

Challenge # 13

THREE CHALLENGES TO THE BOTTOM OF THE PYRAMID (BOP): From making sense, to making more sense

Rob van Tulder¹
RSM Erasmus University

0. Introduction

Since the mid-1990s poverty reduction has become top priority on the agenda of all international organisations. Some national governments are requiring companies that do business in developing countries to either integrate poverty in their business approach – or lose export credits and other subsidies. Moreover, old-fashioned government induced development aid has been heavily criticized for lack of effectiveness. Since the year 2000 firms are asked to become partners in development projects by both governments and NGOs. The ‘business case’ for Multinational Enterprises to ‘do something’ about poverty eradication thus has become more and more compelling. This trend is re-inforced by the fact that leading Multinational corporations are increasingly confronted with stagnation in their home markets and the entry of Multinationals from emerging markets. So firms are not only searching for extra growth opportunities in emerging markets, but also trying to defend their existing market position towards aspiring new entrants from these dynamic markets.

The strategic ideas of C.K. Prahalad not only provides a much needed new impetus for companies to deal with the new challenges of the 21st century, but also shows remarkable continuity in his thinking. The Bottom-of-the-Pyramid (Prahalad, 2006) approach makes sense. The present BOP concept strongly resembles the original ideas on the “local responsiveness grid” introduced in the 1980s by Prahalad and his colleague Yves Doz (1987). The local responsiveness idea implies that successful multinational enterprises partially have to adapt to local circumstances in order to enter culturally far-away locations, whilst at the same time globally integrating their strategy.

Nowadays, the stakes are much higher: it is not only about entry strategies, but about the eradication of poverty. And about the claim that a particular form of ‘inclusive capitalism’ can bring prosperity to the aspiring poor. The stakes for firms are therefore

¹Professor of International Business-Society Management. RSM Erasmus University. See also: www.ib-sm.org. This is an elaborated version of a presentation held at the Maastricht School of Management, May 20th 2008, in a public discussion with C.K. Prahalad at 'Invest in the Future' seminar.

also much higher: if they cannot deliver on the formulated promises, they might lose legitimacy both towards their more critical customers in the developed as well as towards their stakeholders in developing countries; we all might lose a valuable opportunity to eradicate poverty in the foreseeable future. I see three major challenges to the BOP approach as it is proclaimed and developed in practice at the moment.

1. Relatively fragmented and sometimes ideological status of the BOP research base

The first challenge is that the existing research on BOP remains strongly based on individual (best-practice or 'next-practice') case studies, deductive reasoning from rather exploratory and prescriptive models. The first articles and studies on the BOP strategies presented strong prescriptive arguments for whether and why MNEs should enter low income markets, but they remained relatively silent on how to enter these markets. Subsequent studies have emphasized the need to develop new capabilities and new business models, as well as the importance of partnerships (Hart & Sharma, 2004; Prahalad, 2006), but have not systematically provided insights how all these new ingredients, capabilities, resources and partners should be managed and assembled within a given context or as part of a generic strategy of a leading company in order to create value both for the population as well as for the corporation. Good and sophisticated evaluation models do not yet exist for development partnerships (cf. Kolk et al, 2008); solid strategic models how to integrate the BOP in global business strategies are weakly validated. It is my impression that the *BOP laboratories* that have been founded around the world primarily look at implementation questions as part of a marketing strategy of leading multinationals, not necessarily from the perspective of sustainable development. The Base of the Pyramid Protocol™ for instance indeed aims to look at the way the corporate sector can engage local communities in the co-creation of business models in order to "simultaneously generate economic, social and environmental value". But the present models remain rather superficial especially in their elaboration of social - and to a lesser extent of environmental - value. How can local community and ecological values be integrated in the business model? This again is important because it affects the longer term 'license to operate' of these firms (cf. Kraemer and Van Tulder, 2007).

2. A realistic assessment of the broader impact of MNEs vis a vis domestic companies

The second challenge involves a more realistic assessment of the direct and indirect impact of Multinational Enterprises on the local economy. MNEs are thought to be best positioned to face the particular challenges of selling to the poor and at the same time fighting poverty, because they can draw from a global resource base and from superior technology to address local customer needs and to 'develop' those markets. This leaves in particular one problem unaddressed, which is that the 'market' at the bottom of the pyramid is often already served by local firms and entrepreneurs – albeit operating in the informal economy. Multinational enterprises – with their efficient production methods and deep financial pockets - can easily out-compete local firms and thereby 'crowd-out' local firms and local employment, which in the end might generate more poverty than it alleviates. In this case, the multinational enterprise introduces products that **substitute** for already existing products and services. Whether this leads to more efficient markets and ultimately more economic growth remains to be seen in the highly complex reality of most developing countries. **Positive as well as negative externalities** of corporate

behaviour need to be taken into account in a more sophisticated approach to poverty related questions.

The claim of poverty alleviation through a BOP strategy can primarily be achieved in case the activity of the corporation **complements** existing activities or **creates new markets**. The latter has for instance appeared in mobile telecommunications (Celtel), where a new technology created new markets and new consumption patterns – even for very poor people. Another example can be found in the provision of micro-credits, which creates a market for credit where none existed before. Both examples, are not accidentally, the most widely used in support of BOP strategies.

So, there are basically two types of BOP strategies: a ‘narrow’ strategy that primarily focuses on market opportunities and a ‘broad BOP’ strategy that takes the wider repercussions, the supply side and the net effects of the strategy into consideration. A good example of a broad BOP approach is provided by the ‘learning partnership’ of Oxfam/Novib and Unilever. In a case study of Unilever Indonesia, they explored the link between international business and poverty reduction (Clay, 2005). No final conclusions could be reached, however.

In my own research (cf. Van Tulder, 2007) we have looked at the adoption of broad versus narrow BOP strategies by the 100 largest firms in the world. We found that leading firms are still rather ambiguous as regards BOP. Eight of the 100 largest firms have started to mention BOP as a possibility, but have primarily embraced it as yet another market opportunity to sell products in a poor region. Only two firms (Citigroup, #14; Nestle, #53) have been searching for a more broad BOP strategy in which they try to develop an explicit view on how this strategy actually addresses poverty alleviation as a result of direct as well as indirect effects, and with a view to markets as well as supply conditions.

3. Erosion of the original claims

Finally, there is the danger of an erosion of claims. In practice firms and governments – and increasingly also NGOs – have started to aim at the layer ‘above’ the real bottom of the pyramid, because the purchasing power of really poor people is not enough to trigger any market opportunities and the transaction cost to reach them are too high. Many supporters of the BOP paradigm therefore have recently renamed the strategy as the “Base” instead of the “Bottom” of the Pyramid which runs the danger of ignoring really poor people and eroding the original claims. Luckily Prahalad still uses the ‘bottom’ reference, so the ultimate challenge for businesses is still valid. If the base of the pyramid starts to prevail in the discussion, that would seriously dampen the hope of a new generation of idealistic managers, business students, PhD candidates, their professors, courageous NGOs, and entrepreneurial governments. Or it would support the idea of in particular Collier (2007) that the ‘bottom billion’ require a totally different approach, with only limited attention to business involvement. That, however, seems to be a bit of a misnomer as well, not in the least because business are heavily involved also in the least developed (58) countries in the world as identified by Collier.

4. From making sense, to making more sense

In order to sustain the undisputed momentum that the BOP idea has brought us, and in order to make it more sense, we need:

1. more sophisticated business models for multinational enterprises: that integrate the supply chain as well as marketing;
2. more sophisticated partnership models: that move from product oriented models to output oriented models, from some NGOs to all relevant NGOs; and consider the role of governments more closely;
3. to stimulate in particular ‘market creating’ activities rather than only marketing activities; this could provide the real contribution to poverty alleviation;
4. come to a closer monitoring of the ‘externalities’ of business strategies;
5. which finally requires more comparative, more unbiased and systematic research and strategy development.

More information

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