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Designing Sustainable Business with the Base of the Pyramid.

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Traditional economic and financial approaches promoted profit orientation and the maximization of shareholders' wealth as key goals of the firm (Friedman 1970). Therefore, in this perspective, the role of managers should primarily be to look after the interests of shareholders (Fama 1980).

The *Stakeholder Theory* moved the attention from the mere economic and financial goals of shareholders to the more complex interests of a variety of social stakeholders (Freeman 1984). More recently, the *Shared Values* framework invited firms to re-balance their economic and financial interests in order to create wider social and environmental impacts with their stakeholders (Porter and Kramer 2011).

Prahalad and Hart (2002) proposed that an enterprise-based approach to poverty could contribute to the improvement of the lives of millions preserving the traditional economic and financial goals of the firm. This perspective advocates that by specifically targeting poor customers (the so-called Base of the Pyramid) with dedicated products and services, firms have the opportunity to achieve important financial results while addressing poverty reduction.

This approach has enormous potential to *end poverty in all its forms everywhere* (UN Sustainable Development Goal 1). However, without responsible management, this approach presents the risk to re-create imperialistic dynamics on the poor of the world. Global managers hence require responsible frameworks to design sustainable business practices with the Base of the Pyramid (BoP).

On completion of this chapter, students should be able to:

- ○ Understand the value(s) in designing sustainable business with the Base of the Pyramid
- ○ Evaluate the wider social and environmental impacts of enterprise-based approaches to poverty eradication
- ○ Redesign the strategic approach to the economic, relational, and innovative aspects of the business

Introduction

The debate on the goals of the firm characterizes the management discipline.

Traditional economic and financial approaches consolidated the view that orientation to profit and maximization of shareholder value are the key goals of the firm (Friedman 1970; Rappaport 1986; Wallace 2003). In these perspectives, the manager is a mere agent of the shareholders and its role is to protect their financial interests and to increase their wealth (Fama 1980, Freeman *et al*. 2010). Recently, however, different business disciplines began to question such narrow approaches.

In accounting, the *Triple Bottom Line* framework proposed firms should keep separate accounts to record all of their financial, social, and environmental costs (Elkington 1997). In doing so, organizations acknowledge that their activities (and implicitly their goals) are not only economic, but also social and environmental (Slaper and Hall 2011). Drawing from marketing and public relations, the *Corporate Social Responsibility* (CSR) literature invited firms to consider philanthropy as a key aspect of every business (Carroll 1991). Despite the attention in the late 90s, the CSR movement failed to recognize social activities as more than just ancillary experiences to the main traditional goals of the firm. The *Shared Values* approach represented a turning point in organization studies (Porter and Kramer 2011). This explicitly argued that the improvement of society is part of the firm's nature, suggesting that social and environmental goals should be an integral part of its strategic mission. Firms should orient their management practices outwardly to identify opportunities that create measurable business and social value. They should reconceive products and markets and redefine their value chains to integrate solutions with social impact. Here, collaboration with social actors becomes critical in order to leverage the power of market-based competition in addressing social problems.

Adopting a multidisciplinary approach, the *Stakeholder Theory* offered a critical contribution to the debate on the goals of the firm (Freeman 1984). As discussed in chapter 13, the Stakeholder Theory proposes an alternative to business strategies that serve only the immediate financial interests of owners (Edwards and Sulkovski 2014). This framework advocates that firms should satisfy not only the interests of shareholders, but also the ones of other social groups (Jones 1995). The Stakeholders Theory shifted the attention from economic and financial goals to the wider interests in the attainments of the

firm. It implicitly introduced that the firm has a moral responsibility in pursuing the wellbeing of interlocutors in business and society as one of its key goals (Freeman *et al*. 2010).

The UN *Global Compact* initiative defines social sustainability as one of the cardinal points of corporate sustainability. Firms must identify and manage business impacts on "employees, workers in the value chain, customers and local communities" (United Nations 2016a). This opens up the boundaries of an organization's goals to include sustainable social goals and to redesign the moral mission of firms. Building sustainable businesses ensures that Multinational Enterprises (MNEs) can still *do well by doing good* and balance commercially viable strategies with a responsibility to the UN Sustainable Development Goals (SDG).

This chapter focuses on how firms can make SDG 1 (i.e. *end poverty in all its forms everywhere*) one of their main corporate goals.


Ending Poverty as a Sustainable Business Goal

Balancing goals as diverse as profit orientation, maximization of shareholders' wealth, and poverty eradication can be challenging for modern firms. Prahalad and Hart (2002) argued that firms can successfully address poverty while achieving profitable financial results. This enterprise-based approach to poverty eradication advocates firms should consider the poor of the world as a consolidated global market and design specific products and services for improving their living standards (Prahalad 2004). This perspective works on the assumption that the poor will buy affordable solutions for basic needs. These, in turn, will increase sanitation, energy independency, education, and nutrition. Better living conditions will eventually take households out of poverty and will allow them to access future value-added products and services.

This view noted how global firms focused traditionally on serving middle or high-income customers in developed economies, neglecting the size of the market constituted by the poor in emerging economies (Prahalad and Hart 2002; Prahalad and Hammond 2002).

The enterprise-based approach openly invites firms in addressing the needs of people at the *Base of the Pyramid*[1] (henceforth, BoP). This demographic term indicates the estimated 3 billion people living with less than $3.10 per day (at purchasing power parity in 2011 US$ - World Bank 2016a). Even more astounding, 1 billion people struggle in conditions of extreme poverty, surviving with less than $1.90 a day[2].

Figure 1: The World Income Pyramid
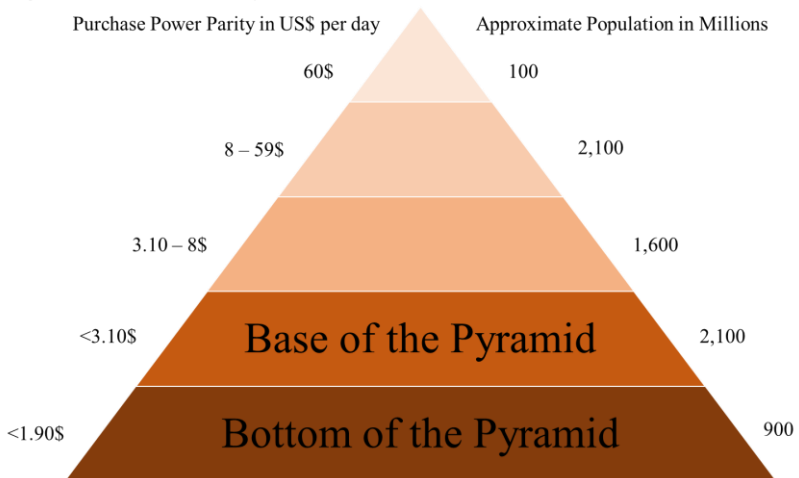
Source: Adapted and updated from Prahalad and Hart (2002); Data from World Bank (2016)

For Prahalad and Hart (2002), lifting people out of poverty is not only a principle of responsible management, but it also makes strategic sense. Three main arguments exist for adopting the enterprise-based approach to poverty as a viable sustainable business.

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[1] The literature often uses interchangeably the terms "Base/Bottom of the Pyramid". An argument exists to distinguish between the Base (people living below the poverty line) and the Bottom (people living in extreme poverty). In this chapter, we follow the suggestion of Calton et al. (2013) who propose to avoid the term Bottom of the Pyramid because of its negative connotations.

[2] The World Bank recently increased these values to reflect a devalued dollar and to include non-monetary elements of human development such as access to education and health (World Bank 2016b).

The *economic argument* suggests that markets at the Base of the Pyramid are strategic for competing at a global level. First, the current aggregated global size of the BoP represents a strategic opportunity for Multinational Enterprises (MNEs). Although the individual household's basic income[3] is limited, the BoP as a consolidated global market is worth an estimated 5 trillion US$ worldwide (WRI 2016). This would allow firms to achieve economies of scale more efficiently or find niches of a valuable size. Second, BoP markets develop fast and they tend to be located in emerging economies (South-east Asia, Africa). Their potential for further growth is high. For example, Rwanda averaged about 8% per annum in real GDP growth in the period 2001-2015 and successfully coordinated programmes that moved people out of poverty (World Bank 2016c). The future demand at the BoP will change not only in terms of size, but also in terms of its nature. BoP households often have aspirations and dream to improve the living standards (Dupas 2009). When the UN SDG1 is achieved, the future disposable income of households currently living in poverty will increase. BoP customers will demand more value-added products and services. They will likely show brand loyalty to firms with which they developed effective long-term relations. MNEs like Unilever or CEMEX deliberately targeted the BoP to establish themselves as market leaders in emerging markets while pursuing their original missions.

However, emerging and developing countries often have a volatile environment for business and poor infrastructures. The UN Global Compact argues how poverty and the associated lack of social development can hamper business development in emerging markets. Besides "actions to achieve social sustainability may unlock new markets, help retain and attract business partners, or be the source for innovation for new product or service lines" (United Nations 2016a).

Hart and Christensen (2002) argued that these challenges can help MNEs to foster organizational creativity, innovation, and problem solving (Hart and Christensen 2002). BoP customers are normally more open to innovation (Dupas 2009), more willing to experiment new business models (Gooderham

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[3] With household basic income we indicate the amount of money a family has to earn to cover needs such as food, energy, and shelter. Any remaining is classified as household disposable income.

et al. 2016), and more forward in testing alternative solutions to problems (Dupas 2014). Firms have the opportunity to reinvent their approach to business, introducing simple and ingenuous solutions that are effective in difficult environmental conditions.

The *social argument* advocates that, in designing enterprise-based solutions with the BoP, MNEs can engage constructively with the UN SDG1 and contribute to poverty eradication. The PRME working group on poverty highlights how chartering human rights at the BoP contributes to a powerful dialogue amongst social interlocutors. Different than with environmental or labour issues, national legislations struggle to articulate regulations for firms to engage with poverty. Poverty alleviation remains a 'positive duty' for corporations (Van Tulder and Kolk 2007: 97). Responsible management plays a critical role in ensuring that firms develop an internal drive towards reducing income inequality. This facilitates the interface between business and society and strengthens the sense of purpose in management education (PRME Principle 1).

Poverty is associated with other critical issues at the centre of the Sustainable Development Goals initiative and of the UN Global Compact. For example, poor households inefficiently use water and energy resources. They often settle on riverbanks and burn kerosene with detrimental impacts on water pollution (SDG6, SDG14, SDG15), on the air (SDG13) and on sustainable sources of energy (SDG7). Poverty forces families to prioritize basic needs, with negative effects on nutrition (SDG2), health (SDG3), and education (SDG4). The poor often live and work in informal economies, increasing the risks of inequality and exploitation at work (SDG8 and SDG9) and women remain especially vulnerable in these contexts (SDG5). Firms have the opportunity to tackle a variety of issues by empowering individuals and by creating robust partnerships across society. By tackling SDG1, firms can build stronger bases towards the achievement of all the other goals.

However, some issues exist with the enterprise-based approach to poverty eradication. First, empowering individuals to create more sustainable societies requires not only increasing incomes, but also distributing them more equally. Since 2004, the poverty rate decreased from 58.7% to 22.7% in Peru, from 50%

to 17.7% in Cambodia, and from 37% to 22% in India, three countries where this approach has widely taken place (World Bank 2016d; World Bank 2016e). However, over the same period, the Gini index[4] in the same countries did not show similar improvements in terms of income equality (Peru from 50 to 45.7; India 33.4 to 33.9 and Cambodia 42 to 28). Higher income inequality can lead to social unrest, migration, and social displacement. These are all factors that eventually will re-perpetuate situations of poverty. Second, poverty eradication has to emerge as a set of actions that involves all social stakeholders.

PRME Working Group on Poverty, a Challenge for Management Education

PRME established this working group following the 1st Global Forum for Management Education. Its vision is to integrate poverty-related discussions into all levels of management education worldwide. The working group aims at reshaping the social environment in which business management operates, by ensuring that dialogue with all stakeholders informs both managerial and educational solutions.

The CEEMAN online platform has a collection of best practices and inspirational solutions for integrating discussions on poverty in the curriculum. www.ceeman.org/publications/collection-of-best-practices-and-inspirational-solutions-for-fighting-poverty-through-management-education

Further info at: www.unprme.org/working-groups/
Join the LinkedIn group at: www.linkedin.com/groups/3792037/profile

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Solutions that are merely stewarded from corporations have proven effective in the short-term, but have often eventually failed to create a sustainable legacy. The UN Global Compact's principles focus on the social dimension of corporate sustainability. They invite firms to develop "people-centred approaches to business impacts on sustainable development" in order to defend human rights and address poverty (United Nations 2016b).Because of these issues, the effectiveness of a commercial approach to poverty reduction attracted severe criticism. Drawing a parallel with the discourse on Corporate Social Responsibility (CSR), some critics pointed out that the entire BoP discourse serves an ideological function for global capital and neoliberism (Arora and Romijn 2011). Others argued that a purely commercial approach to

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[4] The Gini index measures income inequalities within societies. It ranges from perfect equality (0, everyone has the same income) to perfect inequality (100, where one person has all the income). Lower figures indicate more equality.

the BoP masks new forms of corporate imperialism (Newell and Frynas 2007). This often implies the imposition of a Western modernity on power-deprived communities (Banerjee 2007). After some initial cases of success, the enterprise-based approach initially proposed by Prahalad and Hart (2002) does not seem to have achieved the expected impact on poverty reduction (Simanis *et al.* 2008). Calton *et al.* (2013) indeed argue that this first approach to the BoP led, perhaps unintentionally, to a "buccaneering style of business enterprise" in approaching BoP markets (p. 721). MNEs overlooked the social complexities of operating at the BoP and mainly achieved commercial success in the form of short-term returns (Simanis 2012).

Commercially focused MNEs failed to realize the importance of entwining commercial and social value (Rangan 2011). Without understanding the notions of poverty and success at the BoP, firms failed to entice local communities to join the BoP revolution in the long-term (Calton *et al.* 2013). It is hence important to redesign a sustainable approach to the BoP so that firms could do business "*with* the BoP, rather than *at* the BoP" (London and Hart 2011, p. xi). The literature has recently shifted from the mere commercial perspective typical of the first wave of strategies at the BoP to a more relational and inclusive approach. In what Simanis and Hart (2008) call BoP2, deep dialogue and involvement of all social actors play a critical part in strategic decision-making. Responsible managers will need to learn how to develop new human-centred models for interfacing with stakeholders.

Rethinking sustainable business at the BoP

Firms experienced different solutions for engaging with the issue of poverty alleviation in a positive way. Examples include the transparency via labelling (e.g. Fair Trade), the widespread distribution of micro-credit, and the development of Codes of Conduct that can help firms to create self-regulating standards (Van Tulder and Kolk 2007). The enterprise-based approach of Prahalad and Hart (2002) proposed engaging commercially with the BoP so to balance the economic and financial goals of the firm with the aim to eradicate

poverty. The next sections will explore how firms can develop sustainable strategies in order to put SDG1 at the centre of their corporate sustainability.

In particular, responsible managers need to *rethink*:

- **Business Models:**

  Managers have to re-evaluate how the poor engage with products and services to tailor effective sustainable solutions against poverty. Life at the BoP has to become the centre of sustainable business models.
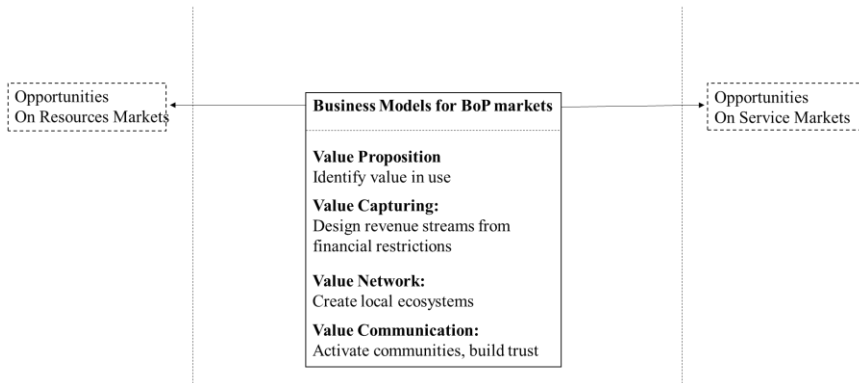
- **Stakeholders Relations:**

  Managers have to propose new mental mapping that can help redesigning relations with stakeholders. Social interlocutors will move from a mere interest in the attainment of the goal of the company to an active involvement in the implementation of the firm's strategy.

Rethinking business models at the BoP

Despite recognising the economic argument, firms operating in traditional markets often shunned BoP customers. Prahalad and Hammond (2002) hold that firms struggle to design solutions that work because they fail to understand the different economic dynamics in BoP markets. This section explores how firms can rethink their business models to address the issue of poverty while offering products and services at the BoP. The starting point of business model design is the insight that customers do not value resources or product per se but seek services that address their needs. Thus, anything a firm might offer (products, software, ideas, services) is a platform for value-creation activities and becomes effective only in the domain of the user's contexts (Ballantyne and Varney 2008; Chesbrough 2011; Macdonald *et al*. 2016). Business models need to bridge between unaddressed needs and idle resources to address poverty effectively with the BoP (Figure 2). The **four pillars of value creation** indicate how firms can activate resources to create business models that identify value for individuals and communities (Ehret *et al.* 2013; Wirtz *et al.* 2016).

Figure 2: Business Models at the BoP

Opportunities On Resources Markets	**Business Models for BoP markets**	Opportunities On Service Markets
	Value Proposition Identify value in use	
	Value Capturing: Design revenue streams from financial restrictions	
	Value Network: Create local ecosystems	
	Value Communication: Activate communities, build trust	

Author: M. Ehret (2016)

Such an outside-in approach has substantial implications for business model design at the BoP. By building on each value creation pillar, managers can develop *adaptation* or *redefinition* strategies to rethink their business models. With the former, firms adapt their current model to the unique conditions of the BoP market. With redefinition strategies, firms reinvent their approach to the design and delivery of products and services.

Value propositions address the user's economic contexts, reflecting their value in use (Chesbrough 2011). A common assumption holds that household products and toiletries might simply be too expensive for BoP customers. While such purchases have little impact on a family's budget at the top of the pyramid, they represent immobilized financial resources at the BoP. Such households often lack adequate storage capacity and immediate access to running clean water. Furthermore, their budgets are often dependent on unstable income streams from informal work. The lack of infrastructure also often represents a critical barrier. Infrastructure may be present, but is unreliable, poorly maintained, and subject to blackouts. *Scaling-down* is an adaptation strategy where the firm shapes its product/services to fit the infrastructure or income levels in the region. For example, Procter & Gamble[5] focused on the value-in-use of toiletries in emerging markets to reduce the costs associated with packaging by using recycled materials.

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[5] http://us.pg.com/sustainability/environmental-sustainability/focused-on/packaging

> **Case Study.** *Scaling-Down* in action
> Safaricom, a mobile operator, launched its mPesa service in Kenya
> to offer a mobile money platform that provides basic banking ser-
> vices. The mobile network infrastructure in Kenya was mainly GSM
> and the diffusion of smartphones scarce. Safaricom focused on the
> available standards and introduced a banking service that would al-
> low virtual transactions on the GSM network (i.e. text messaging).
> This innovation has since been introduced in Europe as well.
>
> Sources: https://www.youtube.com/watch?v=i0dBWaen3aQ
> https://www.youtube.com/watch?v=zQo4VoLyHe0

Adaptation strategies can be ineffective in areas with difficult access to clean
running water or energy. *Decoupling* is an effective redefinition strategy that
decouples the use of products and services from infrastructures. For example,
Unilever designed a dry-shampoo that does not need water; while Godrej
launched the 'chotu kool', a portable refrigerator that does not require
connection to electric grid. The two firms focus on the infrastructure available
in the emerging market to design innovative products that would facilitate the
access to the benefits of the products.

> **Case Study. New value propositions in Rural Healthcare**
> Rural areas are challenging for offering healthcare services.
> Villages are poorly connected and there is a lack of professional
> medical staff and hospitals. LifeSpring, a network of low-cost
> maternity and children's hospitals, combined strategies such as
> *decoupling* and *scaling down* to overcome the critical lack of medical
> staff in rural India. The firm disaggregate all its complex operations
> into discrete tasks that low -skilled individuals can perform. This
> allowed doctors to specialize only in tasks demanding their expertise,
> with other health workers performing simpler procedures. General
> Electric (GE) redesigned its CT scans to address the same issue in
> rural China. Traditional CT scans are costly to run and require
> specialized staff. Rural hospitals do not have the scale capacity and
> the trained technicians to afford purchasing them. GE not only
> simplified and miniaturized the scan technology, but it also focused
> on creating a device that was easy to use for non-specialists. This
> innovation not only proved to be a commercial success in rural China,
> but it also redefined GE's approach to innovation in developed
> markets.
>
> Sources: (Immelt et al. 2009; OECD 2015).

Financial restrictions are common challenges at the BoP. By adjusting ***value-capturing*** mechanisms to the economic reality of users, firms can design business models that address financial restrictions. In traditional product markets, the dominant value capturing mechanism used to be product price, varied by volume discounts or differentiation premiums. Business model concepts offer more adaptable revenue streams to suit users' economic contexts in a sustainable manner (Ndubisi *et al*. 2016).

Miniaturization is an adaptation strategy that synchronizes the purchasing process with daily use and financial limitations. Procter & Gamble succeeded by offering its toiletries in single-use sachets. At the BoP, several $0.20 purchases in a month become suddenly more affordable than a single $10 one. Regular purchases also promote regular usage and increase sanitation, contributing to fight poverty. This approach requires a capillary distribution to be successful. Firms must maximize the turnover to achieve scale and promote the continuous use of the product over time (Simanis 2012). Radical redefinition strategies that build on value capturing mechanisms include *non-ownership* concepts, where firms offer access, sharing, or renting options for a resource, instead of selling the ownership rights of the product (Rifkin 2014; Ndubisi *et al*. 2016). Sarvajal in India launched automated dispensers for accessing safe purified drinking water in underserved areas. Similarly, Ecotact introduced pay-per-use toilets and showers to improve sanitation in urban slums in Kenya. In doing so, the firm does not only provide a vital service, it also restores dignity to the users of sanitation services (Nordic Innovation 2016).

Multi-sided business models typically reside on the third pillar of business modelling: the ***value network***. Because of its outside-in philosophy, these approaches strive to develop networks for value creation, building on eco-systems consisting of supply chain and marketing channel-partners, complementing services, and non-business stakeholders. The underlying rationale holds that firms cannot adapt resources to user needs in isolation and therefore networks increase both effectiveness and efficiency of value creation. Especially in BoP contexts, non-government organizations play vital roles in identifying the economic context and in closing resource loopholes (Chesbrough *et al*. 2006).

An effective adaptation strategy is *subsidization,* where one side of the market may subsidize other sides. Well-known examples are the advertising sponsored services on Internet search engines or platform-sponsored component markets, like razor blades or desktop printing. At the BoP, social and institutional partners (e.g. private donors, government, NGOs, and industry associations) normally subsidize the purchase. For example, the shoemaker Toms linked BoP markets and rich markets with a partnered reward system. In this scheme, a customer purchasing a pair of shoes in a 'top of the pyramid' market becomes automatically the donor of a matching pair.

Micro-enterprising is a partnership-centred redefinition strategy that builds on existing eco-systems and networks to engage local economic actors. Avon trained and financed women to develop independent micro-enterprises that sell its products across both shantytowns and rural areas in South Africa.

> **Case Study.** *Micro-enterprising* **in action**
> GrameenPhone emerged as a key player in the mobile network market in Bangladesh, by addressing poverty and marginalization. The country has the lowest average revenue per user in the world, but the highest growth in penetration and in voice-traffic usage (GSMAIntelligence 2016). The firm's Village Phone programme helped women in rural areas to start micro-enterprises selling mobile services. These women gained financial independence, escaped poverty, and reshaped their roles in local rural communities.
>
> Source: (Prahalad and Hammond 2002)
> More info at: www.appropriateit.org/grameen-phone-ladies/

The fourth essential pillar, ***value communication*** resides strongly on social capital of communities and informal and interpersonal relationships (Ndubisi *et al.* 2016). Trust and commitment become as important as business relationships to nurture this outside-in approach to business modelling.

An adaptation strategy that activates communities and networks is the *supply-chains redesign*. Firms collaborate with social and institutional partners to re-organize the supply chain dynamics so that products would become more affordable and easily available to BoP customers. Prosperity Initiative promoted the Mekong Bamboo consortium to facilitate the access to low cost bamboo timber for huts in Vietnam (DCED 2016). Different private and public

interlocutors shared expertise and integrated processes. BoP customers were included in the supply chain with roles as diverse as cultural consultants or manufacturers of bamboo artefacts. End customers traded their expertise for access to discounted products and services.

Community-based purchasing is a redefinition strategy that decouples the traditional buyer-seller relationship. The firm promotes purchasing groups and stewards the community in using the product.

Case Study. *Community-based purchasing* in action
CEMEX, a Mexican cement maker, launched a community-based scheme called 'Patrimonio Hoy' helping BoP customers to upgrade their homes. BoP households must save for months purchase a single bag and cannot afford to immobilize such a resource during the construction of their house. Bags can be misplaced, stolen, or dispersed because of lack of secure storage. 'Patrimonio Hoy' offered free storage, professional advice, and coordination of community-based purchases. Community members pooled their resources together to purchase materials for the first house and then moved to the construction of the next one. This made families safer, urban areas cleaner, and communities stronger.

Source: www.cemex.com/MediaCenter/Story/Story20151005.aspx

Community-based models are also useful promotional tools. Success stories generate positive word-of-mouth and brand loyalty. Contrary to common assumptions, BoP customers are extremely brand aware and associate higher value to known brands (Prahalad and Hart 2002). However, they might live in media-dark areas, where access to traditional media advertising is not readily available (e.g. Billboards, TV). Customers who participated in the 'Patrimonio Hoy' project not only continued to purchase CEMEX products when they emerged from poverty, but also became ambassadors of the firm.

Both adaptation and redefinition strategies demonstrate the importance of understanding the different economic dynamics at the BoP. This knowledge can indeed help managers to evaluate the potential of BoP markets and to design sustainable business models. Redefinition strategies especially invite responsible managers to reconsider their approach to stakeholders' relations as well.

Case Study *One Laptop per child* (OLPC)

The OLPC initiative shows that using a combination of different strategies can be a resourceful way to approach BoP markets. The project aimed to "empower the children of developing countries to learn by providing one connected laptop to every school-age child". Families in rural areas frequently lack access to energy to make use of the laptop. The firm used *decoupling* to create a laptop to suit no-energy conditions and included a crank-up battery, which the user could charge by hand to obtain dedicated energy. *Scale-down* kept the cost of the unit low. *Subsidization* helped to coordinate donors and governments to pay each a portion of the laptop's price, with the family paying only a marginal sum.

Source: http://one.laptop.org/

Successful business models showed that the inclusion of a variety of stakeholders in the functioning of the firm's operations is fundamental to work with the BoP. By engaging in deep dialogue with users, a firm can anticipate possible bottlenecks in future operations and prevent potential cultural rejections (Simenis *et al*. 2012). Working with the BoP requires responsible managers to invest in building trust and this, in turn, calls for rethinking the relations with all the stakeholders of poverty. Firms should rethink not only their economic approach to business, but also their social one. This would help them to create change rather than waiting for the markets to change.

Table 1: A summary of the available strategies for business model design at the BoP

Focus on Approach	Value Proposition	Value Capturing	Value Network	Value Communi-cation
Adaptation	Scaling-down	Miniaturiza-tion	Subsidiza-tion	Supply-Chains Redesign
Redefinition	Decoupling	Non-Owner-ship	Micro-enter-prising	Community-Based Pur-chasing

# Rethinking stakeholders relations

The main criticism to the enterprise-based approach to BoP argues that firms risk transforming the poor into mere consumers, without addressing the fundamental problem of sustainable development (Karnani 2007; Simanis and Hart 2008). MNEs have to reinvent not only how they sell to the poor, but also how they embed processes of co-invention and co-creation within local communities (Simanis 2012). MNEs must consider, understand, and evaluate the needs and expectations of all social actors (Freeman *et al*. 2010). As seen in chapter 13, the Stakeholder Theory distinguishes between primary (e.g. employees, customers, suppliers) and secondary interlocutors (e.g. NGOs, local communities and governments). In working with the BoP, these traditional differences fade. All interlocutors represent key partners for facilitating constructive relationships between the firm and BoP customers (Hart and Simanis 2012). Working *with* the BoP means stakeholder relations have to change from a mere acknowledgement of the attainment of the firm's goals to a redefinition of stakeholders into co-creators of value (London and Hart 2011). This will facilitate the emergence of bottom-up solutions, co-created with local communities. In other words, in order to work responsibly with the BoP "it is attuned to work within or in solidarity with value-based social networks where differences are respected and community dialogue and engagement are encouraged" (Calton *et al*. 2013: 722).

In the Stakeholder Theory, the attention is on the relations that the firm creates with its interlocutors. Stakeholders not only have contested values and claims, they also engage in other webs of relationships. This also creates complex stakeholder networks. Firms wanting to achieve both their economic and social goals sustainably have to master the tensions of multi-layered stakeholder networks. The Stakeholder Theory embeds a concern for moral conduct in the process of value creation (Freeman *et al*. 2010).

Calton *et al*. (2013) propose three frameworks that would help responsible managers engage proactively with local communities, build direct and personal relationships and keep an on-going dialogue.

The first framework proposes a mapping model based on "Decentred Stakeholder Networks", which reframes stakeholders' relationships as system-centred rather than firm-centred (Werhane 2008, 2011). This perspective removes the firm as central locus and it recasts it "as an equal participant in an unfolding, multilateral pattern of firm/stakeholder interactions" (Calton *et al*. 2013: 725). The central focus is now the system of nodes and relationships of the many participants in the process (Werhane 2011). This shift in mind-set accommodates the global complexity of interrelationships between the firm and all its interlocutors and considers the interactions between all stakeholders (Werhane, 2011). While the role of the firm remains important, responsible managers have to monitor the subsystems created in the map. *Respectful listening* and *empathy* guide dialogue with multiple stakeholders.

Figure 3 A Decentred Stakeholder Network
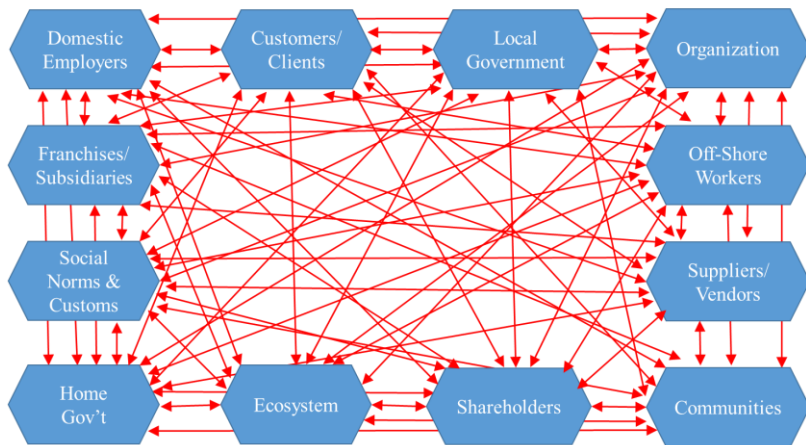
Source: Werhane (2011)

Dialogue identifies tensions, individual agendas, and conflicting expectations. Responsible managers must propose solutions that consider the impacts of the firm's action on the whole of the system. Contemporary global enterprises often operate in multi-cultural and multi-disciplinary environments. This approach is particularly useful for MNEs as it allows them to understand the implications of different cultures and to gain knowledge across sectors and areas of operations.

The second framework is based on the notion of Global Action Networks (Calton *et al*., 2013). These networks link firms with voluntary organizations and government actors in a specific project aimed at tackling a specific problem. Networks are built on social respect, trust, and sense of obligation. MNEs must identify the interests of all actors and offer complementary resources and competences to entice each partner into cooperation.

The interlocutors across the networks often speak different languages, present different cultural priorities and have unique organizational identities. A functioning Global Action Network has to facilitate the framing of the problem, address misconceptions, and minimize misunderstandings. Responsible managers can *institute multidisciplinary roles* with linguistic and cultural expertise. These will work across the network facilitating the "community conversation that brings together diverse voices caught up in the shared problem domain" (Calton *et al*. 2013: 727). In addition, responsible managers can *propose alternative forms of communication*. For example, the use of artistic artefacts, games, and experiences proved to be successful in coordinating effective communication within diverse networks.

Networks generally work on the basis of interactive exchanges and mutual recognition of interests. All participants have to be sure that their goals are considered and their interests protected. Besides, peer pressure, losing face, and a diffuse sense of obligation can enforce social contracts and minimize moral hazard. Responsible managers can *define coordination processes and structures* that can support these often informal functioning mechanisms. Useful examples are transparent platforms and forums where partners can scrutinize the behaviours of other network's participants. Similarly, responsible managers can *promote action learning opportunities* aimed at developing trust between participants. A successful strategy is for responsible managers to *identify the public good* that the Global Action Network is going to achieve. In the case of poverty eradication, it is useful to pinpoint with the partners the dimensions of the meaning of poverty that the network is prioritizing and the shared reasons behind the choice.

Networks are great opportunities for learning and knowledge sharing. A key element of a functioning network is the shared understanding amongst partners that each is developing new competences and that the system as a whole will

generate more knowledge than individually possible. Responsible managers need to *design opportunities for learning* for all participants. Individuals, firms, and NGOs that are able to integrate successfully the knowledge created in the network into their own portfolio of resources will increase their commitment to the future network activities. Responsible managers can also *create opportunities for reflection* within the organization and the network. These are especially important for assessing the long-term impact of learning on sustainable business practices.

Finally, decision-making in problem-based networks is often informal and follows non-linear processes. A firm's direct (or even coercive) leadership will not necessarily spur the active engagement of local governments, communities, and NGOs. Global Action Networks require systems of governance that balance the power between all actors and allow the diverse voices to emerge. Responsible managers can *mobilize shared and participative leadership* to favour the partners' proactive engagement. Instruments such as round tables, action-learning experiences, network teams, and buddying schemes will allow people within the network's organizations to understand the other's perspective; to voice their views; and ultimately to influence decision-making.

The third framework invites firms to develop human-centred solutions that address local contexts in specific ways. Responsible managers have to rethink their conceptualization of stakeholders. These are not mere aggregated groups (e.g. the BoP customers), but real, individual people (Werhane 2008). People have faces, stories, dreams. These inform how MNEs define their interaction with the different communities, helping responsible managers to tailor solutions to each local context (McVea and Freeman 2005). Firms are entangled in a complex adaptive system, which assumes "networks of relationships between individuals or groups of individuals, it affects and is affected by individuals, real people with names and faces" (Werhane 2011: 121). This framework proposes to use the names and faces of actual stakeholders to present mental map of stakeholders' relations. Replacing the box "employee" with the actual photo and a short biography of one specific person not only visualizes the category more vividly, but it also allows responsible managers to make sense of working and life conditions immediately.

A critical point of SDG 1 is to understand that poverty exists everywhere, yet in different forms. Targets 1.2 and 1.3 set by the UN remind us that the meaning of poverty varies according to national definitions and to the presence of nationally appropriate social protection systems. MNEs often fail to understand poverty and to comprehend its implications for families and communities. The "Names and Faces" framework not only humanizes the participants in partnership projects; but it also allows managers to make sense of the human sustainability of BoP strategies.

A common myth in working at the BoP is that solutions can be rapidly scaled and globalized so to achieve profitable results (Simanis 2012). This framework considers that the experience of poverty is not the same in every context. The visualization of people in stakeholders map facilitates the immediate understanding of what makes unique each situation (Calton *et al.* 2013). In the BoP1 approach, firms have often hoped that doing business at the BoP could be an incubator of global innovation. Surely, there is ingenuity at the BoP and there is scope to replicate some successful practices in other contexts. However, SDG1 stresses that to eliminate poverty everywhere, we need to understand how poverty manifests in the lives of individuals across nations and how it is experienced in each context. Moreover, socio-economic, political, regulatory, and cultural conditions make each context unique. Therefore, 'one-size-fits-all' solutions to alleviate poverty are not necessarily effective in diverse BoP situations (Werhane 2011). The adoption of a human-centred map allows NGOs, firms, local governments, and local opinion leaders to identify paths to tailored solutions. All stakeholders would work with the precise situation in mind and better comprehend each other's point of view. The UN Global Compact invites firms to engage in partnerships with stakeholders to "create long-term value and achieve a positive impact on society" (United Nations 2016c). These three frameworks not only present a novel approach to the mapping of stakeholder relations. They also offer sophisticated instruments to responsible managers to rethink the firm's engagement with a plurality of social actors. Firms need to transform their business practices and proactively engage governments, civil society, and local communities.

Stakeholder relations within the BoP are normally multi-layered, dynamic, and long-term oriented. To develop the necessary competences, global firms

need to *nurture relations* across and beyond their areas of operation and direct interest. Responsible managers have the opportunity to *educate* communities to share knowledge and to be, in turn, educated by them. Responsible managers need to remember that people in poverty work hard to preserve their dignity; value highly opinion leaders; consider the impacts on the local community; and are more likely to voice their concerns in engaged working groups. The PRME Principle 6 reminds us that dialogue is fundamental for inspiring responsible managers. If firms want to balance the achievement of economic and social goals, business educators need to promote *empathy*, *openness,* and *transparency* in responsible management. These are fundamental skills for global responsible managers to facilitate the emergence of trust and to promote continuous dialogue. The emergence of trust in relations that are dynamic and long-term oriented often benefits from testimonials. Firms working with the BoP need to show true commitment and belief. *Direct involvement* of personnel in local activities often inspires the stakeholders to comprehend, in turn, the human aspect of firms. This form of corporate outreach promotes alternative views on poverty within the firm. Employees will hence comprehend more easily the firm's role in the webs of social and political relations in the local context.

The three frameworks decentre the role of the firm and focus on the learning processes stemming from open-system interactions. MNEs cannot lead the challenge to poverty by keeping their interests at the centre of the agenda. Turning people at the BoP into consumers might create market opportunities in the short term. However, to be truly effective, the enterprise-based approach to poverty eradication needs to put poverty at the centre of attention and create interactions that produce continuous learning. Shared action-learning experiences would eventually enact co-operation, unearth social tensions, and ultimately contribute to the eradication of poverty.

Suggested seminars

Seminar 1: Understanding Poverty and the BoP

In this seminar, you will discuss the notion of poverty and evaluate the potential of BoP markets. This activity follows the invitation of the PRME working group on Poverty as a challenge and introduces the discussion of poverty in teaching responsible management.

Activity 1 (20 minutes)

Discuss with your colleagues your understanding of poverty.

- How would you define poverty in your country?

- What measures would you use?

- How would you identify poverty in society?

The World Bank (2016b) recently increased the thresholds (at Purchase Parity Power) defining the global poverty line (from $2 to $3.10 per day) and the extreme poverty line (from $1.25 to $1.90 per day).

- What are the implications of monetary thresholds for absolute poverty?

- What are the implications of these increases?

- What does $3.10 a day (at PPP) buy you? And $1.90?

The World Bank (2016b) defines poverty in *absolute terms.* SDG1 aims at ending poverty in all its forms everywhere and it invites you to consider

national poverty lines. Some nations measure poverty in *relative terms*. The UK and the EU, for example, measure poverty in terms of 'economic distance' from acceptable standards of living. This is calculated as the income at 60% of the median household income after taxes and benefits.

- What are the implications of calculating poverty in relative terms?
- Should poverty be calculated differently in rural or urban areas?

Activity 2 (30 minutes)

Individually or in a team, research the notion of poverty in an emerging country. The following websites offer key resources and data:

- The UN Development Programme (http://hdr.undp.org/en/data) has specific data on poverty and on BoP by country.
- The World Bank (http://povertydata.worldbank.org/poverty/home/) has specific data and graphs on poverty and income inequality.
- The OECD (http://stats.oecd.org/) presents specific data on Purchase Parity Power (PPP), poverty, and income distribution.
- The Poverty and Social Exclusion in the UK website (http://www.poverty.ac.uk) offers data in a developed economy.
- In the USA, different standards are used to calculate poverty, often leading to contrasting results (http://spotlightonpoverty.org/; http://www.irp.wisc.edu/; http://www.bls.gov/pir/spmhome.htm)

With the help of laptops/tablets or in an IT room, use the resources from the above websites to:

1) Compare growth data, poverty data, and income inequality within a country and between two countries of your choice.

2) Identify infrastructural challenges to address poverty.

Seminar 2: Sustainable Business Models

This seminar will invite you to think about possible enterprise-based solutions to fight poverty while delivering essential products and services.

Activity 1 (25 minutes)

Conditions such as malnutrition, marginalization, and lack of sanitation are often associated with poverty in emerging economies. Identify one of these conditions in an emerging country. Apply one (or more) of the *adaptation* and *redefinition* strategies discussed in the chapter (see table 1) to transform an existing product or service so that it can both fulfil a need and alleviate poverty. What will be the major challenges to serve the BoP market?

Activity 2 (25 minutes)

BoP solutions are rarely associated to situations of poverty in developed economies. Identify the same condition associated with poverty and social marginalization from activity 1 in your city.

- Would you be able to use the same solution you proposed?

- Imagine launching a start-up in your city commercializing this product. Which stakeholders would you engage? How? Use the frameworks discussed in the chapter to visualize your stakeholder relations.

Seminar 3: Understanding life at the BoP

This seminar will support your understanding of how to approach the BoP. You will have the opportunity to apply some of the strategies illustrated in the chapter and to evaluate their impact in fighting poverty.

Activity 1 (25 minutes)

Watch the TEDx talk 'A 20 second blood test without bleeding' available at https://www.youtube.com/watch?v=RyeQt0GodsE

- How did the start-up approach the issue by focusing on the users and on the context of poverty (see table 1)?
- How did they accommodate the role of the ASHA worker?
- How critical was the understanding of the cultural aspects of rural India in shaping the design of the device?

Activity 2 (25 minutes)

Watch the TED talk 'Inventing is the Easy part' (available at http://www.ted.com/talks/daniel_schnitzer_inventing_is_the_easy_part)

- Which strategies best suit the lack of infrastructure in Haiti?
- What did the firm underestimate in its first approach?
- If you were a consultant, which business model would you design for selling this device? (see table 1).

Seminar 4: Rethink the stakeholders engagement

In this seminar, you will familiarize yourself with the alternative frameworks to stakeholder engagement. The aim of this seminar is to show that decentred approaches to stakeholder engagement offer new opportunities for collaboration and synergy across organizations.

Activity 1 (25 minutes)

Refer to the two start-ups in seminar 3. Draw and compare maps of their stakeholder relations, using the frameworks presented in the chapter.

- How does the role of the firm change?

- How do social actors exchange information?

- Which strategies can facilitate exchange and collaboration?

Activity 2 (25 minutes)

Rethinking stakeholder relations requires firms to invest in talent and empathic skills. Prepare a job description and a person specification for new roles within an imaginary firm that decides to work with the BoP.

- Which talents and skills do you envisage the person doing the job to have?

- Is the job internal to the firm or does it span across organizations?

- What training would you organize for new recruits?

Additional teaching material and ideas

Debate: *Should life-treatment drugs be free or sold for a price?*

The affirmative stance is that governments and NGOs should administer life-treatment drugs to the poor for free. The negative stance affirms that a price should be associated even to life-saving drugs in order to motivate consumption. You should prepare an argument and a rebuttal for each stance. You should consider not only the economic aspects, but also the social aspects (e.g. Who else takes the drug in the community? Which organization is selling/administering the drug?).

Poster Mini-Presentations

Prepare a poster and a mini-presentation introducing a unique business model to deliver life-saving drugs to BoP customers. Refer to the different *adaptation* and *redefinition* strategies presented in table 1 to produce an alternative to selling or free distribution.

Role Play

Consider a global pharmaceutical firm and identify its stakeholders. Imagine introducing the business model you proposed in the poster within a BoP community. With others, act the role of the firm and of two other stakeholders using the traditional stakeholder model (Freeman, 1984), and then the *Decentred Stakeholders Network* and the *Names and Faces* models as discussed in the chapter (Werhane, 2008; Calton *et al.*, 2013).

Reflective presentation

You should prepare a reflective presentation (you may want to use alternative forms such as a video, a dynamic photo collage, or an artistic artefact) that elaborates your understanding of the role of enterprise in *ending poverty in all its forms everywhere* (UN SDG1). Following the invitation of the PRME working group, you can also reflect on how your interpretation of the fight to poverty has changed.

Video resources

TED has a dedicated playlist of inspiring cases from social enterprises and BoP approaches (available at https://www.ted.com/topics/poverty). TEDx events also offer contributions on the fight on poverty:

- Robert Neuwirth on the role of the informal economy (available at https://www.ted.com/talks/robert_neuwirth_the_power_of_the_informal_economy?language=en);

- Ramkrishna NK on the myths of doing business at the BoP (available at https://www.youtube.com/watch?v=_l2_3ybP5E4);

- Jason Fairbourne on designing business models with the BoP (available at https://www.youtube.com/watch?v=Qqh8r3Z1e8I);

- Paul Collier on the enterprise-based fight to poverty (available at https://www.ted.com/talks/paul_collier_shares_4_ways_to_help_the_bottom_billion)

Business Plan Competition

A business plan is an appropriate project for applying the concepts of the enterprise-based approach to end poverty described in this chapter. Consider joining global competitions such as the *Business in Development Challenge* (www.bidnetwork.org) or the *Enactus World Cup* (www.enactus.org).

You could also organize a competition that promotes business ideas to fight poverty locally involving NGOs, local governments, and university societies.

This would promote the principles of the PRME working group on poverty by creating forums where to discuss business and poverty with practical cases.

Further reading

Bendell, J. (2000) *Terms for Endearment: Business, NGOs and Sustainable Development.* (Sheffield, Greenleaf).

> This book inspires to rethink the relationship between firms and NGOs. Contributions from academics and practitioners challenge the view that economic and social goals are mutually exclusive. Examples of intra-organizations management show new ways for engaging with sustainable development.

Casado Caneque, F. and Hart, S. L. (ed.) (2015) *Base of the Pyramid 3.0: Sustainable Development Through Innovation and Entrepreneurship*. (Sheffield, Greenleaf).

> This book is an insightful collection of perspectives on the road ahead for the enterprise-based approach to poverty eradication. The authors present both success and failure stories. The lessons learnt from these experiences will help prospective responsible managers to anticipate possible challenges in working with the BoP.

Elkington, J. and Hartigan, P. (2008) *The Power of Unreasonable People: How Social Entrepreneurs Create Markets that Change the World.* (Boston, MA: HBS Press).

> This thought-provoking book questions traditional assumptions on entrepreneurial mindsets. The authors present a series of success stories from the world of social enterprise. The experiences of unconventional entrepreneurs invite prospective responsible managers to revisit their understanding of corporate goals.

Karnani, A. (2011) *Fighting Poverty Together: Rethinking Strategies for Business, Governments, and Civil Society to Reduce Poverty*. (NY: Palgrave Macmillan).

> In a world where capitalism represents the dominant economic logic, this book highlights the central role of collaboration in the fight against poverty. The author offers a critical view of Prahalad's enterprise-based approach and calls for more pragmatic solutions based on empowering individuals through employment.

Prahalad, C. K. (2004) *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits.* (Upper Saddle River, NJ: Wharton School Publishing).

> With eye-opening examples, this seminal book sheds light onto the dynamics of life in poverty, offering new perspectives to global firms. In spite of the critiques received, the book represents a critical turning point for introducing the discussion of poverty into business schools.

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