

CHAPTER 1: Introduction and Outline

Those living in poverty present great business opportunities for the private sector. They represent a market with opportunities for entrepreneurship, market entry and growth, innovation, labor and much more (e.g., Hart, 2005; London & Hart, 2004; Prahalad & Hammond, 2002; Prahalad, 2005). The private sector and the poor stand to benefit from the inclusion of those living in poverty as producers and as consumers in businesses that operate on a for-profit basis. The point of departure of this dissertation is, therefore, the existence of a potential win-win situation, whereby doing good for low-income people can enable firms to do financially well (cf. Letelier, Flores, Spinosa, 2003; Rangan, Quelch, Herrero, & Barton, 2007; Seelos & Mair, 2007; Viswanathan, Seth, Gau, & Chaturvedi, 2007; WBCSD, 1997, 2004). In fact, profitable business initiatives stimulate new investments, replication, and innovation. They motivate the private sector to deploy its problem-solving capacity to make markets work more effectively and efficiently in favor of the poor as it is in their best interest to do so. However, conditions in the low-income context differ from those in high-income markets. These include differences in cultures, institutions, cognitions, dependence on the informal economy, economic development, living conditions, and motivation (cf. Table 5.2). One example of this is that market imperfections are generally much more significant, as information asymmetries, fragmented markets, weak legal institutions, badly developed infrastructure, and a poverty penalty are highly prevalent in the low income context (e.g., Hoskisson, Eden, Lau, & Wright, 2000; Viswanathan et al., 2007). These differences necessitate business model innovation to enable firms to operate successfully in low-income markets (e.g., Arnold & Quelch, 1998; Chesbrough, Ahern, Finn, & Guerraz, 2006; Dawar & Chattopadhyay, 2002; Hart, 2005; London & Hart, 2004; Seelos & Mair, 2007). In this dissertation, we examine the conditions within low-income communities and the business challenges these conditions generate for firms. Subsequently, we examine the consequences of these conditions for firms' strategies and business models. To this end, we use the lens of the strategic business model to examine firms that include the poor. In so doing, we develop an understanding of the business models through which firms can include those living in poverty (as producers as well as consumers) in a profitable manner.

This dissertation contains four essays, which can be read independently from each other. In this first chapter, we briefly introduce the research topic, namely the base-of-the-pyramid (abbreviated as BoP throughout this dissertation and also referred to as the bottom-of-the-pyramid in the literature), and position it as a business strategy of “doing well by doing good”. Next, we develop the motivation and overall objective of this dissertation and lastly, reflect on the outline and objective of each of the essays.

1.1 Research context: Base-of-the-Pyramid

Is the *raison d'être* of the private sector purely the gain of some individuals or does its right to exist stem from its value to society as a whole? The societal contribution of the private sector undoubtedly forms part of the answer. Indeed, business cannot succeed in the long run in a world that fails. This idea is implicitly suggested by the Swedish word for “business” (*näringsliv*), which can literally be translated to mean “nourishment for life”. Although the private sector can contribute in many ways to society, this dissertation focuses on the creation of a corporate vision to sustainably serve the unmet social needs¹ of

¹ To meet someone’s social needs is to improve that person’s quality of life. Nussbaum (2000: 78-80) operationalizes the quality of life in ten dimensions:

“1. *Life*. Being able to the end of a human life of normal length; not dying prematurely, or before one’s life is so reduced as to be not worth living.

2. *Bodily Health*. Being able to have good health, including reproductive health; to be adequately nourished; to have adequate shelter.

3. *Bodily Integrity*. Being able to move freely from place to place; having one’s bodily boundaries treated as sovereign, i.e. being able to be secure against assault, including sexual assault, child sexual abuse, and domestic violence; having opportunities for sexual satisfaction and for choice in matters in reproduction.

4. *Senses, Imagination, and Thought*. Being able to use the senses, to imagine, think, and reason—and to do these things in a “truly human” way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training. ...

5. *Emotions*. Being able to have attachments to things and people outside ourselves; to love those who love and care for us; to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude, and justified anger. ...

6. *Practical Reason*. Being able to form a conception of the good and to engage in critical reflection about the planning of one’s life. ...

7. *Affiliation*. *A*. Being able to live with and toward others, to recognize and show concern for other human beings, to engage in various forms of social interaction; to be able to imagine the situation of another and to have compassion for that situation; to have the capability for both justice and friendship. ... *B*. Having the social bases of self-respect and non-humiliation; being able to be treated as a dignified being whose worth is equal to that of others. This entails, at a minimum, protections against discrimination. ...

8. *Other Species*. Being able to live with concern for and in relation to animals, plants, and the world of nature.

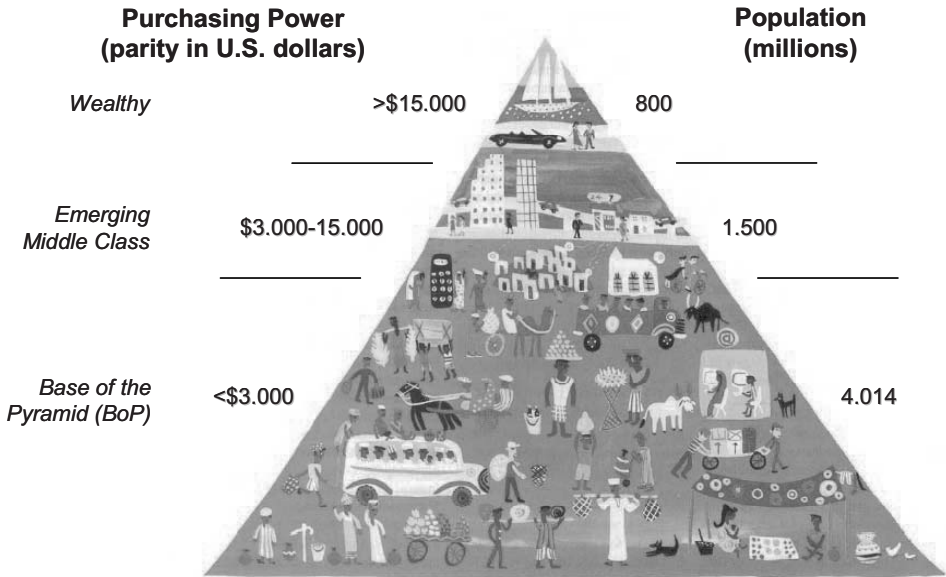
9. *Play*. Being able to laugh, to play, to enjoy recreational activities.

the world's poor through the private sector its core business. The alleviation of poverty lies at the heart of such a vision. The idea that the private sector could develop in such a way as to include the poor as both producers and consumers has become known as the base-of-the-pyramid or the bottom-of-the-pyramid approach. It distinguishes itself from other approaches to poverty alleviation, such as philanthropy, in that it regards a firm's business skills as a vital element in fighting poverty. Moreover, it regards poverty alleviation as a core business from which companies as well as the poor can profit, both financially as well as non-financially. The BoP perspective also distinguishes itself from the prevailing approach in that it is more inclusive, i.e., it includes those living in poverty instead of solely dealing with a very limited group of wealthy people.

What is the base-of-the-pyramid? The BoP refers to a socio-economic group of people who form the 'underclass' of society and are prone to marginalization (e.g., Hart, 2005; London & Hart, 2004; Prahalad & Hammond, 2002). Even though the BoP, and poverty in general, is usually primarily defined on the basis of purchasing power, the BoP covers the full range of aspects of people's 'standards of living'². It is about the full range of socio-economic conditions instead of purely on income and these are not perfectly correlated (Hart, 2005: 168; International Poverty Centre, 2006). In fact, the World Values Survey suggests that countries with, on average, the happiest people are respectively Nigeria, Mexico, Venezuela, El Salvador, and Puerto Rico (Inglehart, Basanez, Diez-Medrano, Halman, Luijkx, 2004), all of which are countries with a below average GDP per person. For practical reasons, however, the BoP is usually defined on the basis of purchasing power parity. The world is often portrayed as a pyramid with three categories: the wealthy at the top, the middle class in the middle and the large numbers of poor making up the base. The people at the base of this pyramid have an average daily purchasing power parity of US\$2 or less, although the BoP has also been defined as people with a purchasing power parity of US\$4 or less a day, US\$1.500 a year and US\$3.000 a year (Hammond, Kramer, Katz, Tran, & Walker, 2007). Figure 1.1 is from Prahalad and Hammond (2002) and illustrates "the base-of-the-pyramid" from a financial income perspective.

10. *Control over One's Environment. A. Political.* Being able to participate effectively in political choices that govern one's life; having the right of political participation, protections of free speech and association. *B. Material.* Being able to hold property (both land and movable goods), not just formally but in terms of real opportunity; and having property rights on an equal basis with others; having the right to seek employment on an equal basis with others; having the freedom from unwarranted search and seizure."

² A much better, though still imperfect, measure would be to examine the total income of a person—including barter exchanges, household production, gifts, help from amongst others the extended family and the community, and financial income (cf. Gibson-Graham, 2006). Another way to define poverty is by the freedoms that people experience (Sen, 1999), something touched upon in Chapter 5.



Source: Prahalad & Hammond (2002); Hammond et al. (2007)

Figure 1.1: The base-of-the-pyramid: An estimation of its size

About four billion people, i.e., two out of three people in the world, live on less than US\$3,000 a year in 2002 PPP, which is US\$3,260 in 2005 PPP and about US\$8 a day, PPP (Hammond et al., 2007). In this dissertation, the BoP is defined as those living on less than US\$2 a day against PPP. This might appear an arbitrary cut-off point but it is the one also used by the World Bank. According to the World Bank, 2.6 billion people lived on less than US\$2 a day in 2006. In Africa, excluding South Africa, the average annual income is US\$342 per person (World Bank Africa Database 2005). According to the Population Reference Bureau (2006), 79.5 of the 80.6 million people by which the world population increases each year are born in less developed countries (where most of the poor live). Hence, the BoP is composed of a very large group of people who have, consciously or not, largely been ignored by the private sector, which has chosen to focus on the other tiers of the pyramid.

Study object and lens. This dissertation studies for-profit businesses focused at the people at the BoP. These firms distinguish themselves in that their main customers, employees, suppliers, and/or distributors have an average daily purchasing power of \$2 or less. In response to recent criticism on BoP literature (e.g., Karnani, 2007a,b; Landrum, 2007), we will study businesses that target low-income people not only as consumers but as producers, and entrepreneurs. These businesses are western as well as local in origin and include SMEs as well as initiatives by multinationals. The lens from which these

businesses are studied is from the strategic business model concept (e.g., Arnold & Quelch, 1998; London & Hart, 2004; Seelos & Mair, 2007).

Table 1.1: Illustrative examples of BoP firms

Celtel (Source: de Catheu, “Growing Inclusive Markets” initiative of UNDP, 2007)

Celtel is a mobile telecommunications company in Africa (with its headquarters in the Netherlands). It entered the Democratic Republic of the Congo in 2000 at the time of a civil war and where more than 75% of the population lived on less than \$1 a day. Infrastructure, such as roads, electricity, financial institutions, and media, was and remains either absent or in a dire state. Insecurity from armed groups was rampant, and isolation and pauperization of communities were consequently common. As a result, it was a challenge for Celtel to deploy its staff, cell phone towers, satellite dishes, and generators. Nevertheless, fixed-line telephone penetration was and remains minimal whereas the need for telecommunication is significant. Many people became displaced during the war and mobile communication has proven to be essential for the reintegration of communities and to reunite families. Displaced people and refugees formed a natural market for Celtel.

In response to these conditions, Celtel built its business model on mobile telephony, prepaid cards, shared-access, and local distribution. Prepaid cards avoid the problems of having to deal with bad debts. Handsets can be shared by family members and by communities. Local entrepreneurs (“mamans GSM”) may rent the handset from Celtel and start a mobile Celtel kiosk to earn a living. Access to microcredit can be vital for these local entrepreneurs. Celtel also makes clever use of the ongoing reconstruction efforts in its marketing activities; for example, in many villages the only recently painted walls are Celtel red and yellow (i.e., the walls of the vendor units of Celtel), UN blue, and Vodacom (a competitor) white, green, and blue. In a culture of the spoken word, Celtel’s “advertising campaigns emphasize re-connecting people previously separated, believing in oneself, and building a new tomorrow, all themes that resonate in a post-conflict country”. Furthermore, its “quality of service takes into account social challenges such as illiteracy”. For example, Celtel has been setting up customer care centers throughout the country. Celtel has also paid great attention to the development of locally appropriate applications such as the development of Celpay (now owned by another company), a mobile banking system, which enables the poor to transfer funds through encrypted SMS. This way Celtel does not need to travel with large amounts of money. Given the lack of a financial infrastructure and the danger of holding cash, it has become one of the most popular means of payment in the country. Celtel also engages in local capacity building. For example, it partners the government in a demobilization and reintegration program for former combatants. Celpay facilitates the payments to these former combatants.

The Congolese people benefit enormously from this mobile communication as it helps compensate for the present lack of infrastructure, security, and social cohesion. Mobile communication augments people's access to information and their ability to do business; "farmers and small entrepreneurs can reduce the cost of travel, get information on the price of goods to buy and sell as well as on security and road conditions. Job applicants can seek information on training and on opportunities in both the formal and informal sector". It also increases access to basic health and education services where it can be difficult to transport people to a doctor. "There are many cases of former street children and child soldiers who have turned to selling prepaid cards for a living". Celtel has invested over US\$300 million in the Congo. It had over 2 million customers in 2007 and is profitable.

Honey Care Africa (Source: Branzei & Valente, Richard Ivey School of Business, 2001)

Honey Care Africa purchases honey from small rural farmers in Kenya, who have incomes barely above subsistence levels. It markets the honey through retailers and other outlets in Kenya's urban areas and also exports part of the produce as a fair trade product. Traditionally, the value chain of Kenya's honey market has a long sequence of intermediaries, whose "corruption and inefficiencies ... thinned farmers' margins" and left them with a limited knowledge of the end market. Middlemen underpay farmers and delay reimbursement for many months. Honey Care Africa responded to these conditions. They "provided farmers with the tools required to harvest honey, purchased the honey from the farmers at guaranteed and fair prices, packaged it in marketable containers, managed the supermarket distribution and marketed the honey to Kenyan urban consumers. Honey Care Africa organized reliable collection of the honey, manufactured and helped farmers acquire hives, provided local training and technical support and, as much as possible, paid farmers in cash within 48 hours". This allowed them to gain farmers' trust and commitment. In fact, Honey Care Africa "employed a team of project officers, who were dedicated to a small number of farmers in their neighboring communities and worked one-on-one with farmers to maximize their yield and quality". Project officers were "deeply committed to the social development of their communities" and "play[ed] an important role in knowing what is happening on the ground". Honey Care Africa entered into a number of partnerships with NGOs and built close, trusting relationships with rural communities, micro-financing institutions, and with colleges who now provide beekeeping training. By organizing the fragmented industry, Honey Care Africa reduces subsistence farmers' dependence on middlemen. They enhance farmers' access to capital and technology, their quality of produce, and their access to sales and procurements markets.

Honey Care Africa started in 2000 and in 2006 had 68 per cent market share in the Kenyan honey market. It had 48 full-time staff and 2,179 active honey suppliers. It offered seven

different types of honey and had a vast distribution network. It is also looking into the possibility to develop healthy honey products for the poor. While beekeeping was traditionally done by men, 30 per cent of Honey Care's suppliers are women. The income of subsistence farmers has grown substantially and Kenyan customers, who had been turning to imported honey because of the low local quality, were again buying locally produced honey as its quality had substantially improved.

Project Shakti, Hindustan Lever Ltd. (Source: Ionescu-Somers & Amann, IMD International, 2006)

Hindustan Lever Ltd. (HLL) is a fast moving consumer goods company in India. It is a subsidiary of Unilever. In 2006 it set up the Shakti project to stimulate the demand for its products amongst the poor. The project was set up in partnership with rural self-help groups. It helps rural, female self-help groups access microcredit to purchase HLL's products, and trains these (mostly illiterate) micro entrepreneurs to sell its products in their villages (including door-to-door). Training involves sales and promotion techniques as well as educating consumers in personal and oral hygiene matters. The Shakti project enables HLL to penetrate the informal sector as it provides it with a distribution backbone and a one-to-one, interactive communication channel into even the most inaccessible rural, low-income villages in India. Its products offer health benefits, something which enabled HLL to establish partnerships with NGOs and UNESCO. The project provides the Shakti women with a livelihood and a way to empowerment. From 2000 to 2005 the project had extended to about 50,000 villages, 13,000 Shakti-entrepreneurs, and reached 15 million people in rural areas.

Farmacias Similares (Source: Chu & Garcia-Cuellar, Harvard Business School Press, 2007)

While the Mexican government, in theory, "provided the poor with complete medical attention and free prescription medicines ..., in reality, only 18% of medicines were provided, primarily due to stock-outs ..., forcing individuals to buy their medicines in commercial pharmacies with out-of-pocket [non-reimbursed] resources". In spite of its good intentions, the government seemed unable to service to the poor. Although it offered free health care insurance, many of the poor remained uninsured and without access to health care services.

Farmacias Similares sells generic medicines and complementary products (e.g., beauty and personal grooming articles) to the poor in urban areas in Mexico. Its retail chain is partly franchised. The stores have a distinct format (very clean, open, bright, and organized) and its service and aggressive publicity campaigns distinguish Farmacias Similares from its competitors. Furthermore, "[i]t was the first pharmacy in Mexico dedicated exclusively to

generic medicines, with the merchandise on its shelves priced at least 30% lower [and often much more than that] than the traditional branded medicines”. There is a family doctor’s office for primary healthcare consultations adjacent to most of its pharmacies. Patients are seen on a first-come first-served basis, for a flat fee of P\$20, or roughly \$2. To this end, Farmacias Similares partners with a Mexican nonprofit foundation, to which Farmacias Similares also makes donations.

In nine years, Farmacias Similares has become the largest drugstore chain in Mexico with over 3,400 drugstores located in the low-income neighborhoods of Mexico. It has recently expanded to 10 other Latin American countries. Its sales exceed \$600 million and it serves more than 10 million clients a month. It is increasingly also selling to the middle class.

See Table 5.3 on page 222 for more examples of BoP firms.

1.2 Base-of-the-pyramid businesses: A strategy of “doing well by doing good”

The social contribution of businesses is one of the most important “raison d’êtres” of the private sector. In the pursuit of value creation through social value creation³, it is possible to distinguish four innovation strategies, as presented in Figure 1.2.

	Social Innovation	Social Vision
Tomorrow	To augment social impact through fundamentally new business models and technologies.	The creation of a common vision and a shared plan to sustainably solve world’s social problems and serve unmet needs.
	Prevention	Stakeholder Involvement
Today	Incremental internal (process) adjustments to augment social impact and prevent negative social effects.	Increased stakeholder engagement and integration of new perspectives and knowledge from stakeholders into existing business activities with the aim of augmenting social impact.
	Internal	External

Figure 1.2: Strategies for social value management (adapted from Hart, 1997, 2005)

³ “Social value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole” (Emerson, Wachowicz, & Chun, 2000: 137). Pareto efficiency adds the call for one group of people not being made worse off to generate improvements in the lives of another group.

One path for firms wishing to improve their impact on society is shown in Figure 1.3 (adapted from Hart, 1997, 2005). Long-term impact requires success within each of the four strategies simultaneously and not solely in one (cf. Hart, 2005). All four strategies are complementary. A strategy of Social vision in the long-term is the most far-reaching and, if correctly complemented with the others, has the highest potential pay-off. Conversely, firms that pursue and propagate a Social vision strategy without mastering the other three merely pay lip service to social pressure, which may eventually damage their reputation.

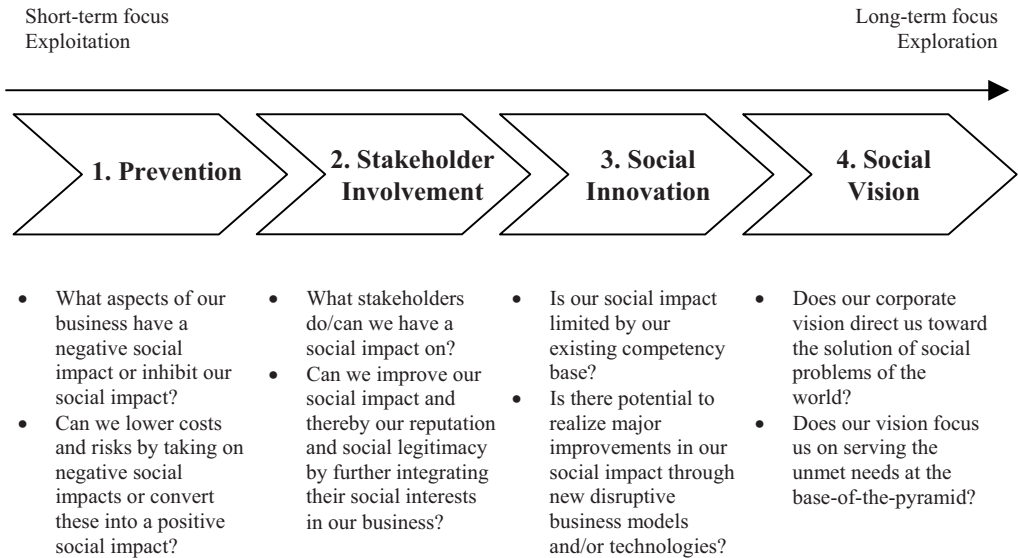


Figure 1.3: Path of social value management (adapted from Hart, 1997, 2005)

1. Prevention. Businesses typically start thinking about social value management in the form of prevention. The focus of this strategy is the refinement of the way the business operates and on making process changes in order to realize incremental improvements in its social impact. This internally focused strategy aims to optimize internal processes and in doing so refine its social impact. The focus is on the prevention or minimization of negative social effects.

2. Stakeholder involvement. One step further, businesses search for ways to achieve a *positive* social impact. They seek a dialogue with external stakeholders to further integrate stakeholders' interests in their business. All direct and indirect social effects of the business on the full spectrum of stakeholders are included in this analysis. An additional

advantage of this strategy is that innovation does not remain restricted to the mental models inside the business. In addition to social value creation, stakeholder involvement may have reputation management as a goal.

Both these strategies of social value management focus on the current activities of a business. They are short-term oriented and consequently more directed at exploitation than exploration. Businesses using these strategies concentrate on making improvements within their existing business. They demonstrate an increased focus, more efficiency and pay a great amount of attention to implementation. The next two strategies, Social innovation and Social vision on the other hand, are long-term oriented as they concentrate on future opportunities for the business and require a more exploratory approach. These strategies of social value management can be characterized as exploratory expeditions with a broad perspective in which businesses search for new opportunities, experiment with them and display a large degree of variety and flexibility.

3. *Social innovation.* Through a strategy of Social innovation, businesses search for disruptive new business models and technologies to significantly enhance their social impact. They, for example, seek new management styles and organizational forms to stimulate social innovation. They do this by organizing in virtual networks (Ahuja & Carley, 1999), through inspirational leadership and management styles (Burton & Obel, 2004), by incorporating flexible business methods (Volberda, 1996, 1998) and by developing talent. Social innovation is limited to the existing business domain.

4. *Social vision.* The next step involves undertaking visionary initiatives outside the existing business domain in an attempt to create social value by solving the world's social problems. The business serves new stakeholders and new markets because these offer unexploited social (and economic) opportunities. This strategy displays visionary leadership; it breaks the status quo and expresses a long-term commitment.

Nowadays, more and more businesses regard serving the BoP as a vital part of their social vision. The BoP is thus creating new markets and new opportunities for an increasing number of businesses. The BoP approach is a strategy of Social vision for the private sector as a whole.

1.3 The BoP approach as form of poverty alleviation

Without doubt, tackling poverty is of prime importance. Not only is it a moral obligation but also it could be seen to be responsible for present social and political unrest and may cause war and terrorism (e.g., de Soto, 2000; Prahalad & Hammond, 2002). The BoP has thus become an increasingly important issue on the political and managerial agenda (e.g., Pearce, 2005). This became even more evident with the creation of the Millennium

Development Goals⁴ (Sachs, 2005b) in which 189 world leaders laid down eight development goals to be realized by the year 2015, and with the foundation of the UN Global Compact.

Attention to those living in poverty is not new. In his inaugural address in 1949, United States President Harry Truman claimed that “[f]or the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people [those living in poverty].” His words suggest there is a long history of developed countries thinking they have the solution to poverty. In spite of this, development aid often does not reach the people or places it should and philanthropic acts are limited by available budgets. Indeed, both have been criticized for their lack of efficiency, their bureaucracy and limited sustainability.

What makes the BoP approach stand out against this background of many attempts, but limited results? How can it make a sustainable contribution to poverty alleviation or even eradication? It is unique in that it places emphasis on the private sector as the crucial actor. More specifically, it places emphasis on the development of the private sector to include the poor as producers (employees, suppliers, distributors) and consumers. For economic growth to lift people out of poverty, all actors—governments, NGOs, and the private sector—need to live up to their roles before win-win situations can occur through mutually reinforcing initiatives (Ellerman, 2005).

Profitable business initiatives can stimulate new investments, innovation (targeted at the BoP), and replication. The private sector its business skills, such as market research, value chain management, risk assessment and scaling up, are vital not only for developing profitable business initiatives but *also* for the economic development of those living in poverty (Prahalad & Hammond, 2002; Rangan et al., 2007; World Bank, 2005). Indeed, businesses targeted at the poor will make it their business to make markets work more effectively and efficiently in favor of the poor as it is in their best interest to do so. For example, previous research suggests that the private sector can provide the poor with access to new products and services. It can empower them, provide opportunities out of poverty, increase self-esteem, and give hope for a better future (e.g., Chambers, 1997; Hart & Milstein, 2003; Sen, 1999; World Bank, 2001; WBCSD, 2005).

The self-esteem and aspirational capacity of those at the base-of-the-pyramid benefit more from the opportunity to be actively involved in changing their situation and from contributing to commercial endeavors than from merely accepting aid without being able

⁴ The goals are as follows: (1) halving extreme poverty and hunger; (2) achieving universal primary education; (3) promoting gender equality; (4) reducing child mortality by two-thirds; (5) reducing maternal mortality by three-quarters; (6) reversing the spread of HIV/AIDS, malaria and other major diseases; (7) ensuring environmental sustainability and (8) creating a global partnership for development.

to return a service (cf. Appadurai, 2004; Prahalad, 2005). In order to be able to optimally deploy the business skills of the private sector, it is important that those at the BoP are part of the core business instead of merely a philanthropic activity. In fact, private sector initiatives directed at the BoP must have a sustainable commercial approach. Only then will such initiatives become part of the core business and can they endure and be replicated more easily (e.g. Prahalad, 2005; WBCSD, 2005). Increased competition in this area may subsequently drive the private sector to new developments and to better service the poor. Moreover, if BoP initiatives form part of a company's core business, their potential impact would be much greater since commercial activities are less restricted by budget. Unlike development aid, the BoP approach offers a way for change from within. As their capacities grow the people at the base-of-the-pyramid are instrumental in changing their own lives. The private sector fuels this change while it becomes embedded within the economy and society of their country.

It is thus through the development of profitable, inclusive businesses and markets that the private sector can make a potentially important contribution to poverty alleviation. This creates a potential win-win situation; where doing good socially and environmentally at the BoP, firms can do well financially. Yet, the private sector is an extremely underdeveloped actor in the arena of poverty alleviation, both in terms of investment as well as innovation (Hammond et al., 2007; OECD Development Centre, 2007; Steidlmeier, 1993; World Bank, 2005). One cause for this is the lack of knowledge available to guide private sector endeavors toward a sustainable path that would alleviate poverty (Pearce, 2005). We aim to contribute to such knowledge with this dissertation.

1.4 Business arguments to develop a business strategy around the BoP

There are thus a number of reasons why the private sector should be involved in poverty alleviation on a for-profit basis. But are there arguments for doing business at the BoP

Table 1.2: Levels at which the private sector can involve the poor into their daily operations:

1. Indirect involvement: for example through outsourcing or involvement in a value chain in which other businesses involve the poor in their operations.
2. BoP as producer (employee/entrepreneur): The poor as direct supplier, employee, or distributor of the business.
3. BoP as consumer: The poor as consumer.
4. Move innovations up-market to the middle-of-the-pyramid and/or the top-of-the-pyramid: The business introduces business model innovations and/or technological innovations learned at the BoP in the other tiers of the economic pyramid.

other than moral concerns? First and foremost, the BoP represents a market opportunity. It represents markets where firms can purchase and sell goods and services, where they can recruit and train laborers, where they can collaborate with and learn from different kinds of actors, and much more. Arguments that could help convince businesses to enter these markets include growth opportunities, a source of innovation, efficiency advantages, and reputation advantages (Brown, 2005; Christensen, Craig, & Hart, 2001; Hart & Christensen, 2002; Prahalad & Hammond, 2002: 51; Steidlmeier, 1993; World Bank, 2005).

1. Growth opportunities. “Many companies are working overtime trying to get a fraction of a per cent increase in market share in a developed country” (Martinez & Carbonell, 2007). Since developed markets have become increasingly saturated and competitive, firms are constantly searching for new markets in an attempt to live up to investors’ expectations. The BoP presents ample opportunity for such growth. The reasons for this include:

- The BoP contains a large number of people with a substantial collective purchasing power. According to Hammond et al. (2007) the BoP—defined as those living on an annual purchasing power parity of less than US\$3,000—constitutes a US\$5 trillion global consumer market on basis of PPP (and US\$1.3 trillion if not corrected for PPP; which is a more relevant measure for firms).
- The BoP is argued to have latent entrepreneurial drive and motivation to produce and consume (Chambers 1997; de Soto, 2000; Prahalad, 2005). This is clearly visible in the informal sector at the BoP. For “concealed below the surface of the GNP and PPP numbers ... is an immense and fast-growing economic system that includes a thriving community of small enterprises, barter exchanges, sustainable livelihoods activities, subsistence farming, and unregistered assets (Chambers, 1997)” (London & Hart, 2004: 353). If such significant, unrealized potential of human and other capital could be made productive, it would present a momentous market opportunity for the private sector.
- In cases where people at the BoP have access to products, services, and production opportunities, many are still badly served. They are treated without respect and confronted with a poverty penalty: “[m]any in the BoP, and perhaps most, pay higher prices for basic goods and services than do wealthier consumers—either in cash or in the effort they must expend to obtain them—and they often receive lower quality as well” (Hammond et al., 2007: 5). Therefore, a firm that serves the poor well has a substantial growth potential and the loyalty of the poor.
- Non-consumption as competitor (Christensen & Raynor, 2003). Where markets are underserved there may be little direct competition from other firms. In fact, people at the BoP often have very little to consume or produce. Consequently, they don’t first

need to unlearn and are not locked into consumption patterns that have to be broken, thereby easing the adoption and diffusion process.

2. *Source of innovation.* Success at the BoP may require innovative business models and disruptive technologies that significantly differ from those on other tiers of the pyramid (e.g., Arnold & Quelch, 1998; Chesbrough et al., 2006; Dawar & Chattopadhyay, 2002; Hart, 2005; London & Hart, 2004; Seelos & Mair, 2007). This is due to the fact that the characteristics of the poor and the challenging circumstances in which firms operate in the BoP invariably generate business challenges specific to the BoP (e.g., Banerjee & Duflo, 2007; Hammond et al., 2007). Success at the BoP therefore requires an innovative business approach with a competitive logic that may significantly differ from that in other tiers of the pyramid (Brown, 2005; Hagel & Brown, 2006; Hitt, Li, & Worthington IV, 2005; Mahajan, Pratini De Moraes, & Wind, 2000; Prahalad, 2005). In fact, by deciding not to enter the BoP, a company may miss out on these new developments but still have to deal with them and their consequences in the home market.

3. *Efficiency advantages.* Firms can realize efficiency advantages by outsourcing to low wage countries and developing the innovative cost structures necessary at the BoP.

4. *Reputation and long-term survival.* Company image, corporate responsibility, and corporate citizenship are becoming increasingly important nowadays and firms are regularly held accountable for them. They are important for employee motivation and as sources of inspiration. Moreover, if the free enterprise market system is to be “viewed as a struggle between the poor and dispossessed and the rich and powerful, the market becomes a zero-sum game” (Steidlmeier, 1993: 214-215). Hence, business cannot succeed in the long run in a world that fails; its long-term survival depends upon its perceived integrity.

There is also criticism of the literature dealing with the BoP approach to poverty alleviation. Part of this is based on the fact that firm-level research on the private sector in the BoP has remained largely limited to case studies. Furthermore, the link between theoretical arguments and empirical evidence is regarded as weak and a systematic analysis of underlying conceptual issues is still in its formative stages. As a result, some concern and criticism has been raised about the validity of the claims made in BoP literature about the size of the BoP market in terms of numbers of people and their purchasing power, about the romanticization of the BoP as resilient and creative entrepreneurs, about its overemphasis on the poor as consumers as well as an unjustified assumption of the poor being value conscious consumers. There is some question about its lack of attention to the role of SMEs but also its overemphasis on creating small-scale entrepreneurs out of the BoP (e.g., by providing microcredit)—which lack economies of scale and hardly create employment opportunities. Doubts have also been raised about its overstated potential profitability, its overemphasis on the role of the market at the cost of

insufficient attention for governmental responsibilities, and a slant towards Western ideals of success and development (e.g., Jenkins, 2005; Karnani, 2007a,b; Landrum, 2007; Walsh, Kress, & Beyerchen, 2005). This dissertation responds to these criticisms in three ways. First, we include businesses targeted at low-income people as not only consumers but also as producers and entrepreneurs. Second, we include SMEs as well as initiatives by multinationals. Third, in Chapter 4 we conceptually advance and empirically test the central, yet criticized and previously untested, postulate on which BoP literature rests. This postulate is also referred to as the “doing well by doing good by means of the business model” proposition.

1.5 Objectives and outline

The chapters in this dissertation clearly delineate the shortcomings of the critical literature, their objectives, and their contributions. It is, however, important not to lose sight of the overall objective of this dissertation and to how the specific issues in the different chapters are related to the central objective.

Unfortunately, firm-level research on the private sector at the BoP has primarily remained exploratory and largely anecdotal. This can be explained by the practical difficulties of such research (cf. Hoskisson et al., 2000) and the fact that it has not been placed on the managerial and academic agenda until recently. As a result, while the private sector has shown increasing interest in building businesses at the BoP, there is little knowledge to guide these endeavors. More knowledge is a necessity as imperfections in markets, institutions, and firms’ capabilities (cf. Chapter 5 and particularly Table 5.2), which generate high transaction costs, make success at the BoP anything but self-evident. Indeed, managers from the middle and top-of-the-pyramid may be locked in a biased mindset⁵ and find it difficult to overcome cultural differences. Consequently, business practices may fail to develop the value that potentially exists at the BoP.

⁵ Prahalad and Hart (2002: 57) explicate six of such, often false, assumptions:

- “Assumption #1 The poor are not our target consumers because with our current cost structures, we cannot profitably compete for that market.
- Assumption #2 The poor cannot afford and have no use for the products and services sold in developed markets.
- Assumption #3 Only developed markets appreciate and will pay for new technology. The poor can use the previous generation of technology.
- Assumption #4 The bottom of the pyramid is not important to the long-term viability of our business. We can leave Tier 4 to governments and nonprofits.
- Assumption #5 Managers are not excited by business challenges that have a humanitarian dimension.
- Assumption #6 Intellectual excitement is in developed markets. It is hard to find talented managers who want to work at the bottom of the pyramid.”

In response to this, the general objective of this dissertation is to increase knowledge on firms operating at the BoP. We contribute to an understanding of what it takes for for-profit firms to take a sustainable path that alleviates poverty. The lens used in this dissertation is that of the (strategic) business model concept (with the exception of Chapter 2) as the business model concept has often been suggested as the locus of innovation at the BoP (Arnold & Quelch, 1998; Chesbrough et al., 2006; Dawar & Chattopadhyay, 2002; Hart, 2005: 138; London & Hart, 2004; Prahalad, 2005; Seelos & Mair, 2007). This in contrast to, for example, a technology approach or approaching the BoP as a product design challenge, a marketing and distribution problem, or a judicial and institutional problem.

The rationale for the business model concept as the appropriate management construct for research at the BoP is that the characteristics of the poor, and the challenging circumstances in which firms operate, generate business challenges specific to the BoP context (e.g., Banerjee & Duflo, 2007; Hammond et al., 2007). Consequently, success at the BoP requires innovative business approaches of which the logic significantly differs from approaches used at other tiers of the pyramid. Prahalad (2005: 25) for example, suggests that “quantum jumps in price performance are required to cater to BoP markets” as are cost structures that are much lower than those at the top-of-the-pyramid⁶. But also disruptive innovation in distribution, value chain management, workflows, organization, payment schemes, customer education, and human resource management can be necessary. Hence, success at the BoP requires disruptive innovation of multiple aspects of the ways in which firms do business and thus “it seems highly unlikely that a single theoretical perspective may be able to explain strategic decisions” in the BoP and “an integrated approach that brings together various theories may be more fruitful” (Wright, Filatotchev, Hoskisson, & Peng, 2005: 11). As the business model concept takes such a holistic, multi-theoretical approach (cf. Chapter 3), which is necessary for firms to reevaluate the full logic of how they do business, it is seen, in existing BoP literature and in this dissertation, to be the right unit of analysis for firms in the BoP.

In sum, the overall objective of the dissertation reads:

To develop an understanding of the business models through which for-profit firms can include those living in poverty (as producers as well as consumers) and in this way seize

⁶ For example, some business models offer ‘shared access’ or ‘demand pooling’ to accomplish these price-performance improvements. Prahalad (2005) gives the example of the eye care system of Aravind (cf. page 87), which provides high-quality, low-cost eye care and eye surgery enabled by a deeply understood and standardized process. Prahalad demonstrates that its quality is similar or even better than in the UK and the US. Yet, the price of a cataract operation ranges between \$45 and \$330 (costs of the surgery are about \$25) compared to a price range of \$2,500 to \$3,000 in the USA and a price of \$350 in private hospitals in India (Karnani, 2007b).

new business opportunities while simultaneously raising the standard of living of the poor. In other words, why, from a strategic business model perspective, do for-profit firms at the base-of-the-pyramid differ in their performance?

This objective led us to conduct the studies below. We conduct, what is to our knowledge, the first survey of BoP firms. We provide the first systematic examination of the organizational problems and opportunities for firms within the BoP and conduct the first empirical test of the central postulate underlying BoP literature. We reconceptualize how we describe and analyze businesses as a whole as we clarify and conceptually advance the strategic business model concept. We also develop the first wide-ranging management support model for developing profitable pro-poor business models. All chapters can be read as individual essays. Chapters 2 and 4 develop and empirically test BoP theory. Chapter 3 is conceptual in nature and can be read independently from the BoP context. Chapter 5 has a more managerial nature than the other chapters and consists of applied research.

1.5.1 Chapter 2: Discerning the organizational problems and opportunities at the base-of-the-pyramid: A classification and an investigation of contextual relationships

BoP literature argues that firms operating at the BoP face organizational problems and opportunities unlike those encountered in high-income markets. These are the result of the distinctive characteristics of the poor—such as a strong social orientation, low levels of education, and considerable heterogeneity in people—and the challenging circumstances in which firms at the BoP operate—such as thin capital markets, lack of well-defined property rights, and a high variability in infrastructure. Because of these BoP-specific organizational problems and opportunities, business initiatives at the BoP are said to require innovative business models. Although there is some anecdotal information on the organizational problems and opportunities for businesses within the BoP, a systematic examination has not been forthcoming.

The objective of Chapter 2 is to develop an empirically derived classification of the organizational problems and opportunities for firms operating at the BoP and to investigate how these differ at the different stages of a firm's development (also known as the organizational life cycle) and in different investment climates.

1.5.2 Chapter 3: The business model concept: A strategic management approach

As firms that focus on low-income groups face BoP-specific business challenges, “the fundamental challenge may be one of business model innovation—breaking free of established mindsets, systems, and metrics that constrain the imagination of incumbent firms” (Hart & London, 2005: 30). Indeed, the business challenges at the BoP may create the necessity of disruptive innovation of multiple aspects of the ways in which firms do business and thus “it seems highly unlikely that a single theoretical perspective may be able to explain strategic decisions” in the BoP and “an integrated approach that brings together various theories may be more fruitful” (Wright et al., 2005: 11). As the business model concept takes such a holistic, multi-theoretical approach, which is necessary for firms to reevaluate the full logic of how they do business, it is seen, in existing BoP literature and in this dissertation, as the correct means of analysis for firms at the BoP.

The objective of Chapter 3 is to clarify and conceptually advance the strategic business model concept. We aim to reconceptualize how we describe and analyze businesses as a whole. Chapter 3 is conceptual in nature. As this business model concept is not specific to the BoP, Chapter 3 has not been written as such and can be read independently from the BoP context.

1.5.3 Chapter 4: Can private businesses really build profitable and sustainable business models at the base-of-the-pyramid?

The central postulate underlying BoP literature states that for-profit firms operating at the BoP develop business model qualities that not only generate profits but their profit motive also drives them to create social and environmental value at the BoP, thereby creating sustainable business models. This central postulate is referred to as the “doing well by doing good by means of the business model” proposition. However, the validity of this central postulate has been questioned. Its rejection would question the value of BoP research. In spite of this, no empirical examination of this postulate has been forthcoming nor has its conceptual development received the appropriate attention it warrants. The postulate is therefore, ill-defined and further explanation and validation are essential.

The objective of Chapter 4 is to conceptually advance and empirically test the central, yet criticized and previously untested, postulate on which base-of-the-pyramid literature rests. We develop and test a theoretical framework that explicates the relationships between business model qualities and different types of firm performance. The framework and hypotheses build upon the conceptual work of Chapter 3.

1.5.4 Chapter 5: A management support model for developing profitable pro-poor business models at the base-of-the-pyramid

Although the private sector is showing increased interest in doing business at the BoP, there is little knowledge available to guide their endeavors. In response to this, the objective of Chapter 5 is to build a management support model that offers managers and entrepreneurs a basis for developing profitable pro-poor business models at the BoP. To this end, we address the question of why some business models at the BoP fail whilst others succeed.

1.5.5 Chapter 6: Conclusions and directions for future research

Finally, Chapter 6 provides a summary of the main conclusions and stipulates an agenda for future research on doing business at the BoP.

Introduction to the motivation of the dissertation, the positioning of the subject and the formulation of objectives			
Chapter 1	Research Objective	Explained Variable	Theoretical Perspective
Chapter 2	To develop an empirically derived classification of organizational problems and opportunities for firms operating at the BoP and to investigate the contextual relationships on these organizational problems and opportunities.	Business challenges	Organizational problems and opportunities
Chapter 3	To clarify and conceptually advance the strategic business model concept.	Strategic business model: Value creation, value appropriation, and future viability	Sustainable competitive advantage Complexity theory (multiscale analysis and the distinction between components and linkages) Integration of multiple managerial schools of thought
Chapter 4	To conceptually advance and empirically test the central postulate underlying BoP literature that for-profit firms operating at the BoP develop business model qualities that not only generate profits but their profit motive also drives them to create social and environmental value at the BoP.	Sustainable performance	Strategic business model Sustainability (Triple P performance)
Chapter 5	To build a management support model for developing profitable pro-poor business models at the BoP. To this end, we build an understanding of why some business models at the BoP succeed whilst others fail.	Sustainable performance	Based on the previous chapters Literature study Case reviews
Chapter 6	Conclusions: summary of the main findings, implications, and suggestions for further research		

Table 1.3: Outline of dissertation