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Innovation for Inclusive Growth: Towards a Theoretical Framework and a Research Agenda

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ABSTRACT Inclusive innovation, which we define as innovation that benefits the disenfranchised, is a process as well as a performance outcome. Consideration of inclusive innovation points to inequalities that may arise in the development and commercialization of innovations, and also acknowledges the inequalities that may occur as a result of value creation and capture. We outline opportunities for the development of theory and empirical research around this construct in the fields of entrepreneurship, strategy, and marketing. We aim for a synthesis in views of inclusive innovation and call for future research that deals directly with value creation and the distributional consequences of innovation.

Keywords: developing countries, growth, innovation, poverty alleviation, social inclusion

When we issued a call for papers for this special issue, our interest was to explore breakthroughs in research on ‘inclusive growth’. Consistent with other interpretations of social development and poverty reduction (e.g., Sen, 1993), we construed such growth as improvements in the social and economic wellbeing of communities that have structurally been denied access to resources, capabilities, and opportunities. Inclusive growth can be viewed as a *desired outcome* of innovative initiatives that target individuals in disenfranchised sectors of society as well as, at the same time, a characteristic of the *processes* by which such innovative initiatives occur.

Inclusive growth (and by extension inclusive innovation) has been widely acknowledged as a goal of public and business policy. For example, the Government of India cites inclusive growth as the overarching objective of legislation and budgetary allocations; it provides significant resources towards programmes that ‘[reduce] poverty and [create] employment opportunities, access to essential services especially for the poor, equality of opportunity, and empowerment through education and skill development’ (Planning Commission, 2006). What is distinctive about our lens on inclusive growth is the core principle that *organizations* can, and do, engage in social innovation activities to connect

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disenfranchised individuals and communities with opportunities that foster social and economic growth. In so doing, inclusive growth diminishes trade-offs between growth and inequality because the poor become enfranchised as customers, employees, owners, suppliers, and community members.

Our interest in inclusive growth was motivated by the observation that many top-down policy interventions, such as those commonly described as the Washington Consensus, have failed to deliver the envisioned economic development in resource-limited settings. The 30-year record of the Washington Consensus has been criticized as wholly unsatisfactory for Latin America, a region where it was implemented intensively, and which grew less than 1 per cent per year in per capita terms during the period, in contrast with 2.6 per cent during the prior period from 1960 to 1981 (Gallagher, 2011). The policy has also been criticized for failing to reduce inequalities. Given the new emphasis in public policy on unleashing creativity through the promotion of locally-owned, organized, and enfranchised entrepreneurship, our goal for the special issue was to promote the development of theory and empirical research within the field of management on inclusive business activity that delivers on both the promise of growth and equality in these settings.

A secondary goal for the special issue was to promote understanding of innovative, low-cost and high-quality products and business models originating in developing countries and exportable to other developing countries or even the developed world, often termed as 'frugal innovation'. Examples of these innovations include the Tata Nano, the Sakshat \$35 web notebook, the Hrudayalaya Heart Hospital, Discovery Health, Ushahidi and new business models in such activities as microfinance, rural electrification, crowd sourcing through mobile telephony, and health insurance. We were interested in the processes by which these innovative models emerge and the ways in which they can be exported from regions where they originate even to wealthy countries where an ongoing economic crisis compels frugality both in the public and private sectors. Our view was that these questions were amenable to analysis under extant organizational theories particularly of strategy, entrepreneurship, marketing and innovation studies. Our hope was that their application to these topics would generate fresh insights for the development of new theory.

This special issue reflects the results of these motivations and objectives. We thank all who submitted papers as well as the authors, reviewers, and *JMS* editors for their contributions. Through the editorial process we learned that neither the phenomenon of inclusive growth nor existing theory in our field regarding equitable innovation and entrepreneurship is as developed as we had initially believed. Yet we also learned that both inclusive growth and frugal innovation are complex processes rather than only outcomes of public policy and business activity. One implication of this understanding is that the scholarly research reported in this volume deals with such issues as construct validity, definitional concerns, and the qualitative analysis of exemplary case studies rather than cross-sectional evaluation of business performance to promote inclusive innovation and growth. The field is in a state of infancy – particularly with regard to theory that deals satisfactorily with inequality and with the implications of inequality for innovation. So much so, our initial goal to extend the theoretical boundaries of the field proved somewhat ambitious. Instead, we endeavour in this introductory essay not only

to provide a preview of the articles in this special issue, but also to identify major findings and set the stage for further theoretical and empirical research.

We structure the rest of this article as follows. We begin with a discussion of inclusive innovation and its relationship to inclusive growth. We then critically evaluate a number of extant theories with relevance to inclusive innovation. Next, we turn to a discussion of methodological issues in research on inclusive innovation as well as empirical regularities from existing research, including the articles that appear in this special issue. We then introduce a stylized model of drivers of inclusive innovation which we base on current theory and practice on the topic. We end with a discussion of possible pathways for future research on inclusive innovation and growth.

INCLUSIVE INNOVATION AND INCLUSIVE GROWTH

Often individuals and communities trapped in a cycle of poverty and disenfranchisement are classified as living at the base of the pyramid (BoP) (Prahalad, 2004). We use the terms ‘inclusive innovation’ and ‘innovation for inclusive growth’ interchangeably to address innovations that create or enhance opportunities to improve the wellbeing of those at the BoP. The boundaries of this construct are evolving and remain ill-defined in the management literature, and observers of the general phenomenon often colloquially consider inclusive innovation as primarily dealing with *business model* breakthroughs that enable participation in high-growth, high-profit ventures by previously disenfranchised poor people. This participation commonly takes the form of ownership, managerial control, employment, consumption, and supply-chain involvement. Yet there are prominent examples of *products* that serve the needs of these communities, such as Nestlé’s ‘popularly positioned products’ (PPPs), which apply technology to provide nutritional value at a reduced cost and appropriate serving size. Such products are often accompanied by a change in business activity to reflect local distribution methods, including street markets, mobile street vendors, and door-to-door distributors. In addition to creating jobs, the innovation around PPPs has improved Nestlé’s market penetration, generating worldwide sales of 11 billion Swiss francs in 2010 (Nestlé Research, 2011). Inclusive innovation also includes the introduction of new *services*, such as microfinancing, which act as a platform for further economic empowerment.

To encompass a broad range of innovations such as these, we define inclusive innovation as *the development and implementation of new ideas which aspire to create opportunities that enhance social and economic wellbeing for disenfranchised members of society*. This definition incorporates several distinctions worth highlighting. First, we consider innovation as the development and implementation of new ideas. The definition embraces *all forms* of innovation, whether these new ideas relate to products, services, processes, institutions, business models, or supply chains, with only the requirement that they are novel recombinations or new to the context (Prahalad, 2004; Schumpeter, 1934). Second, we focus on *opportunities* for social and economic wellbeing on the understanding that certain sections of society have been barred structurally from achieving wellbeing. Therefore, actions that improve inclusiveness may arise from the removal of economic, geographic, social, and other structural barriers that previously blocked access to opportunity. These barriers may arise at many levels, including for employees, owners, or customers of

business organizations. Finally, we distinguish the process of inclusive innovation from its outcomes and acknowledge that aspiring to inclusivity is valuable even when opportunity is not ultimately realized. An implication of this definition is that the study of inclusive innovation includes the evaluation of activities that may ultimately fail to deliver opportunity despite the aspiration. In other words, the process as well as the outcome is important. Practices such as fair trade, distance learning, hospices, urban farming, waste reduction, and restorative justice are therefore all examples of inclusive innovation (Social Innovation Exchange, 2011).

We also acknowledge that the phenomenon of innovation for inclusive growth is varied. Trade-offs often arise between growth and profitability in venture management. New business models may require a level of influence and capability that is difficult for many individuals to achieve. Conflicts between the interests of managers, employees, consumers, and suppliers are abundant, and institutional mechanisms for resolving them are often ill-defined in settings where a history of disenfranchisement is evident. All of these problems arise in an environment where economic growth may compound inequality – and lead to further disenfranchisement – rather than promote inclusion. Thus, the constraints that qualify an activity as an inclusive innovation may make its achievement difficult to obtain.

Many questions about the *practice* of inclusive innovation also arise (see Ansari et al., 2012 (this issue), for a discussion of the elements of practice). These questions, which in some instances raise challenges for the development of theory, originate with the phenomenon of innovation in less developed countries, and tend to reflect the unique challenges of effective enterprise in these settings. Some have become the subject of research in the management subfields of strategy, entrepreneurship, marketing, and innovation studies. However, much more research is needed on the following issues, both to clarify the implications for theory and to obtain answers that can enrich our understanding and ultimately inform business and public policy: Which types of organizations initiate inclusive innovation, and how do they harness and internalize these initiatives successfully (e.g., Anderson and Markides, 2007; Galema et al., 2012 (this issue); Kanter, 2008; Prahalad, 2004)? Are maverick individuals who refuse to accept institutional and resource constraints the engine of growth (e.g., Halme et al., 2012 (this issue); Tracey et al., 2011)? Do important breakthroughs occur through institutional entrepreneurship in which individuals reframe the rules and norms for business activity in an established context? What drives the success or failure of top-down versus bottom-up types of innovations – do ideas that emerge from and integrate with the local context have better chances of adoption or success than those planned elsewhere and subsequently imported into a resource-limited setting (Hall et al., 2012 (this issue))?

Alternatively, does inclusive innovation more often depend on the attributes of the innovations themselves rather than the source of the ideas that give rise to the innovative activity (Bradley et al., 2012 (this issue))? Which performance outcomes constitute success? When organizations search for inclusive innovation, perhaps the fundamental question one should ask is *cui bono* (*who benefits*). The questions that arise when discussing this topic far exceed the answers we currently possess. To encourage further work in this important area, we begin by exploring existing theoretical lenses and their suitability.

EXPLORATIVE THEORETICAL LENSES FOR INCLUSIVE GROWTH

Inclusive innovation can be explored through established management theories, but the richness and variability of the phenomena involved highlight questions that remain unanswered by current organizational and management theory. The boundary conditions in which extant theories operate need to be modified not only to account for these phenomena – the characteristics of context and the initial conditions for innovation – but also to account for fundamental issues in the organization, distribution, and allocation of benefits. Theories of strategy and entrepreneurial management simply do not deal comprehensively with the procedural and distributive concerns raised by inclusive innovation, while some emerging theories, such as on institutional entrepreneurship, carry promise for analysing issues of inclusive growth and innovation.

In this section, we evaluate several current theories that are relevant to issues concerning innovation for inclusive growth. To demonstrate the powerful insights that can emerge through the application of established theories of innovation, we describe how several important lenses from the management subfields of strategy, entrepreneurship, and marketing may be applied. We have suggested seven lenses for discussion as illustrative rather than as exhaustive, including theories of: (1) resource assembly, deployment, and development; (2) social and organizational networks; (3) governance and agency; (4) transaction cost and organizational economics; (5) competition and strategy; (6) stakeholder engagement and property rights; and (7) adoption of innovation. As the subsequent discussion on methodological challenges and empirical regularities reveals, no single review effort could compile the range of theories and their implications for inclusive growth. Our aim, thus, is to illustrate insights and challenges rather than attempt to be comprehensive.

Theories of resource assembly, deployment, and development

A large body of research in the field of strategic management deals with the assembly, deployment, and development of resources to enable organizational performance. Resource-based arguments within the management literature have been dominated by how firms can gain advantages through managing their resources (Barney, 1991; Penrose, 1958; Wernerfelt, 1984). Even within this area of theorizing, questions arise about definition. Resources are normally construed to include physical capital and knowledge, organizational capabilities, partnerships, and property rights. This theoretical lens assumes that organizations can secure resources that are of value within a specific context and that allow a firm to gain a competitive edge over rivals. For inclusive innovation, such resources could, for instance, include access through a distribution or logistics system to reach the geographically dispersed rural poor. Multinational firms such as Nestlé or Unilever have evolved successful models to take their products by reconfiguring their logistics and business models to accommodate an inclusive innovation agenda.

Apart from idiosyncratic resources that confer competitive advantage, the absolute level of resource endowments and the presence or absence of slack resources (George, 2005), have implications for low-cost, inclusive innovation. While empirical work in

resource advantaged environments shows that some slack is optimal for innovation (Nohria and Gulati, 1996), this theory is challenged in situations where low-cost innovation emerges despite resource scarcity. One would expect that large companies that have R&D structures require large capital investments to deliver products, which raises their cost structure and makes low-cost innovation difficult (Porter, 1980). Studies of inclusive innovation suggest that firms may fruitfully amortize their fixed costs across traditional and low-cost models. For instance, Tata Motors, which owns high-end brands such as the Jaguar XJ sports car (that retails for over \$120,000) now also markets the Nano, the low cost 'car for the common man' (that retails at \$2500). In the pharmaceutical industry, there are similar efforts to reach affluent markets with costly blockbuster drugs, while simultaneously marketing low-cost generics for the BoP. Examining how absolute levels of resource deployments could enhance or impede low cost innovation, and the capabilities that allow low cost innovation in large firms to flourish, is an area where resource-based theories could be deployed effectively.

At the level of the individual, entrepreneurs raise and deploy resources in resource-constrained settings. The concept of bricolage has been introduced to the field as a construct that describes how individuals improvise by recombining existing, but individually less useful, resources to create value through creative reconstruction (e.g., Baker and Nelson, 2005). Bricolage constitutes another promising lens through which to examine how resources are assembled in these resource-constrained settings. In India, a popular Hindi word *jugaad* is used to explain makeshift improvisations under resource constraints to overcome seemingly insurmountable problems (Gulati, 2010; Krishnan, 2010; Radjou et al., 2012). These examples highlight how firms and entrepreneurs can assemble and organize their resources in conditions of poverty. We envision that such theory could readily be extended to consider how the enfranchisement of previously disenfranchised populations may enable idea generation and innovation.

Theories of Social and Organizational Networks

Firm performance is enhanced when individuals are embedded in networks of relationships with actors who can provide capital, advice, access, and other valuable resources that are important to the entrepreneur (e.g., Burt, 1992; Kotha and George, 2012; Sorenson and Stuart, 2001). Network theories point to the importance of common educational experiences, geographic ties, and other facets of background that may be central to the effectiveness of the entrepreneur. A diverse and rich network often confers social capital and status that allows these individuals to shape and create entrepreneurial ventures. In a resource-limited context, networks could play an important role in local governance, venture creation, and access to business opportunities.

While benefits of such networks abound, the size of these networks could also place a cost on the entrepreneur that could be disproportional to its benefit. For example, in a study of Ugandan entrepreneurs, Khayesi and George (2011) found that communal orientation and shared identity of entrepreneurs with others in their social networks influenced the quantity and cost of acquired resources. The cost of maintaining the network was high when shared identity was high, which would be the opposite of what one would expect based on extant literature primarily because the cost of servicing a

social network is substantively lower in advanced economies. Such findings reveal that the empirical context of developing countries, where inclusive innovation is relevant, changes the boundary conditions of how network effects influence innovation and performance. Though several studies examine how networks influence innovation in resource munificent economies, there is a paucity of systematic work in resource-limited settings.

At the organizational level, theories of network effects could provide a radically different perspective, for instance, on public private partnership (PPP) models. Many inclusive innovation models employ non-governmental organizations (NGOs) or charities to bridge the 'last mile', i.e., to provide economically viable reach to remote customers or communities. While a substantial literature exists on strategic networks, alliances, or partnerships (e.g., Gulati, 2007; Gulati et al., 2000), the literature is likely to benefit from systematically examining how poverty and resource scarcity influence partner choice or dependence, when dependence on 'local' presence becomes critical to distant multinational firms.

Partnership models that involve not just the delivery or provisioning of products and services, but also radically change how individuals behave in these contexts, are also worthy of further study. Take the case of Ushahidi, an open source project that uses crowd sourcing by SMS texts on fast-changing climate patterns, violence, or market prices to help individuals, farmers, or entrepreneurs make decisions using real-time information and visualization. Such models of partnerships and open platforms for innovation and technological access through mobile phones, could potentially inform theories of information flows and access, and their impact on individual and organizational action.

Theories of Governance and Agency

The well-documented prevalence of government corruption in resource-constrained settings points to the relevance of agency and governance analysis. Such theories emphasize a wide range of causal mechanisms, and concentrate particularly on the circumstances and consequences of ownership, control, and compensation schemes for executive behaviour. For example, think of the classic agency issue (Jensen and Meckling, 1976) regarding the tension between investor preferences for maximum returns and managerial preferences for large spans of control. Managers seek revenue growth; investors seek profit. These ideas have important direct consequences for business activity in resource-constrained settings. Similarly, theories of agency as applied in political science may be extended to reflect relationships between governmental and business actors (Mahoney and McGahan, 2007).

One potential contribution is to test whether the underlying assumptions of agency theory hold in these contexts (for a discussion, see Heracleous and Lan, 2012; *Journal of Management Studies* Editors, 2012; Wiseman et al., 2012). Rural settings tend to have communal structures that serve to counter errant behaviours of individual members of society. Such communality varies both in its importance and in its consequence for procedural and distributional inclusiveness. When resources are limited, alternative governance models such as communality influence how individual action is governed,

especially in the use of commonly pooled resources such as water and land (Ostrom et al., 1994). The influence of communal principles on organizations, however, is complicated by the fact that owners, managers, and employees may face attenuated or modified pressures to govern according to local communal principles, especially in firms that span multiple geographies in which local practices and principles vary. The articles reported in this volume indicate that organizations certainly differ in their goals for inclusive innovation – i.e., some consider it as corporate social responsibility, while others emphasize inclusiveness as an economic or political objective.

More research is needed on these issues. Cross-organizational comparisons facilitate an investigation into how and why various incentive mechanisms for aligning interests are effective. Given extant theory, the critical issue is not so much in identifying the relevant constructs but rather in elucidating the mechanisms stipulated by the theory to generate new insights that can be further developed in both subsequent theory and empirical settings.

The potential for important insights in the application of agency theory in resource-limited settings is significant. The missing link is information that can serve as the foundation for robust empirical analysis. Resource-limited contexts can, for example, be fruitful for generating new insights about risk-sharing arrangements. When an entrepreneur obtains a microfinance loan secured through personal assets, then the entrepreneur as owner faces the same kinds of extensive risks that venture capital-backed firms typically take in developed contexts. The performance of organizations financed under these arrangements may be quite different from those financed by conventional lending. A comparison that assesses the differences between developed and emerging market contexts would shed light on the importance of entrepreneurial context and external opportunities.

Theories of Transaction-Cost and Organizational Economics

Transaction-cost theories point to the challenges of avoiding the market-based hazards that arise when trading partners are opportunistic and when specific investments have occurred (Williamson, 1985). Insights from organizational economics point generally to the trade-offs between markets, hierarchies, and alternative arrangements. The emphasis in this literature and its antecedents is on partnerships, with recent emphasis on the comparative benefits of partnerships for promoting innovation through the transfer of knowledge and learning. Recent theory in this domain deals with concerns such as the challenges of transferring knowledge to and from targets with varying resource bases and to geographically dispersed firms (Ahmadjian and Oxley, 2011; Oxley and Wada, 2009). Another recent stream of work suggests that contracts may have long pre-histories and that the parties to formal contracts use the formality only to address thorny value-capture problems that cannot be adequately addressed informally (Horwitz, 2011).

The efficiency and effectiveness of partnership forms varies greatly in resource-limited settings. For example, a study by Rezaie et al. (2011) documents that biopharmaceutical firms in China and India collaborate within their respective countries with specialists in basic and applied research; across these two countries to take advantage of local laws that allow particular types of animal and human testing; and within the global industry as

subcontractors to multinational corporations headquartered in North America and Europe. Interdependencies between these partnerships suggest that each partnership cannot be understood out of context with the others. Though overlaps exist with the literature on organizational networks, partnerships and alliances may also serve as quasi-corporate forms by enabling resource transfer and organizational coordination (Klein et al., 2011). Given geographic dispersion of rural markets and the lack of integration among local providers, the costs of coordinating multiple partners for delivery of services could greatly increase transaction costs to the point that larger firms may no longer find it economically viable. Consequently, it becomes theoretically interesting to study how organizations manage to reduce multiparty coordination and transaction costs where the potential economic rents that can be extracted from these markets are limited.

Theories of Competition and Strategy

Theories of competition and strategy grounded in the field of industrial organization have recently emphasized the microfoundations of exchange such as the physical characteristics of markets (Brewer et al., 2008). Yet, empirical validation of theoretical mechanisms has been difficult because markets in developed contexts are difficult to isolate. In resource-limited settings, however, these markets may be so geographically distant from one another that empirical research on the significance of market institutions may be tractable. Consider, for example, the implementation of GPS-based fish-locator systems off the shores of Namibia and Angola. Some reports suggest that, when information from these systems about the locations of large schools of fish was broadcast over maritime radio channels together with data about the current market prices of fish and about weather conditions, the local fishing trade became significantly more efficient as captains made better choices about whether to venture further offshore in search of valuable catch. Subsequent reports, however, suggest that on-board fish-processing systems and catch limitations stymied the market's development. Formal investigations into these claims could provide insight into the competitive consequences of radical shifts in market conditions. In general, emerging markets – and particularly the circumstances of competition in geographically isolated rural settings – are attractive settings for empirical research on the microeconomic mechanisms at the heart of structural research.

Newly developed theories from industrial organization about business-model innovation under competition (e.g., Amit and Zott, 2001; Bock et al., 2012; Gambardella and McGahan, 2010; George and Bock, 2011) are salient both because they are current and because of their importance to inclusive growth. For instance, this literature highlights the importance of encouraging growth investment (often described as 'scaling up') by aligning potential returns to each investor with the risks involved in committing capital. Resource-limited settings again provide an opportunity for empirical verification and testing as the returns to early investments are often more readily observable and identifiable than in larger, more advanced economies where investor claims are more complex. Further, changes to existing organizational design to accommodate low cost innovation and access to these settings through local partners may necessitate reconfiguring how value is created and captured by the organization. To access and compete in

resource-limited markets, firms' strategic and structural changes have the potential to raise interesting theoretical issues regarding adaptation, multi-market competition, and organizational design.

Theories of Stakeholder Engagement and Property Rights

Stakeholder theory has provided an alternative to shareholder value maximization as the principal objective of the firm (Donaldson and Preston, 1995; Freeman, 1984; Friedman and Miles, 2002). Grounded in historical analysis and social theory, this approach focuses on the claims of employees, customers, and community members in areas of corporate activity. Current research in this area is eclectic and emergent. One line in this area deals with property rights and the identification of legitimate claimants (Foss et al., 2007). Another line puts normative claims on the corporation as a community citizen and emphasizes the corporation's accountability and responsibilities (Matten and Moon, 2008). Yet another strand focuses on the unsustainable long-term consequences of choices that may be optimal for maximizing short-term profitability (Kramer and Porter, 2006). Much of this research on sustainability is implicitly or explicitly a critique of neoclassical economic theory, which deals primarily with Pareto optimality rather than the distributive consequences of resource-allocation decisions. Resource-limited settings and emerging markets provide a ready context for assessing construct validity and testing theory on stakeholder interests. The context also lends itself well to prioritization of certain stakeholder interests over others, and its implications for firm performance, value creation, and its distribution consequences.

Theories of the Adoption of Innovation

Ever since Rogers (1962), there has been a great deal of interest across fields in what drives the adoption of innovations across cultures and over time. In the field of marketing, a large literature has emerged around attempts to explain and predict why and when some products take-off while others do not (Mahajan et al., 1990; Tellis et al., 2003). These models and theories have examined not only the features of adopters themselves but also the role that the marketing activities of firms play in this process. Thus, adopting populations are thought to consist of innovators, early adopters, an early majority, a late majority, and laggards (Rogers, 1962). Product features, price, distribution, and promotional activity are all shown to have an influence on the rate at which new products are adopted. These theories, therefore, offer potential for extension to the question of what drives adoption of innovation in resource-limited settings. While it is likely that a number of existing models and frameworks might apply directly, it is also possible that unique features of the context might require modifications to existing theories and models.

Furthermore, much marketing research on the adoption of innovation takes as the performance event the point at which a consumer buys or begins to use a product or service. Only infrequently does research focus on how consumers then *use* the product or service and the *impact* that this use has on individual and community wellbeing. In the context of inclusive growth, however, the impact of product use is as important as

adoption. For example, while impoverished consumers may receive water purification tablets, the acquisition of these tablets does not ensure their proper use. Similarly, in microfinance, institutions frequently focus on the conferral of loans to consumers at the BoP rather than the impact of loans on wellbeing. An expanded focus that includes consideration of the ex post impact of adoption on wellbeing might consider how loans are used, and the capacity of such loans to lead to undesirable or unintended outcomes such as deepened consumer debt. Resource-constrained contexts, such as the BoP, therefore offer many opportunities for extending existing theory on the adoption of innovations.

METHODOLOGICAL CHALLENGES AND EMPIRICAL REGULARITIES

In developing this special issue, we realized that many principles for innovation and growth in developed markets are equally relevant to emerging markets, even if there are important empirical differences between emerging and advanced economy markets that have methodological consequences. A primary difference in the emerging market context is the lack of robust, quantitative data on large panels of firms to understand entrepreneurship, corporate strategy, and business models. Thus, much of the research on innovative business models in the field and in this special issue has to rely on qualitative methods, discursive analysis, and limited verifiability. However, this difference creates potential pitfalls that we urge researchers to avoid. It is tempting to assume that the qualitative research that occurs in emerging markets is occurring in the interest of ‘new science’, i.e., to establish the relevance of constructs as a pre-theoretical exercise. But this is not, however, the motivation for the reliance on qualitative research in this context. The qualitative research seems to occur as normal science in an effort to test, validate, and extend established theories. The requirement is not for new constructs, but rather for robust methods for interpreting the findings of qualitative investigation of theoretical relationships that have historically mainly been tested in developed-world contexts where data are more widely available.

In contrast, a second and equally important finding from our investigation into resource-limited contexts arises from the definition of inclusive growth as activity that seeks primarily to enfranchise individuals and communities in the process of innovation. This area of investigation requires augmenting the Pareto optimality assumption in economics – an assumption that the fields of entrepreneurship and strategy typically import as a governing construct for guiding theory – with criteria that emphasize procedural and distributional characteristics of innovation processes. While newly emerging stakeholder theories of management seek to consider the implications of business activity for those who may be affected by business, these theories are incomplete in the sense that they do not primarily focus on the opportunity – or on the aspiration for opportunity – that can arise from enfranchisement.

Despite the methodological challenges that emerging markets pose, the articles in this volume point to some empirical regularities concerning questions like: When does the enfranchisement of disadvantaged populations as employees engender the development of unprecedented capabilities? How does demand at the base of the pyramid depend on the enfranchisement of those previously excluded from business activity? Does ownership

of a corporation by governmental entities such as local partners improve the sustainability of organizations? We now turn to a brief summary of the findings of the five articles in this special issue (arranged alphabetically by first author).

Ansari, Munir, and Gregg on Multinational Innovation and Social Capital at the BoP

Ansari and colleagues critically examine the notion of inclusive capitalism, whereby firms, especially large multinationals, may simultaneously pursue private profit and social welfare by creating markets for the poor. Drawing on the capabilities approach and theories of social capital, their article argues that inclusive innovation efforts are most successful when they account for the embedded nature of social relations in BoP communities. In so doing, multinationals can not only leverage the social capital that such communities have built up over time, but also avoid the negative consequences of disrupting such capital. Their article sheds light on the potential for a dark side to inclusive innovation, and it demonstrates how the integration of economic and social theories on innovation may yield significantly greater insight than can be achieved by implementing a single theoretical paradigm.

Bradley, McMullen, Artz, and Simiyu on Innovation in Developing Countries

Bradley and colleagues provide a compelling discussion of the allocative (or distributional) view in social development, suggesting that the lack of different forms of capital (human, financial, and social) is seen as the primary reason why individuals are trapped in the negative spiral of poverty. Using data from a survey of 201 small business owners involved in a microcredit programme in Nairobi, they find that the relationships between financial, social, and human capital are mediated in part by innovation. This finding suggests that capital alone is inadequate to improve the human condition in these resource-scarce settings. Instead, the mediated effect of innovation on firm performance implies that superior ideas are needed if poverty is to be reduced through enhanced performance and wealth creation. Their findings challenge economic development and social entrepreneurship assumptions that programmes targeted to increase provision of capital would be adequate to break the cycle of poverty.

Galema, Lensink, and Mersland on Powerful CEOs in Microfinance

Galema and colleagues provide a complementary and contrasting discussion of CEO leadership in microfinance. Their study demonstrates that the absence of strong governance in NGOs may provide CEOs with the latitude to make decisions in their own interests rather than in organizational interests. What is striking about this study is its reliance on management theories of agency and governance. Issues of power, incentive alignment, and power mitigation are all employed to hypothesize about the reasons for managerial risk-taking in this context. The results emphasize individual agency and raise questions for further research about governance in non-profit organizations.

Halme, Lindeman, and Linna on Intrapreneurial Bricolage

Halme and colleagues chronicle how Nokia and ABS, two European multinationals, innovated under severe resource constraints on operations in impoverished communities. The cases deal with Nokia's expansion of cell service into small villages and ABB's operation of a mini-hydro plant in Ethiopia. The article reports the results of extensive interviews of Nokia and ABS employees in the field, and conveys their determination in the face of major obstacles to project implementation. The challenge is in implementing innovations in settings characterized by obstacle after obstacle. The underlying theory emphasizes resource accumulation, organization design, and entrepreneurial framing. The cases themselves point to the ways in which internal organizational culture and external resource constraints conspire to blunt individual agency.

Hall, Matos, Sheehan, and Silvestre on Good and Bad Forms of Inclusive Entrepreneurship

Hall and colleagues examine the potentially negative impact of policy makers' attempts to drive social inclusion through entrepreneurship. To do so, they draw on Baumol's (1990) typology of productive, unproductive, or destructive entrepreneurship. Using data on three separate efforts by Brazilian policy makers to stimulate development through tourism related entrepreneurship, they show how unproductive and even destructive outcomes might emerge from such attempts at inclusion. Based on these cases, they conclude that policies that preserve and promote local resources (e.g. history, local crafts, cuisine, etc.) are more likely to lead to productive outcomes and increase social inclusion. This is particularly true, they argue, when local entrepreneurs have opportunities within an industry's value chain, especially if these opportunities draw on local innovation.

Drawing on the theoretical insights and empirical regularities that emerge from the articles in this issue, we now develop a stylistic model that examines the drivers and consequences of inclusive innovation. In doing so, our goal is to frame the drivers of innovation by connecting practice to enrich theory development efforts.

THE DRIVERS OF INCLUSIVE INNOVATION

Innovation is a set of micro-processes conducted by individuals, possibly but not necessarily within organizations. These micro-processes stimulate the propagation and adoption in business practice of new ideas only under precise conditions. The basic conditions of innovation depend in practice on local needs and resources that likely vary considerably. The extension of business models to enfranchise individuals and communities involves considerations that may not be central to established models of innovation. In Figure 1, we provide a stylized framework to shape ideas on this topic.

There are three basic building blocks in our view: Global Challenges for Inclusive Innovation, Organizational Macro-Processes as Enablers of Inclusive Innovation, and Aspirational Inclusivity and Desired Growth. First, under the rubric of *Global Challenges*, we present a set of conditions that drive innovation. These conditions essentially can constrain

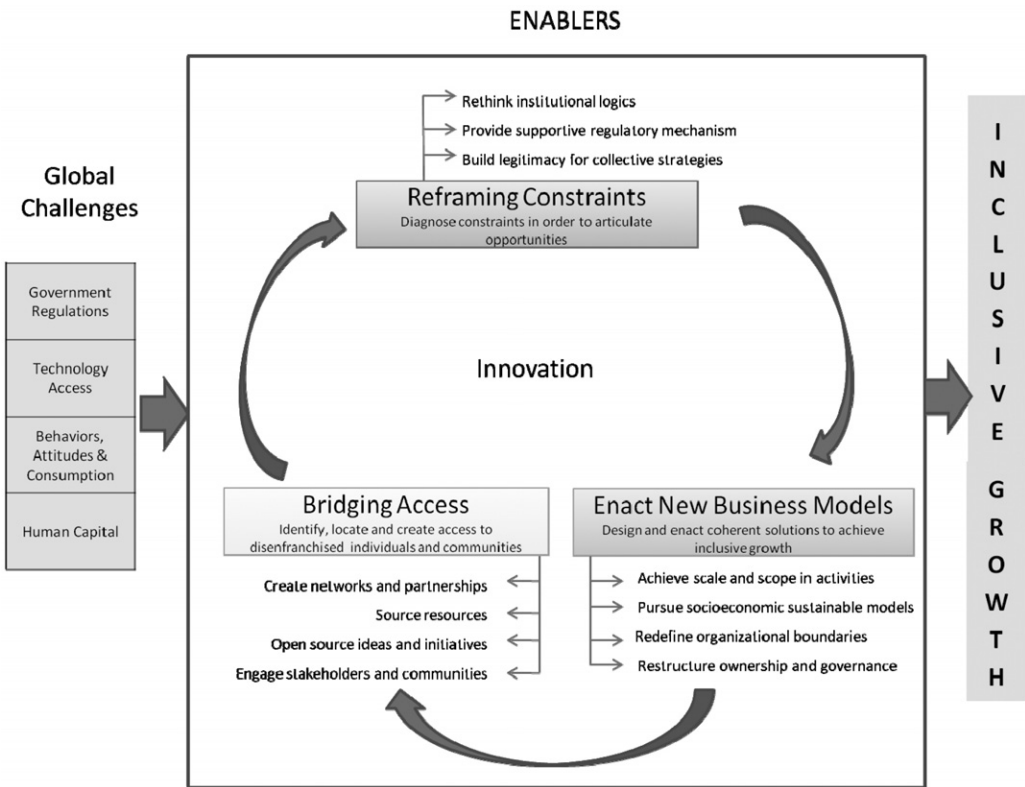


Figure 1. Stylistic representation of inclusive innovation

and/or enable innovation, and include factors such as human capital, technology, social behaviours, attitudes and consumption patterns and needs, technology access, and government regulations. The constraints can be conceptualized as complicit in the major strategic issues of our time: endemic poverty, health and wealth inequality, human trafficking, climate change, and the capacity of the financial system (to name a few). Second, under *Organizational Macro-Processes*, we examine three such processes: bridging access, reframing constraints, and enacting new business models. These three macro-processes iteratively and in conjunction influence whether a firm generates innovations that matter for inclusive growth. It is in these processes that procedural issues are highlighted. Finally, our third building block examines *Aspirational Inclusivity*, the desired outcome of inclusive growth. This captures the possibility that organizational goals may encompass different measures and interpretations of success. It also acknowledges a plurality of moderators that influence whether organizational innovations succeed or fail to deliver *both* the aspired inclusivity and desirable growth, with growth consisting of locally identified improvements in social and political wellbeing as well as economic advance.

Global Challenges for Inclusive Innovation

Global Challenge factors are ‘dualities’ as drivers of innovation because they can provide constraints in a context that either traps individuals into a negative spiral of destitution

and poverty or can incentivize individuals to be creative and find novel solutions to their problems. It is these global challenges that shape, in large part, whether a particular population is likely to remain disenfranchised or not. If we assume that developing economies and the contexts in which disenfranchised individuals operate are resource-constrained, then the global challenges are part of the mechanisms that create or relax such constraints. Hence, we term these contextual conditions as challenges because they act as barriers that are not easily surmountable, but also concomitantly provide optimism that the contextual conditions can be contained, managed, or improved. Although many constraints on business activity commonly arise in settings of poverty, we highlight four: (i) *government regulation*; (ii) *technology know-how*; (iii) *attitudes, behaviours, and consumption patterns*; and (iv) *human capital*.

Using data collected from Nairobi small business owners, Bradley et al. (2012) tackle the global challenges of financial and human capital. They show that financial capital does not provide a necessary and sufficient condition for inclusive innovation. These authors implicitly assume that at one extreme, these global challenges constrain innovation, but in contrast they can also serve as useful triggers for innovation and form the basis for new ideas and new opportunities. The development of human capital, such as education and skill development, is well known as a strong predictor of social and economic wellbeing as it empowers individuals to seek out new opportunities and create a better livelihood (Sachs, 2005). Similarly, access to technology allows individuals to innovate, although we should emphasize that technology without careful development of wrap-around capabilities for implementation is generally useless. Examples abound, such as low cost water pumps or cooking stoves, which enhance individual welfare through simple innovative and locally adaptive technologies. Social norms, behaviours, and consumption patterns influence individual aspiration for better living conditions (Banerjee and Duflo, 2011). The Government's role as provider of subsidies could either discourage innovation or catalyse it by stimulating micro-enterprise businesses that improve livelihood (Dutt et al., 2011). These factors seed innovation and set the ground rules for corporate engagement.

Organizational Macro-Processes as Enablers of Inclusive Innovation

We categorize organizational processes into three streams of activity that can reinforce each other into a positive, self-reinforcing spiral for social engagement and innovation. These three processes are: *reframing constraints*, *enacting new models*, and *bridging access*. As we perceive it, there is no single process activity that acts as a natural starting point. Rather, organizations may need to consider all three processes as starting conditions for viable inclusive innovation as all three conditions are normally necessary but not individually sufficient to support inclusive innovation. *Reframing constraints* refers to organizational actions that take context as an assumed input and find new ways to perceive these constraints to create opportunities. Reframing constraints thus include organizational processes that seek to diagnose constraints in order to articulate new opportunities for corporate innovation. In their discussion of multinational firms operating within resource constraints, Halme et al. (2012) discuss the challenges of reframing constraints even for larger organizations when attempting inclusive innovation.

Enacting new models refers to establishing completely new organizational design, structures, and processes that enact or implement solutions to achieve inclusive growth. Here, enacting new models refers to fundamental reconceptualizations of organizational design and business models by reconciling constraints faced by disenfranchised communities. In this issue, Galema et al. (2012) examine how governance and organizational design affect the success of inclusive innovation efforts, especially the role of CEOs in microfinance. Structure and design changes are necessary to ensure that stakeholders are protected, and that innovation efforts succeed.

Bridging Access refers to organizational processes that identify, locate, and create access to disenfranchised individuals and communities. In so doing, bridging access involves implementing new forms of partnerships and networks that connect hitherto disconnected individuals with opportunities. Ansari et al. (2012) adopt a capabilities approach to suggest that creating social networks and leveraging the social capital of these communities is a central part of inclusive innovation.

Taken together, reframing constraints, enacting new models, and bridging access serve as three macro-organizational processes which trigger novel ways to reach, connect, and empower individuals to create and exploit opportunities for social and economic growth.

Aspirational Inclusivity and Desired Growth

Though organizations attempt to be more innovative in addressing the needs of these communities, the outcomes of such efforts likely vary significantly. While some projects have been touted as significant successes, many more linger on or are terminated. For instance, Hall et al. (2012) provide evidence for 'good' and 'bad' outcomes of Brazilian policymakers' efforts to stimulate tourism to foster entrepreneurship in disenfranchised communities. They find that not all efforts succeed in the way they are originally intended, suggesting that not all inclusive efforts turn out to be inclusive. Consequently, organizational innovation efforts to address inclusive growth tend to strive for procedural inclusivity rather than distributional performance.

Many factors are likely to influence the relationship between organizational action and inclusive growth, including ongoing commitment of the organization, responsiveness of society to organizational efforts, and shifts in the contextual factors and a revisit of the underlying assumptions which triggered organizational action. Nevertheless, there is abundant opportunity to infuse the innovation process with considerations of social and economic sustainability as a driver of growth.

Our stylistic model provides an overview of the complex set of actors, processes, and stakeholders in inclusive innovation. We also separate the drivers of such innovation from its outcomes. Future exercises should attempt to develop theoretical and empirical exercises that systematically address the issues raised. We next provide some initial suggestions for how this future research might unfold.

IMPLICATIONS FOR FURTHER RESEARCH

The articles in this special issue, taken together and read against the backdrop of the literature on inclusive innovation as well as our own model, raise several interesting

themes for future research. We examine some of these themes and explore their theoretical and methodological implications.

Emergence and Development of Inclusive Innovation: Top-Down versus Bottom-Up

Where do inclusive innovation ideas originate from within organizations? How do they percolate through an organization towards development and commercialization? Two of the articles in this special issue address these questions in detail. Galema et al. (2012) show that top managers, CEOs in particular, play an important role in driving inclusive innovation initiatives within their organizations. They describe that these managers have both the power and the discretion needed to push inclusive innovation initiatives through the organizations they control. Sometimes this power and discretion, when unchecked, can lead to negative outcomes for the organizations concerned. Halme et al. (2012), on the other hand, focus on the role that managers lower down in the organization, and even sometimes at the periphery, play in driving inclusive innovation initiatives. They show how these peripheral employees, through their entrepreneurial zeal and persistence, sometimes manage to overcome resistance to inclusive innovation from upper echelons or more central units of the firms in which they work. These articles and their contrasting findings suggest that both top-down and bottom-up processes are crucial in the sourcing and driving forward of inclusive innovation initiatives. They also suggest, though they do not explore in detail, the importance of the interplay between these processes in driving inclusive innovation initiatives.

It would be interesting for future research to examine precisely this interplay within organizations. Future research exploring this theme may draw from a number of the theories we highlight above. For instance, theories of governance and agency are clearly relevant to the role that top managers play in driving inclusive innovation within firms. Indeed, issues of control, power, and discretion are very likely to determine not only the role that top managers play, but also the constraints that managers in other parts of the organization face in coming up with and taking forward ideas for inclusive innovation. Theories of stakeholder engagement are also likely to be relevant. External constituencies such as funding agencies, donors, investors, shareholders, regulators, and customers, are all likely to place constraints or drive strategy within organizations, thus determining how top-down versus bottom-up processes get played out over time (cf. Muller and Kolk, 2010). Theories of competition and strategy could equally shed light on how the pressure to imitate key competitors or differentiate from them might drive firms towards or away from inclusive innovation initiatives. While stakeholder or competitive pressures might drive top managers towards inclusive innovation activities, middle and lower level managers might actually block such efforts, particularly if they undermine these managers' own power or make obsolete current products and services the firm offers to existing customers.

Finally, theories of network effects are likely to shed light on how managers, both in the upper echelons as well as elsewhere in the organization, use social capital to source ideas for inclusive innovation and take them to fruition. Managers' bridging and bonding capital and strong and weak ties to key stakeholders within and outside the organization

are likely to be predictive of when and how new ideas get taken through to the market over time. Future research exploring this theme may develop methodology. Longitudinal ethnographies offer rich descriptions of how top down versus bottom up processes play out in sourcing and driving inclusive innovation. Such approaches could help with grounded, inductive theorizing. Survey and panel data on firms' strategy-setting, operational processes, and culture, offer the opportunity to test hypotheses about the relative importance of top-down versus bottom-up approaches to inclusive innovation. Finally, network based studies of communication and reporting patterns within firms on inclusive innovation projects offer the opportunity for a fine-grained analysis of the dynamics by which ideas are sourced and get taken through (or terminated) within organizations over time.

The Paradox of Size and Scale

Who does more inclusive innovation: large multinationals or small entrepreneurial firms? What is the interplay between these two types of players in driving inclusive innovation forward? Does scale of initiatives required for large firm interest automatically crowd out smaller, more effective solutions? A recurring paradox within the area of inclusive innovation concerns the size of the company driving such innovation. Small entrepreneurial firms – often driven by ambitious, persistent social entrepreneurs – have the motivation to come up with and implement ideas for inclusive innovation. However, these ventures typically lack the resources needed to scale-up inclusive innovation efforts. In contrast, large multinationals, which possess the resources needed to develop and implement inclusive innovation, frequently lack the motivation needed to do so.

This paradox of size and scale raises interesting questions about what type of firms are therefore more likely to introduce inclusive innovation and drive it forward within BoP communities. It also raises the question of the optimal interplay between the large and small firms in driving inclusive innovation. Are there opportunities for collaboration between large and small firms, and if so, how does and should this take place? Future research exploring these questions may draw on a number of theories to do so. Theories of resource assembly, deployment, and development have a clear role to play in explaining what types of resources need to be combined for successful inclusive innovation to take place. These theories are likely to suggest when large firms are more likely than small ventures to engage in inclusive innovation, as well as predict when partnerships between these two types of firms are more likely to be effective.

Theories of competition in strategy have much to contribute in this context as well. What types of firms are more likely to have the motivation and ability to pursue inclusive innovation, especially when or even if such innovation is likely to disrupt current products, services, and capabilities? Finally, network theories as well as theories of transaction cost are likely to suggest which firms of each type are likely to collaborate on inclusive innovation projects. Methodologically, longitudinal data that tracks the competitive dynamics of the introduction of inclusive innovation in sectors such as alternative energy, healthcare, or education offers the promise of generating empirical insights and testing theories in this area. Studies of acquisitions, alliances and collaboration activities

between large and small firms, multinationals and social entrepreneurs, in the BoP context, would also be interesting to pursue.

Internal versus External Constraints and Drivers of Business Model Innovation

Regarding the development and implementation of business models for the BoP, it is useful to divide the literature into work that examines the drivers and constraints of this process that are *external* to organizations versus those that are *internal* to them. External drivers and constraints include issues related to general market failure at the BoP due to the lack of institutions and infrastructure needed to sustain markets. Internal drivers and constraints include issues related to the inability of small firms to scale and large firms to sustain a focus on low margin markets that require attention and resources over a long period of time before significant financial returns can be realized. It is fair to say that work highlighting the external issues dominates work that focuses on the internal organizational issues. Very little research, however, examines the interplay between internal and external forces in driving or constraining inclusive innovation. How do external institutional forces help firms in their efforts to develop and commercialize products that are affordable and accessible to poor, often remote customers? How does regulation or government policy help or hinder such efforts? What role does physical and technical infrastructure play in the process of encouraging (or not) the inclusive innovation efforts of firms large and small, multinational and domestic (Hall et al., 2012)? Research that engages these questions is likely to have a significant impact on policy and practice around the world.

Future research that examines these issues may draw on a number of theories to do so. Institutional theories, whether inspired by economics or sociology, are likely to have significant bearing on this research. Economic theory has a great deal to say about the role that formal institutions such as courts, stock markets, and labour laws, as well as informal institutions such as cultural and social norms, play in shaping and sustaining markets. This work is likely to be very relevant to the context of market creation for the BoP. Equally, sociological theory has a lot to say about how organizations go about framing and legitimizing new institutions and practices (Ansari et al., 2012). Such work is likely to be very relevant to inclusive innovation as such innovation frequently requires such framing and legitimizing activity. Finally, theories of stakeholder engagement and property rights are also likely to be relevant to this theme.

Research exploring this theme may draw on a number of methodologies in pursuing these questions. Longitudinal ethnographies offer the opportunity to provide rich descriptions of how processes internal to firms interact with external institutional forces in driving inclusive innovation. Such approaches could help with grounded, inductive theorizing. Survey and panel data on firms' innovation efforts in response to government policy offer the opportunity to test hypotheses about the relative importance of top-down versus bottom up approaches to inclusive innovation. Finally, given that policy changes are often exogenous to firm strategy, these changes offer the opportunity to conduct natural experiments on the role of external forces that drive or hinder innovation efforts.

The Distributional Consequence and Impact of Inclusive Innovation

A central question at the heart of inclusive innovation concerns its impact on the lives of the poor. While Prahalad and others have argued that selling to the poor can reduce poverty regardless of what is being sold (e.g., shampoo or credit), Karnani (2007) has countered that products that merely increase consumption might actually deepen poverty or have no effect on it at all. Indeed, recent evidence suggests that even products like microfinance can lead to greater consumption (rather than to savings or investment), including consumption of potentially harmful ‘vice’ products like alcohol and tobacco (Banerjee and Duflo, 2011). What types of products and services are more likely to lead to income generation and poverty reduction rather than to greater consumption and debt? What types of consumers are more likely to take advantage of BoP products to improve their livelihoods rather than abuse them and perhaps sink further into poverty?

It is useful to divide the existing literature on these topics into work that highlights the *positive* versus the *negative* impacts of attempts at inclusive growth. Here too, work highlighting the positive impacts tends to dominate work that focuses on negative outcomes. Once again, this special issue is able to address the balance. Thus, Hall et al. (2012) examine attempts at inclusive growth in the Brazilian tourism industry that led to negative outcomes and contrast these with other efforts that had more positive consequences for the communities involved. Ansari et al. (2012) draw on work on capability development and social capital to suggest how socially embedded and community-centric business models can help empower BoP communities while still achieving business profits. Finally, Bradley et al. (2012) examine the role that innovation relative to capital plays in enabling the poor to increase their income through entrepreneurship. However, much work remains to be done on the conditions under which inclusive innovation has positive rather than negative effects.

Future research that examines these issues may draw on a number of theories. Theories of the adoption of innovation are clearly relevant to why some segments of the poor adopt new products and services, while others do not. These theories can also shed light on the role that the marketing decisions by firms on product design, price, promotion, and distribution play in driving the adoption and use of inclusive innovations. Theories of poverty and growth from development economics are also likely to be useful in understanding these issues more deeply. Theories about household financial behaviour around consumption, savings, and expenditure are likely to be relevant as are theories about how the poor who are self-employed run their microenterprises. New research in behavioural economics examining the systematic deviations from rationality that characterize both the rich and poor may yield new insights for public and business policy. Finally, anthropological theories of consumption culture and community, especially in the BoP, have a lot to say that will be relevant to questions of how technological progress may lead to the displacement of existing lifestyle and culture.

Finally, future research exploring this theme may draw on a number of methodological approaches to do so. Field experiments such as those currently popular within the development economics field (see Banerjee and Duflo, 2011; Karlan and List, 2007) provide a powerful means of testing causality in the relationships between actions of firms and responses of consumers. Longitudinal survey data, such as the financial diaries

approach of Collins (2005), offer both depth and breadth in terms of quantitative data and qualitative insight into how inclusive innovations impact the lives and livelihoods at the BoP.

CONCLUSION

We began the process of editing this special issue with an ambitious agenda: to arrive at a state of the art understanding of research into inclusive innovation and growth. We received many interesting articles and have ended up with a set of five for inclusion. Each of these articles reports counterintuitive, novel findings about inclusive innovation inside and outside organizations. We learned a great deal through the editorial process, including that: (1) despite impressive conceptual progress in the last few years, what we don't know about inclusive growth significantly outweighs what we do; and (2) there are considerable methodological challenges that impede empirical work on inclusive innovation. At the same time, we observe that: (3) there are multiple theoretical and methodological avenues for future research; and (4) existing and future research on inclusive growth may support the revision and extension of existing theories of business and management. Finally, we conclude that: (5) considerations of inclusive growth have the potential to change business practice and public policy to improve lives and livelihoods, and particularly to improve the wellbeing of the destitute poor.

Now, more than ever, the time is right for management scholars from various fields to tackle the challenges, puzzles, and opportunities that inclusive innovation raises. A full account of inclusive growth requires the development of research tools that deal with both the procedural and distributional consequences of business activity and management practices. We hope that this special issue serves as an important stimulus in building this exciting and important new area of management research.

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