholders are very key as the products/services are usually created for their benefit. It is key to assess what the government regulation within a sector is, as well as what key customer pain points are that have implications to the longevity of their buying power as well as challenges within the community within which a business operates.

3. Identify internal and external obstacles that might hinder implementation of a BMIfS

- a) Regulation
- b) Competition

Regulatory risk and competition remain two of the most important market forces that will need to be thoroughly understood so as to factor their impact on the designed solution.

With the additional recommended three steps, a more comprehensive framework companies can use to build their business model for sustainability was created. With this, the chances of success of implementing a Sustainability Business Model are enhanced and heightened as all key factors, stakeholders, and soft issues within and outside a company are considered.

The resulting framework which incorporates the first three steps (1-3) with the original SSR steps are shown below, (4-7 below) is shown below:

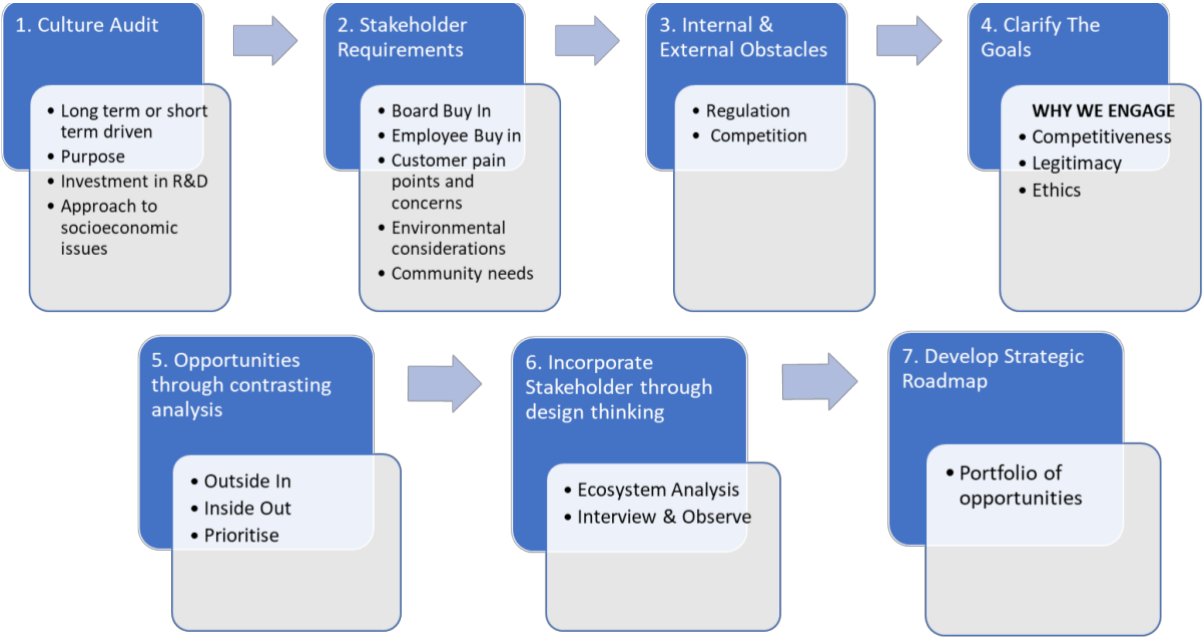


Figure 10: Blended Implementation Roadmap: Business Model Innovation for Sustainability

Source: Author

6.5 Recommendations: Future Research

A framework for a blended implementation of BMIS(Business Model Innovation for Sustainability) was presented above (figure 10). Therefore, further research could involve a practical examination of this framework in the field. This could best be done by applying the framework in a South African early stage company (as Discovery was at the onset) in another highly regulated sector such as financial services. The research strategy best suited would also be a qualitative case study as executive management’s decisions will need to be observed and analysed.

In addition, soft skills as internal drivers emerged as a critical driver to Business Model Innovation for Sustainability, therefore further qualitative research exploring the importance of leadership's soft skills in driving sustainability related innovation could be explored. This study was focused on Discovery, whose business model at initiation was centred around sustainability innovation. Therefore, further research could focus on what drives an already established company with traditional or archaic organisational design to pivot to a business model innovated for sustainability. Lastly, other heavily regulated industries such as telecommunications, fintech or financial services could be studied as this study focused solely on the health-insurance sector.

6.6 Conclusion

Sustainability is not another business buzz word or trend. It is a business imperative that is critical for humanity and its posterity's future survival. The corporate sector has thus far indicated interest towards sustainability. By adopting BMIfS through trial-and-error, inquiry and management studies, the desire to do good on corporates side is evident. A sustainable world is in the interest of business.

Many company's sustainability strategies fail as executives are in the dark about factors and execution strategies that lead to success. Most companies adopt sustainability to tick the box of compliance and to give an impression of a form of 'making a difference' without any real substance to this.

In future, substance over form in sustainability strategy will determine the future survival of companies. It is with this in mind that the researcher sought to explore the motives of the executives of Discovery. A thriving business with a shared value operating model seeking a win-win all stakeholders. The researcher's aim was to shed light to companies wanting to pursue Business Model Innovation for Sustainability, on how the drivers have a bearing on the success, impact, quality, and longevity of the sustainability strategy and thereby business.

It can be argued that Discovery, as a start-up, found it easier than its established peers to develop an innovative business model given that it had no traditional institutional memory to grapple with. It can therefore be assumed that to innovate and launch business models for sustainability seems more feasible at start-ups as the experimenting risk is embraced more and factored into company's future performance. In contrast, established companies struggle to embrace new ideas given how this often translates into cannibalising their existing business. The most

innovative companies are usually new players, social and non-profit enterprises, or exceptional iconic companies with a culture of innovation. These organisations are usually more agile to short term pressures and are usually welcoming of change.

Given the degree of difficulty involved in the innovation of business models for sustainability established companies pondering on adopting this process should consider taking additional critical steps over and beyond the Sustainability Strategy Roadmap. This blended framework considers critical soft and hard skills and as well as questions that are often left out when formulating and implementing a BMiFS. The blended framework could help reduce implementation risk and cosmetic strategies that lack substance and thereby enduring positive social and environmental impact.

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APPENDIX A- Letter to Respondent and Research Instrument

Interview Guide for employee volunteers: Discovery Health Business Model Innovation for Sustainability

Name of Respondent:

Name of Interviewer:

Date of Interview :

Interview Venue :

INTRODUCTION

Good day.

Thank you for your time and for agreeing to participate in this interview. Your contribution will enhance the practice and understanding of Business Model Innovation for Sustainability. Your contribution will also help to improve our understanding of the innovation process in the healthcare sector. I request to tape record the interview for accuracy of information and to help us manage the interview time effectively.

Research Instrument

<p>Question 1</p> <p>What was the motivation for the company's vision at inception?</p>	<p>Observations/remarks/follow up questions</p>
<p>Question 2</p> <p>What inspired the customer driven business model method for the health insurance you provide? How did these ideals emerge initially?</p>	

<p>Question 3</p> <p>What was the primary motivation for designing a business model such as is the case at Discovery Health with Vitality? One that you call a “shared value” model?</p>	<p>Observations/remarks/follow up questions</p>
<p>Question 4</p> <p>What was the iterative process? Or some of the business model pivots that happened? Was the business model always this way or it evolved? And why? Design process?</p>	
<p>Question 5</p> <p>What are some of the processes you go through to make commercial sense of what you sell? 5 P’s...</p>	
<p>Question 6</p> <p>What is your input to the decisions made by the company regarding the choice of business model it chooses for all its health insurance products? And what values do you use to help shape this?</p>	

<p>Question 7</p> <p>Do you register trademarks or IP for all your products? What is the barrier to entry like? 40 million years of proprietary data</p>	
<p>Question 8</p> <p>What is the internal process for ultimately choosing products that align with our shared value ethos? What must be full satisfied for a product to pass on this? Products division</p>	
<p>Question 9</p> <p>Is there any information you would like to share that I may have overlooked?</p>	

CONCLUSION

Thank you for your time and valuable contribution.

APPENDIX B - List of Participants Interviewed

Table 1: List of Participants Interviewed

	Industry/Company	Job Title & Description	Interview (min)	Word Count
P1	Discovery	<p>CEO of Discovery.</p> <p>Founded Discovery in 1992. 55 years old as of 2019. His career began shortly after graduating from Wits University in 1986 with a Bachelor of Science (Honors) degree. In addition, he is a Fellow of the Actuarial Society of South Africa, an Associate of the Society of Actuaries (Chicago), a Fellow of the Faculty of Actuaries (Edinburgh), and a member of the American Academy of Actuaries.</p>	35:40	2330
P2	Discovery	<p>CEO, Discovery Health.</p> <p>Studied medicine at the University of the Witwatersrand, South Africa, and then read PPE at Balliol College as a Rhodes Scholar. He subsequently completed MSc and PHD degrees in Health Economics at the University of London. His career in healthcare includes a period serving as Special Advisor to the Minister of Health of South Africa in the first post-apartheid administration. Prior to joining Discovery Health.</p>	30:55	2218

P3	Discovery	<p>CEO, Discovery Insure, Discovery's short-term insurance (car, home and business).</p> <p>He is an actuary who has more than 20 years of experience in managing insurance businesses. He joined as CEO of Discovery Insure in July 2011 and was part of the development of the company since then. During this time the business grew from a start-up to establishing itself as a top 10 insurer in South Africa and a leader in the field of telematics-based insurance globally. Studied actuarial science at the University of the Witwatersrand, completing his Bachelor of Economic Science majoring in statistics and actuarial science</p>	37:32	4320
P4	Discovery	<p>CEO, Sustainability and Chief People Officer at Discovery.</p> <p>Obtained a Bachelor of Commerce in Economics and Psychology at the University of Witwatersrand. Over 12 years' experience as an HR director in large blue-chip companies.</p>	36:50	2750
P5	Discovery	<p>CEO, Discovery Life and Discovery group Executive Director.</p> <p>Has been with Discovery for over 23 years, since inception. Studied Bachelor of Economic Science, Actuarial Science at the University of Witwatersrand. Started at Discovery as the Chief Marketing Officer, thereby later moving</p>	37:15	1530

		onto this role as the CEO of Discovery Life.		
P6	Discovery	Head of Staff, CEO's office Executing on priority projects for the CEO related to reputation management, culture, governance & Group goal setting. Over 10 years at Discovery.	15:50	1240
P7	Discovery	Discovery Vitality Principal Specialist She has been with Discovery for over 23 years as well and is responsible for strategic programs, product creation, design solution and systems development and the wellness team. She has a PHD in Social Sciences on the commercial value of social media likes from the University of Witwatersrand.	25:30	1950
P8	Discovery	Head of Product Innovation and Research & Development. Has 14 years' work experience with Discovery and is responsible for product creation.	15:00	1200
P9	JP Morgan	Executive Director, Head of South Africa Equity Research	25:30	1500
P10	ABSA Capital Securities	Research Analyst at Absa Capital Securities	20:10	1350
P11	PPO Serve	CEO and former Discovery Executive	48:10	1700

P12	Wits University School of Governance	Chair, Social Security Systems Administration and Management studies Wits School of Governance	75:35	3700
P13	Health Market Inquiry by the Competition Commission	Health Market Inquiry Panelist	45:50	2200
P14	Healthcare Funders of Southern Africa	Managing Director at Board of Healthcare Funders of Southern Africa	85:05	4000
Total				

APPENDIX C – Secondary Data Insights

1. Secondary Data

In addition to interviewing relevant participants, credible secondary data sources were consulted, with an objective for these to add to the richness of the primary data, corroborate results and in many instances clarify technical points made by the participants and to help demonstrate practically how sustainability integration directly affects business operations.

Secondary data sources are made up of:

- **Journalistic reporting on Discovery and other market sources:**
 - Financial Magazines
 - Newspapers
 - Internet Articles
 - Institutional Investor, Where ESG fails.
 - Laurie Diepenaar Presentation at the ABSIP young professionals conference

- **Primary research by the Competition Commission of South Africa:**
 - Health Market Inquiry Report of 2019

- **Discovery’s internal investor and stakeholder related communication:**
 - Discovery Group website
 - Discovery 2019 Full Year Results
 - Vitality Group website
 - Discovery GIBS Innovation Masterclass presentation: Innovation 20/20, A Masterclass with Discovery Vitality
 - Evolution of Discovery, an internal Discovery report

2. Secondary Data Research Findings Summary

Over 25 years ago Discovery started on a journey based on a core purpose of making people healthier and focusing on prevention rather than cure (Vitality: Transforming financial services for good, 2019). Gore (2015) emphasised that, to avoid material market pressures that health insurers faced around the time Discovery was started, pre democracy in 1992 of:

- High disease burdens,

- Lack of public funding,
- Call by government for health insurers to end risk profiling of customers
- Low profit margins by health insurers

Discovery Health sought to differentiate itself in the market by not pricing their products based on an assumed pre-existing risk in consumers. Instead, the company had an intuition to rather focus on making clients healthier and factoring this bold goal in the actuarial calculations of premiums. The goal was to create a win-win situation whereby clients that engaged with the designed product to get healthier will gain points that will lower their monthly premiums and Discovery would ultimately lower their pay-out ratio of claims as a result of a lower risk pool from healthier clients. Thus, unlocking new demand from younger and healthy conscious clients, opening a new uncontested market space, and creating new demand.

High (2020) highlights that there were three issues that drove Gore, the CEO of Discovery and founding team at inception:

- The understanding of behaviour. In most financial services silos, whether it is banking, motor insurance, health insurance, or life insurance, only a few behaviours drive the risk. That emerged quickly for Discovery;
- Technology, which is an enabler in this case and
- Purpose. The purpose to make people healthier.

3. Discovery Health: Business Model Innovation

Given the above motivation to start their business, Discovery's leadership created a product called Vitality which would later evolve into a fully-fledged company. The Vitality Group website describes the group to be a behaviour change company that helps leading organizations around the world improve the health of their employees, clients, members, and customers. Vitality is a behavioural-change programme that encourages and rewards customers for living healthier e.g going to the gym, running races and choosing healthier food options (Vitality Group website, 2020).

The company translated its purpose into strategy and operations by integrating into its health insurance offering a powerful set of economic incentives for customers to engage in healthier behaviours (Porter, Serafeim & Kramer 2019). Customers are rewarded for reaching weekly

exercise goals and receive rebates on the purchase of healthy foods through a sophisticated set of incentives developed by behavioural economists and monitored through apps and wearable fitness devices as the company website states.

According to the company website, Vitality Insurance focuses on the key risks (smoking, no exercise, unhealthy food) underpinning chronic diseases, using incentives to boost engagement in assessments and preventive screenings, and providing discounts for things like healthy food purchases and gym memberships. It turns out that just four risk factors (poor diet, physical inactivity, tobacco use, and excess alcohol intake) lead to four chronic diseases (cardiovascular disease, diabetes, chronic lung disease, and various cancers) that contribute to 60% of deaths worldwide and 80% of the disease burden (Vitality: Transforming financial services for good, 2019). These incentives encourage customers to make healthy lifestyle choices and the changes are incorporated dynamically into the price they pay for insurance.

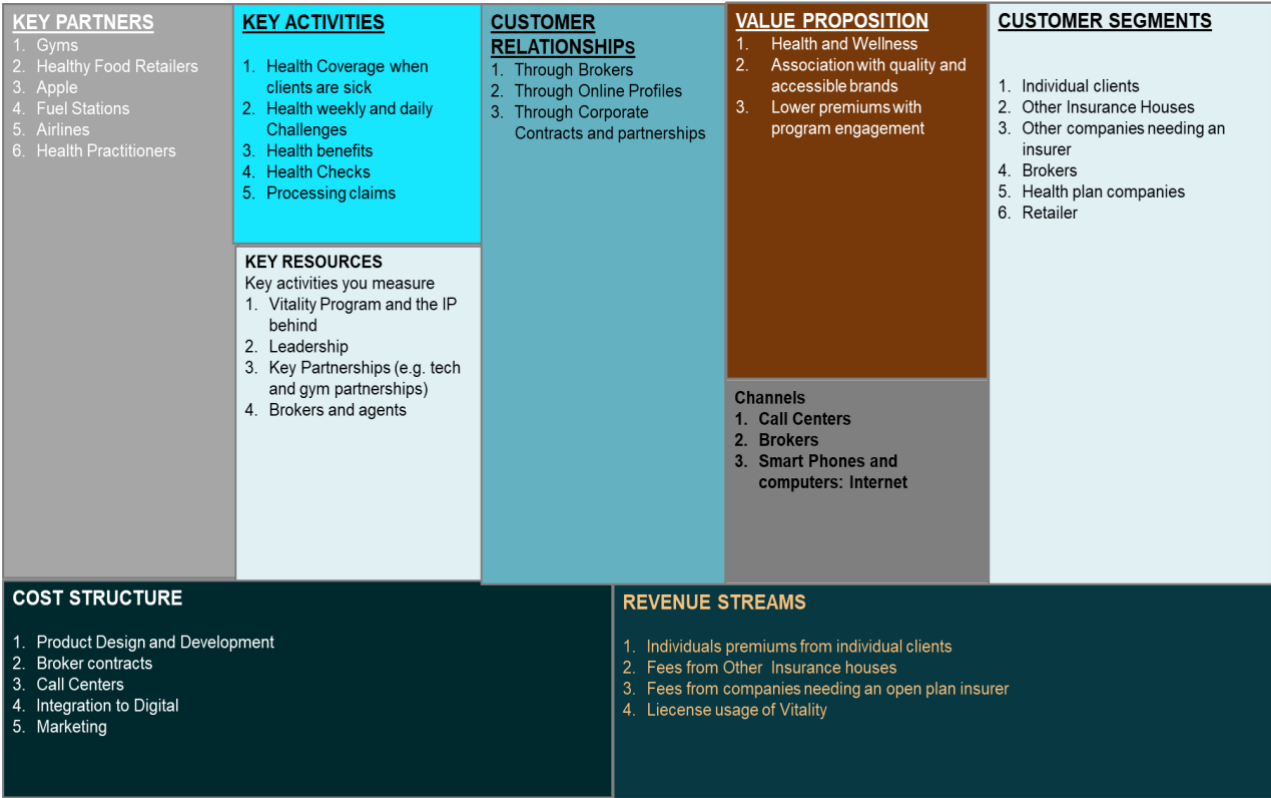
The Vitality website states that, the result is a virtuous cycle called “Shared-Value” Insurance, which shares material benefits between the insurer (more profits), clients (greater health and financial rewards) and society (lowered healthcare costs and a healthier, more productive workforce)., generating economic value which funds the incentives that lead to behaviour change.

Discovery thereby experiences lower claims, higher margins, positive selection (quality clients-young and not sick, therefore not high risk), lower lapses, and its clients experience less disease burden, improved productivity, and overall healthier society, this according to company website. The company has licensed its proprietary approach to many of the largest life insurance companies in the world, dramatically expanding its market reach (Porter, Serafeim & Kramer 2019). To date the business model has been rolled out to 19 markets, impacting close to 10 million members, in partnership with leading global insurers that use Vitality Shared-Value Insurance in their markets.

In the company newsletter, the article (Vitality: Transforming financial services for good, 2019) narrates that the model is also responsive to dominant trends, including increased social expectations of institutions to be purpose-driven, and the growing role of technology in health and wellness (for example, the explosion of wearables and self-tracking). Vitality embraces technology as a catalyst to deliver shared value, for example, partnering with Apple to create

Vitality Active Rewards with Apple Watch, which combines Apple Watch with incentives to encourage healthy behaviour (Vitality: Transforming financial services for good, 2019).

Borrowing from Osterwalder et.al (2005) business model canvass framework, Discovery’s health business model is broken down below into the different key elements of the business to highlight how the business operates. A layer of eco-social benefits and costs could be added to highlight the “shared value” impact of the business to stakeholders. The eco-social benefits are mainly to clients in the form of overall health benefits from engaging with the vitality program.



Source: Osterwalder, Pigneur & al. 2010

Figure 12: Discovery’s Business Model Canvass

Discovery’s business model is showcased above and is a testament to the degree to which strategic partnerships and cooperation with stakeholders had to be forged for the entire idea of shared value to work effectively.

4. Discovery at the centre of the Health Market Inquiry report of 2019

While this research exploration was conducted, the Competition Commission (“CC”) of South Africa undertook a Health Market Inquiry (HMI) into the workings of the private health sector, which Discovery is a direct participant in. As stated in the literature review section of this study: The CC initiated the HMI after observing sustained increases in prices and expenditure in the private healthcare sector which were above headline inflation. These increases in prices had reached a level that “only a minority of South Africans [could] afford as evidenced by the (small) share of the population with access to private healthcare (Voigt, 2020). This raised various concerns about the functioning of the private healthcare market. The HMI report found the sector was “neither effective nor competitive” with serious implications for private medical care consumers and made several recommendations to remedy this (Voigt, 2020). Discovery was at the centre as one of the major contributors to the skewed playing field of the health sector. It was basically found to be a monopoly in the sector, not transparent in its products, obstructing access to health for the masses and entry of competitors and ultimately blocking innovation.

- **Summary Health Market Inquiry Findings, Competition Commission (2019):**
 - Although there are 22 open medical schemes, this market is concentrated as two medical schemes constitute approximately 70% of total open scheme market as measured by number of beneficiaries (HMI). There is, however, one dominant open medical scheme, Discovery Health Medical Scheme.
 - Discovery Health Medical Scheme (DHMS) comprises 55% of the open scheme market, and it continues to grow organically and through a series of amalgamations with smaller restricted schemes. The Government Employees Medical Scheme (GEMS) is the largest restricted scheme and is second only to DHMS as measured by number of beneficiaries.
 - There are 16 medical scheme administrators in the market. Discovery Health and Medscheme account for 76% of the market based on gross contribution income (GCI), which makes the administrator market highly concentrated as well.
 - The CC observed no meaningful entry in the medical scheme market over at least a decade
 - The CC disagrees with administrators of open medical schemes and self-administered medical schemes’ that this complexity primarily reflects innovation (DHMS is both an open medical schemes and self-administered medical schemes).

Rather, the deliberate way these offerings are bundled, packaged and priced allows medical schemes to weaken, even avoid, outright price competition.

- Multiple options are also a result of the incomplete regulatory environment and have influenced the form of competition in the funders market. To mitigate for the effects of the absence of a risk adjustment mechanism, funders (medical schemes) have adapted in a range of ways, including: preferentially attracting the young and healthy to join their schemes; and effectively enforcing risk rating through a proliferation of options that require a joiner to self-select into a scheme option that they can afford. Thus, they compete at a cosmetic level predominantly on choice of products available to consumers rather than on value for money.
- All these factors leave consumers confused and disempowered, compounding their inability to use choice as a pressure on schemes.
- CC competitive analysis indicates that this absence of competitive pressure is primarily due to disempowered and uninformed consumers. There is no method for consumers to assess the value of the services that schemes procure on their behalf. Without understanding this, consumers cannot hold trustees and Principal Officers to account. Consequently, trustees and Principal Officers experience no pressure to hold administrators and managed care organisations to account.
- Competition could be much more improved if transparency, accountability, supplier-induced oversupply of care and value-driven healthcare were priorities of scheme trustees and administrators.
- Sustained levels of profitability have been found across the funder market. Discovery Health has, over a sustained period, earned profits that are a multiple of those of its main competitors, with no sign of effective challenge from incumbent or new firms. We acknowledge that much of DH’s success is partly due to a highly competent management team, but we do not think this alone explains the significant gap in profitability when compared to its direct competitors. Higher than necessary service fees given economies of scale, a “locked-in” DHMS that does not source services from any other industry stakeholder, risk selection and broker management contribute to its profitability.
- Under normal competitive conditions, DH’s profitability would attract new competitors and stimulate competition from incumbents. There is no sign of this. On the contrary, we see DH growing and becoming more successful over time. This

is an indication of market failure and there are no signals that the market will self-correct.

- The top three administrators (Discovery Health, Medscheme and MMI) should have countervailing power to the three big hospital groups. Our observation is that Discovery Health does apply this power better than its two large competitors, as shown by its ability to negotiate consistently better tariffs
- Three hospital groups, Netcare, Mediclinic and Life have a combined market share of 83% of the national South African private facilities market in terms of number of beds and 90% in terms of total number of admissions⁴. ‘highly concentrated’ by all internationally accepted criteria.
- In 2016, the national average ratio of beds/1000 population was 4.2 in the private healthcare sector (compared to 2.7 in the public sector).

a. Insights from the Secondary Research findings:

The backdrop to the Health Market Inquiry can be traced back to the era post-democracy in South Africa when the country was moving from an apartheid state to a proper democracy and facing some serious challenges, particularly in healthcare. The country had two separate healthcare systems: A high quality private system covering about 17% of the population; and a weak underfunded public system covering about 83%. About 81% of blacks and 63% of coloureds depended on the public health system while 88% of whites received care in the private system. The government wanted to change the healthcare sector and make it more inclusive, it believed that that all people are equal and deserve equal rights and opportunities and that fundamentally, health is a right of every citizen.

According to Gore (2015) in an article written for Forbes online magazine, there was an undersupply of doctors, an unusual combination of disease burdens, and a new regulatory environment that had zero tolerance for the discrimination of the past, and rightly so. This meant you could not rate customers on pre-existing conditions and finally, unlike most countries, where a national system partially covers risk, there was no unified public health-insurance system at that time. When these elements are put together, the ability to offer insurance on a sustainable basis in South Africa was extremely difficult (High, 2020).

This is the same period that Discovery was established entirely to leverage on the winds of change of political transition, regulatory revision and economic revival in South Africa.

Discovery recognised very smartly that the new regulatory dawn where a health insurance company could not rate customers on pre-existing conditions would get incredibly challenging for the traditional medical scheme businesses and would challenge their economic longevity. A sector it had a desire of entering. In fact, Laurie Dieppenaar, co-founder of RMB and angel investor of Discovery at inception, mentioned in a public talk he gave at a financial services industry event that, when Gore, the founder of Discovery approached him with the idea of starting a medical insurance business, he declined to invest until they found a compelling competitive advantage to the other existing players in the market at the time. The founders then came back to Dippenaar with their idea of the MSA (Medical Savings Account), which later morphed into the Vitality.

b. Conclusion

It is quite clear that in recognising the government's objective of access to health for all and how commercially unsuccessful this would be on the new health insurer, Discovery responded with a product that would significantly differentiate them from the competition, secure them profitability and have some purpose to it, to respond to the socio-economic gap of low mortality rates in South Africa. The aim was significant profits but with some purpose.

Given the outcomes of the HMI as listed above, it follows then that Discovery in doing well and establishing itself on a noble purpose of making people healthier, also created the unintended consequences of exacerbating inequality with its product. That although it got clients healthier, it did nothing about the unequal access to healthcare. In fact, inequality widened in the private healthcare sector because of the offerings of the likes of Discovery. Which shows that in doing good, a company can do bad.

Discovery critics have called Vitality a marketing gimmick designed to attract healthy people to the company while leaving the sick for someone else to cover. In reading articles about their business model and product, one gets a sense that they are happy with a pool of clients they tend to attract and are not interested in the fundamental problem of universal access to healthcare. A case in point is Gore's (2020) commentary in a Forbes article: "People who are

disciplined and who can avoid instant gratification in managing their health tend to act the same way with their money. In other words, healthier customers are better customers”.

This is a classic case in the tension that exists between doing well and doing good often spoken in the discourse of the purpose of business in general. The socioeconomic problems of lack of access to healthcare that was there when Discovery started are still prevalent to this day, as revealed by the HMI report of the CC. This reflects the complexity of not only operating in the health sector but also of innovating a new business model that tries to balance profits with stakeholder needs that sometimes results in unintended consequences of doing good. Sometimes when a problem is solved, another is created, but that then creates another opportunity to solve a problem.

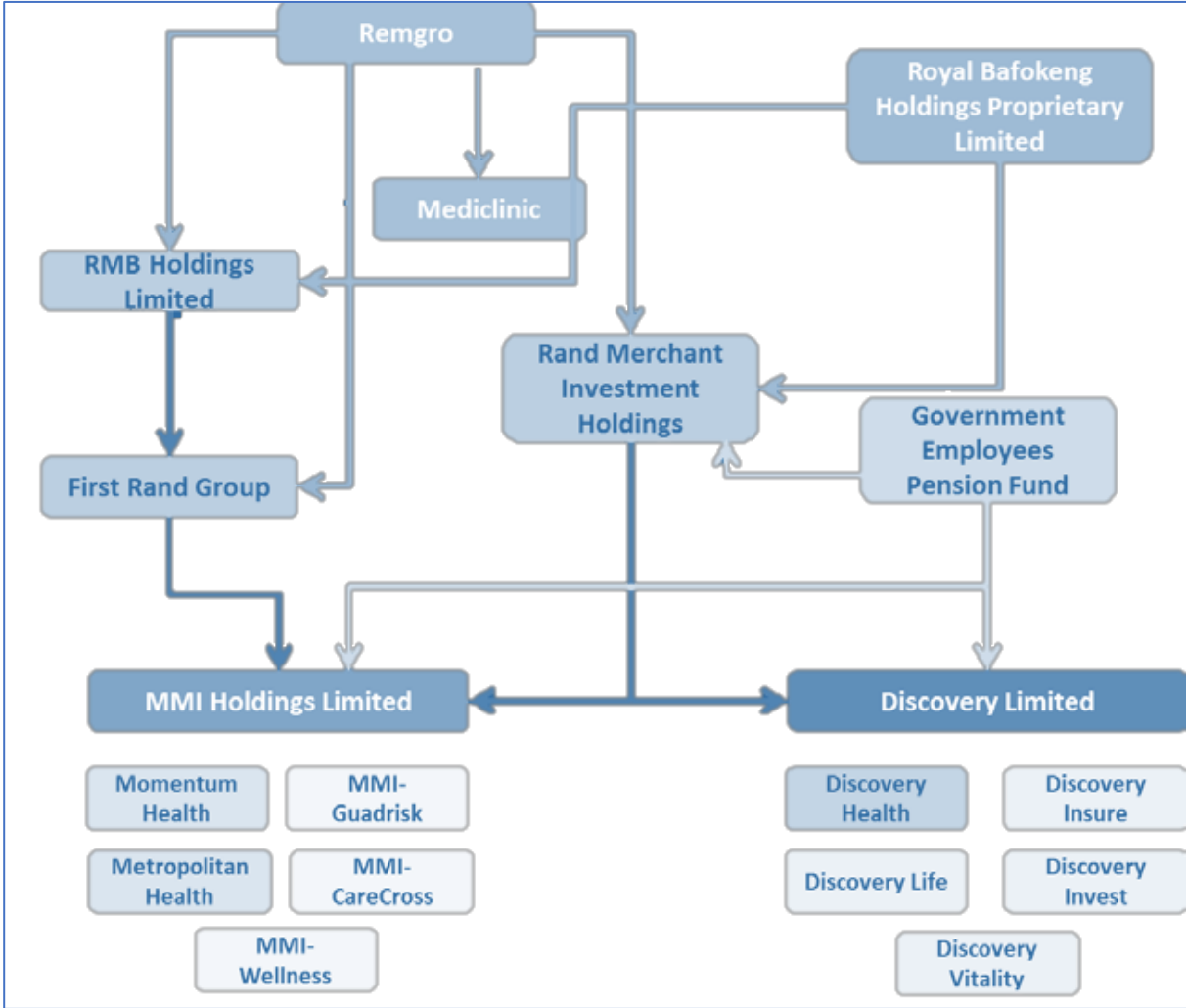


Figure 3 – Discovery Group Intercompany holdings and relations, sourced from the Health Market Inquiry

Discovery has chosen its own line of operations and manner of societal impact and success. Judging the company for its choice and how that plays out in society is neither here nor there. However, it is quite interesting to ask and verify if their societal impact qualifies to be defined as business model for innovation. Although their model has a ring of sustainability, it is not in its most fundamental, structurally a typical business model innovated for sustainability.

Sustainable business models consider a much wider group of stakeholders than just customers, and explicitly consider society and environment as stakeholders Bocken et al (2013). They go beyond creating value for a customer and include concerns about the benefits and harms to society and the environment by the way business is done. This is a much more systemic view on doing business than making money by delivering benefits and value to customers (Bocken et al (2013).

It is quite clear that Discovery is good at telling its story consistently to the public, leveraging all story telling opportunities and partnering with credible organisations and media houses to drive the narrative that has now culminated to Discovery promoting their business model as a shared value model. A phrase coined by the Harvard professors, Porter and Kramer (2012), albeit Discovery living up to that definition way before that phrase was coined as the company was established in 1992.

The distinction however needs to be drawn to the narrative they keep telling, of making people healthy, using the backdrop of the low access to health and high rates of diseases in SA at the time of the company's inception -the same period that SA was moving away from discriminatory apartheid policies that served the white minority and excluded the majority disadvantaged black people. The anomaly is that Discovery ultimately solved and brought about a product for the elite middle class, part of the population of South Africa 8 million of the 54 million that they serve that could be argued had ample access to healthcare already. This could easily be interpreted as "green washing" their operations.

Massive scale and global change is a result of different stakeholders partnering together. No one single entity can change the world. It is not possible and should not be aimed at. It is about the transformation one can achieve to the extent that one's capabilities and resources allow. It is the ripple effect of the collective that creates change. Discovery failed in solving SA's lack of access to healthcare, yet it was never the company's mission to do solve this problem. It will take a whole ecosystem to do so.

