1. Introduction

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For over 50 years Western initiatives to alleviate poverty were driven by a dominant logic that was based on the assumption that poor people were victims that needed to be helped by large-scale development aid projects to break the "vicious circle of poverty". The late Peter Bauer said (1987: 30): "according to this notion, stagnation and poverty are necessarily self-perpetuating: poor people [. . .] are trapped in their poverty, and cannot generate sufficient savings to escape from the trap." Development solutions were therefore often focused on the principle of distributive justice by offering aid and credit rather than on the actual development of sustainable wealth-creating institutions in the private sector. Contemporary approaches to the problem of dire poverty seem novel (such as those of Jeffrey Sachs [2005], Director of the UN Millennium Project), but have been criticized at the same time for being "more of the same" and having a lack of an implementation strategy (Easterly, 2006). Although Bauer (1954) already noticed in the 1950s that entrepreneurial activities were taking place in Western Africa and that this contributed much more to economic development than government command, his vision was eccentric and off the mark (Yergin & Stanislaw, 2002).

In his bestselling book *The Fortune at the Bottom of the Pyramid*, the late C.K. Prahalad (2004: 1) wrote: "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up." After a period of growing antipathy towards Western companies, many of these firms are now paying attention to customers at the Base of the Pyramid (BoP), that is the poorest people in the world (Brugmann & Prahalad, 2007).[1] This approach advocates the idea that the BoP offers many opportunities for companies. As markets in the developed world and the upper-markets in emerging economies are getting saturated as supply exceeds demand, often combined with shrinking populations who have developed brand indifference, Chan Kim and Mauborgne (2005: 8) argue that instead of continuing to compete on price, companies should open up new and uncontested market space (that is, a

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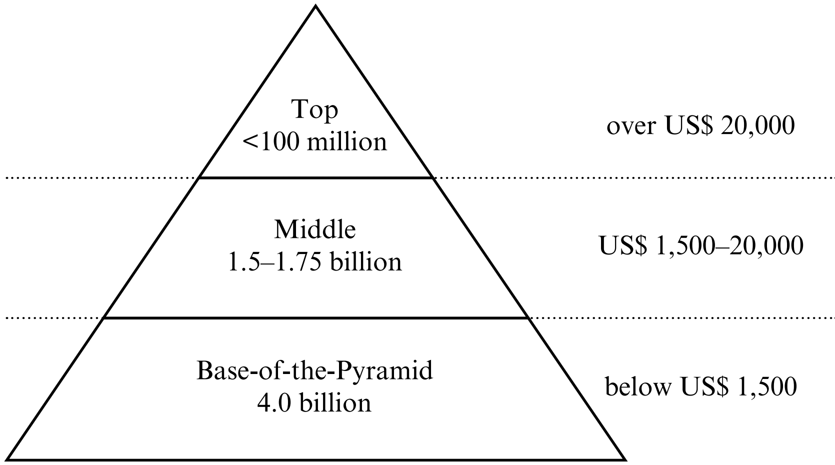

Sources: Prahalad & Hart, 2002; Prahalad, 2004.

Figure 1.1 Global income groups: identifying the Base of the Pyramid

"blue ocean"), and create new demand with the opportunity for highly profitable growth: "As red oceans become increasingly bloody, management will need to be more concerned with blue oceans than the current cohort of managers is accustomed to." Although the authors do not mention the BoP as a blue ocean, it could very well be perceived as being such an uncontested market space. In addition to market opportunities, the BoP can also become an incubator for disruptive new technologies (Hart & Christensen, 2002; London & Hart, 2004). To reach sustainable growth with a growing and more affluent population such technology may even have to be regenerative in nature (McDonough & Braungart, 2002; London & Hart, 2004).

The BoP deals with the low-income populations in the developing world, as shown in Figure 1.1. This population has a purchasing power parity (PPP) of less than US$ 2 per day and consists of roughly 4 billion people (World Bank, 2002). This income cut-off and size of the BoP are arbitrary and debatable (Mendoza & Thelen, 2007). Throughout the literature different numbers are reported and London (2007) therefore believes that such empirical income measures serve best as approximations in order to capture the essence of the BoP definition instead of a precise measure. He also notices observations of other scholars that the BoP is not homogeneous, neither within countries nor between them (Dawar & Chattopadhyay, 2002; Mendoza & Thelen, 2007). Prahalad (2007) also

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argues that the BoP is not a monolith. However, what these markets have in common is the reality that economic activity is often informal, which means that transactions are cash based and often unregistered. London (2007: 11) defines the BoP as a term that "represents the poor at the base of the global socio-economic ladder, who primarily transact in an informal economy".

Since the 1950s, the BoP has been the focal group for government and civil sector interventions. But with the public and non-profit sectors failing to deliver effective solutions to eradicate poverty, many are now looking at companies to provide answers to this global problem (Margolis & Walsh, 2003). In their ground-breaking article "The Fortune at the Bottom of the Pyramid", Prahalad and Hart (2002) advocate for inclusive capitalism and argue that growth and profitable business is possible at the BoP while contributing immensely to human welfare. Indeed, in his earlier-mentioned book with the same name, Prahalad (2004: 112) is extremely optimistic about the impact of the BoP approach: "I have no doubt that the elimination of poverty and deprivation is possible by 2020." The publication of the article and the book has had a great impact on business thinking. The book became a bestseller and was named Best Business Book of 2004 by Amazon, Best Book of 2004 by Fast Company, and it appeared on *The Economist*'s list of best business and economics books. In addition, Prahalad was named the greatest management thinker by Thinkers 50, an annual ranking of the top 50 management thought leaders in the world: "Just like Peter Drucker and Philip Kotler, Prahalad has the uncanny ability to sense emerging reality and conceptualize it into a major movement. Examples are core competency, co-creation of value with customers and most recently his focus on the bottom of the pyramid population."[2]

Over the past few years the BoP approach has attracted attention from academics, business managers, non-governmental organizations (NGOs) in the development field, and the international public sector. The approach prescribes a fundamental rethinking of the way business is done (Prahalad, 2004; London & Hart, 2004; Hart, 2007). Most notably, companies have to adapt their technologies and change their business models to reach the BoP markets. Recent developments have emphasized a different approach, more process oriented, tacit and relationship- and trust based. London and Hart (2011) have paved the way for the next generation of BoP initiatives. They make a strong plea for a shift from "fortune-finding at the BoP" to "fortune-creation with the BoP". They argue that a new approach is much needed for the long-term viability of BoP ventures, with a different value proposition emphasizing the co-creation of new business models with the BoP. Instead of maintaining an arm's-length

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relationship with the poor, firms have to engage in a close and continuous dialogue with the poor to co-create mutual value.

In the last decade several strategic challenges have been identified in the prevailing BoP literature. The shift towards co-creation has increased each of these challenges significantly and extends current "thinking about market development, innovation, capability requirements and cross-sector partnerships" (London & Hart, 2011: 3). One challenge that is frequently mentioned concerns the collaboration with a variety of non-traditional partners, including public sector organizations, non-profits and community groups (Hart & Christensen, 2002; Prahalad, 2004; Wheeler et al., 2005). The importance of these alliances becomes clear at the very beginning of Prahalad's (2004: 2) book: "The opportunities at the BoP cannot be unlocked if large and small firms, governments, civil society organizations, development agencies, and the poor themselves do not work together with a shared agenda." Many known existing BoP case studies clearly show collaborative activities. For instance, in order to reach the rural unbanked Indian population, the ICICI Bank works closely together with NGOs and micro-finance institutions. To serve the Middle and Top of the Pyramid markets in Bangladesh, Telenor from Norway joint-ventured with Grameen from Bangladesh, founded by Nobel laureate Muhammad Yunus (see Yunus, 2003) and known for their micro-finance models that inspired numerous other similar organizations throughout the world. Together they founded GrameenPhone to achieve high financial returns, but at the same time the partnership also established Grameen-Telecom to serve the BoP through the famous "village phone" model.

Furthermore, academics have acknowledged the role cross-sector collaborations play in BoP business models, the growth in these partnerships and the change to more integrative forms. More recently, London and Anupindi (2012) argue that firms need to act as "network orchestrators" developing the skills and capabilities to work with non-traditional partners. Despite their valuable examples, the underlying relational sources for competitive advantage at the BoP have hardly been the explicit focus of empirical research. Moreover, some related challenges have also received little explicit attention. For instance, trust building is a key challenge at the BoP since poor consumers are not used to and often highly suspicious of foreign business (Klein, 2008). Whereas trust has often been mentioned in the BoP literature as a crucial element, there is little guidance on how trust is actually built. Working at the BoP requires a long-term relationship built on trust. Hart (2007: 213) argues that "unleashing the wellspring of innovation at the BoP [. . .] requires developing a personal relationship of trust, understanding and respect through which new possibilities for

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locally-embedded businesses can emerge". Yet, although Prahalad and Hart's (2002) seminal paper has led to a stream of research building on their work, there is relatively little attention for the development of trust in this literature.

A fundamental rethinking of the way business is done requires firms to radically change their business models and redefine their innovative activities (Prahalad, 2004; London & Hart, 2004, 2011). As such, innovation is another critical strategic challenge for firms entering the BoP. With Western markets becoming saturated, firms have targeted low-income markets for their innovative activities (London & Hart, 2004). Serving the BoP requires significant investments in developing new products, services and, foremost, business models. Some BoP scholars (such as: Prahalad & Hart, 2002; Hart & Christensen, 2002; London & Hart, 2004; Hart, 2007) claim that radical new business models are needed for firms that want to prosper in these low-income markets. However, firms need to invest in different types of innovative activities, some more radical than others. Managing this dual innovation approach is a strategic challenge that is largely dependent on the flexibility of the business model and firm-specific capabilities. Few empirical studies have formally considered the influence of environmental conditions on organizational flexibility, especially in the context of BoP markets (see Klein [2008] for an exception). Hence, we need more profound insights into the innovative behaviour of a larger number of companies operating in the BoP.

Finally, successfully entering BoP markets and launching a BoP venture that holds mutual value for all stakeholders is a daunting challenge in itself, but scaling a BoP venture to ensure a viable business is a critical strategic challenge for firms. The "fortune" is not in margins but in volumes. Yet, the current BoP literature hardly touches on the notion of scaling (for example, Prahalad [2004]). Whereas scaling is prerequisite for making an economic case for the BoP, the literature falls short in explaining how this can be achieved. A few case studies on successful projects are available, but the topic has not been addressed systematically (for example, Simanis & Hart, 2006). Studies from the development field have addressed the issue of scaling much more profoundly, but from a different point of view. As such, they provide little insight as to how multinational companies can effectively approach the challenge. Yet, as a point of departure, this literature could be very useful for firms operating in the BoP.

These strategic challenges need to be addressed to advance our understanding of how these challenges can be overcome. Improved knowledge about each of these challenges is not only interesting for academic scholars, but may be essential for businesses as well. Hart and London (2007) claim that companies should realize the importance of the BoP market

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in the long run: "Ultimately, the BoP represents the breeding ground for tomorrow's global competitors [. . .] There is an emerging set of skills and capabilities that some companies are going to figure out and some aren't, and the ones that don't are going to go down by the wayside." Thus, if BoP markets become more important then companies should fully understand what it takes to become successful in them. Although we realize there may be other challenges for firms active in the BoP, we have selected some of the crucial challenges identified in the literature. We aim to address four important strategic challenges that firms are confronted with in the BoP: cross-sector collaboration, trust building, innovation and scaling.

OVERVIEW OF THE BOOK

This book examines a variety of BoP cases in a limited number of countries. The primary purpose of this study is to contribute to the understanding of strategic challenges at the Base of the Pyramid. Each empirical chapter has been set up as a separate study, with its own specific challenge and accompanying theoretical background and methodology. The overall findings of these research projects will be of interest to various groups. First, it will be of particular interest to scholars and students in the fields of BoP strategy, international business strategy, non-profit and public sector policy and management, and international development. Second, the cases, findings and conclusions contain valuable insights and lessons for practitioners of the business, non-profit and public sectors. The overall purpose of this book is not to "celebrate or denounce BoP initiatives" (Ansari et al., 2012: 814). While the BoP approach has indeed attracted some strong proponents of the role of business in poverty alleviation, it has also generated quite some opposition (see Chapter 2). Our purpose is to provide an overview of some of the key strategic challenges that firms are confronted with when they have decided to enter the BoP. Whether this is a good or bad thing is beyond the scope of this book; we merely observe an empirical phenomenon. This also implies that we do not touch on the actual impact of BoP initiatives on economic, social and environmental indicators. While we acknowledge the importance of doing so, it lies beyond the scope of our book and our data.

Chapter 2 discusses the background of the BoP phenomenon and its status in the academic field. The subsequent chapters are empirical chapters focusing on one of the strategic challenges identified earlier in this introduction (cross-sector collaboration, trust building, innovation and scaling). Chapter 3 presents the overall findings of four cases on

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cross-sector collaboration. In particular, it provides clear answers to the guiding questions on why companies collaborate across the traditional business sector at the BoP and what specific resources they are looking for when doing so.

Chapter 4 presents a case study on the development of trust, a key challenge in the BoP. The chapter provides detailed insights in the efforts of Unilever to develop trust in rural areas in Tanzania in their attempts to develop a value chain for Allanblackia nuts. Numerous academics and business managers believe that Western multinational corporations (MNCs) can create new markets and help eradicate poverty at the same time, once they recognize the poorest of our world as novel consumers and innovative producers. To be successful in this daunting task, MNCs are dependent on successful collaboration with local parties in the developing countries. However, collaboration with Western partners is based on more than collaboration with local partners. Trust appears to be the key word and while the BoP literature provides some ideas on trust-building activities, there is little empirical research specifically aimed at MNCs' trust-building processes with people in the BOP. Hence, Chapter 4 sets out to explore how Western multinational companies build trust with local communities in developing countries.

Chapter 5 is a quantitative study on innovation in the BoP. Firms that want to obtain a sustained competitive advantage are often advised to invest in exploration and exploitation activities (that is, they should become ambidextrous). In low-income markets, companies should invest in developing flexible business models. Flexible business models allow firms to swiftly adjust to dynamic environments, such as the BoP, and to engage in both exploration and exploitation activities. In Chapter 5 we examine whether firms that have entered the BoP have indeed developed flexible business models and if that has affected their ability to balance exploration and exploitation. In a sample of 86 firms the relationship between absorptive capacity, flexibility and organizational ambidexterity is empirically tested. The results provide evidence that companies that have a frequent dialogue with the local community and involve them in the process to get an understanding of the needs of those communities are more successful at developing both types of innovation and becoming ambidextrous compared to firms that lack such relational capabilities.

Chapter 6 addresses the question of how companies scale their BoP ventures, an important yet understudied phenomenon in the BoP literature. This is quite surprising, considering the obvious importance of the topic. The current BoP literature merely offers a few case studies on successful projects that hint at how scaling could take place but do not address the topic systematically. This chapter explores how MNCs can scale their

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ventures at the BoP. To tackle this question, an exploratory research design was adopted to study three BoP ventures in rural India that are at different stages of the scaling process. The focus of the study was to understand the various issues that taking a BoP venture to scale involves as well as the underlying mechanisms that drive this process. A theoretical model is developed that describes scaling-up as a three-dimensional process that unfolds itself in three recurring stages, each with a unique set of challenges. A comparison of the findings with the propositions of the often-cited BoP Protocol™ (as will be explained in Chapter 2) reveals that the studied firms apply top-down thinking when scaling their ventures whereas the Protocol advocates a biological growth-mode in a more decentralized fashion, indicating two fundamentally different approaches to scaling a BoP venture. Implications for practice and further research are drawn at the end of Chapter 6.

The final chapter, Chapter 7, outlines the main implications from our empirical chapters. We conclude with some higher-order implications for both scholars and practitioners. For scholars we argue it is important to further strengthen the theoretical foundations of BoP-related research. Our studies clearly point at the importance of resources and relational capabilities. Firms are often in need of resources and in the BoP they face a variety of resource constraints that lead them to collaborate with non-traditional partners. As such, we propose to study BoP projects building on the resource-based view (RBV)/dynamic capabilities approach. For practitioners, we provide a brief overview of key lessons aimed at overcoming some of the challenges discussed in this book.

NOTES

1. Initially the term "Bottom of the Pyramid" was used (Prahalad & Hart, 2002; Prahalad, 2004), but because it was sometimes perceived as derogatory it was changed to the term "Base of the Pyramid" (Hart, 2005).
2. "C K Prahalad crowned world's top management guru", *The Times of India*, 8 November 2007.

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