



## Global village vs. small town: Understanding networks at the Base of the Pyramid

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### ABSTRACT

We compare and contrast business networks at the Base of the Pyramid (BOP) and at the Top of the Pyramid (TOP), and analyze their implications for multinational enterprises (MNEs). We first identify the specificities of BOP environments in terms of competitive environment and institutions. Building on this analysis, we develop a series of propositions regarding the impact of these specificities on the structural characteristics of BOP networks, their boundaries, the characteristics of their ties, the diversity of their partners, and their evolution over time, as compared to TOP networks. Our analysis suggests that major differences exist between both types of networks along all dimensions and that these differences have important implications for MNEs active in BOP environments.

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The concept of the “Base of the Pyramid” (BOP), which claims that business can help eradicate poverty (Prahalad & Hammond, 2002; Prahalad & Hart, 2002), has sparked considerable interest in the business community around the world (Simanis et al., 2005), even though multinational enterprises’ (MNEs) codes of conduct often do not reflect this growing interest (Kolk & van Tulder, 2006). Most people on the planet live on low incomes relative to the expenses they incur to meet basic needs, such as nutrition or health care. The premise of the BOP approach is that, by turning these people into customers, multinational enterprises (MNEs) can bring prosperity to the poor, while, at the same time, finding new revenue sources (Prahalad & Hart, 2002). Not only is the number of people at the BOP much larger than the number of people outside the BOP (which, for simplicity, we call “Top of the Pyramid” or TOP in this paper), but BOP populations are still experiencing significantly higher demographic and income growth than TOP populations (UNCTAD, 2006). As a consequence, even if higher TOP incomes result in larger TOP market sizes at present, market growth rates can be expected to be significantly higher at the BOP over the course of this century. At the same time, BOP initiatives can have an important impact on economic development and poverty reduction. By integrating economically isolated people into the global economy, MNEs can not only provide products and services at reduced prices but also create entrepreneurial opportunities for people at the BOP (Prahalad & Hart, 2002). In other words, there is both a business and a moral case for the BOP.

BOP scholars have been much less successful at articulating a strong motivation for academic research on the BOP than for applied research. One of the premises of the BOP literature is that conditions at the BOP make these environments significantly different from TOP environments, and thus require major innovation on the part of companies—especially MNEs—in order to develop successful strategies for BOP markets (Anderson & Markides, 2007; Dawar & Chattopadhyay, 2002; Hart & London, 2005; Ricart, Enright, Ghemawat, Hart, & Khanna, 2004). Yet, to the best of our knowledge, few scholars

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have systematically applied the major analytical frameworks of international business and strategic management to explore in what specific ways BOP environments and strategies contrast with their TOP counterparts and why these differences should lead to innovative strategies at the BOP.

This paper takes a step in this direction by focusing on one of the major claims of the BOP literature, namely that business and social networks at the BOP differ in important ways from their counterparts at the TOP, and that this has important consequences for firms entering BOP markets (Chesbrough, Ahern, Finn, & Guerraz, 2006; Seelos & Mair, 2007; Simanis et al., 2005; Wheeler et al., 2005). We build on and extend studies that call attention to the role of networks at the BOP, particularly London and Hart (2004). Using an inductive approach to generate theory about the BOP based on the analysis of 24 in-depth case studies, London and Hart find that MNEs that are successful in BOP markets possess, among others, specific capabilities in social embeddedness and network building with non-traditional, local partners. Because their approach is exploratory and inductive, however, they do not fully analyze the causes and dynamics of BOP-specific network building and how these processes may differ from network building in TOP markets. Applying the major analytical frameworks of international business and strategic management and extending previous case-based and inductive studies, we systematically explore the differences between TOP and BOP networks, the reasons for these differences, and their implications for MNE activity at the BOP, including the processes and capability needs identified by London and Hart.

The aim of this paper is therefore to answer two interrelated research questions: In what systematic ways, if any, are networks at the BOP different from networks at the TOP? What are the implications of these differences, if any, for MNEs? By grounding our reasoning in analytical frameworks widely used in international business and strategic management, we hope to provide greater conceptual rigor to the analysis of BOP networks, and, more broadly, to systematically identify key strategic factors that MNEs will need to address in order to grow during the next decades, given the relative growth and sheer demographic weight of BOP populations worldwide. Our work also contributes to research on business networks, by characterizing a largely unexplored type of network.

We proceed in two steps. First, in order to identify the factors that may lead to differences in BOP and TOP networks, we explore the specificities of BOP environments, grounding our reasoning in industrial organization (I/O) and institutional theory. We then derive from this analysis the implications for BOP networks and for MNEs active at the BOP, grounding our reasoning in network theory. Specifically, we analyze the differences between BOP and TOP networks in terms of structural characteristics, boundaries, ties, partner diversity, and dynamics, following the literature on networks (e.g., Provan, Fish, & Sydow, 2007; Wasserman & Faust, 1994) as our framework of analysis.

## 1. Specificities of the BOP: competitive and institutional environments

To date, there has been no systematic and theory-driven attempt at explaining the link between BOP structural characteristics and BOP business models, in spite of much anecdotal evidence suggesting that BOP business models are different because of specific characteristics at the BOP (Simanis et al., 2005; Wheeler et al., 2005). In other terms, while BOP scholars have made a strong case regarding the specificities of BOP business models, there has been no attempt, to the best of our knowledge, to use IB theories to systematically examine what characteristics of BOP environments lead to specific aspects of BOP business models. In this section, we draw on I/O and institutional theories to explore how the BOP and TOP markets differ in their competitive structure and their institutional environment. We then derive a list of specificities of BOP markets relevant to BOP networks. It is important to note that this represents an early attempt at applying theory to the study of the BOP, and that, while we acknowledge that important variations exist across both BOP markets (see Simanis et al., 2005) and TOP markets (see, for instance, Porter, 1980), we focus on theoretical attributes common to all BOP and TOP environments, respectively, to develop our propositions. A graphical representation of our analysis of BOP environments can be found in Fig. 1.

### 1.1. The competitive environment at the BOP

BOP scholars typically distinguish BOP from TOP markets by customer incomes and geographic location (Pralhad, 2005). While the exact definition varies, all BOP scholars view the extremely low level of income, usually set around \$2/day (Karnani, 2007; Prahalad, 2005; Whitney & Kelkar, 2004), as the major characteristic of BOP customers. Equally important, although less often discussed, however, is the irregularity of BOP incomes, as people living at the BOP typically cannot predict their revenue, even in the short run (Dawar & Chattopadhyay, 2002; Johnson, 2007). A third characteristic identified in the literature is that BOP populations may be either geographically dispersed—the rural poor (e.g., Anderson & Markides, 2007)—or live in densely populated areas—slum dwellers in major conurbations (e.g., Johnson, 2007). In both cases, BOP markets tend to be relatively isolated (Arnould & Mohr, 2005), typically leading to strong local cultures and less contact with national or international consumer habits.

These characteristics have important implications for business at the BOP. Specifically, they lead to smaller product sizes and local adaptation. Smaller sizes make products more affordable by providing low price points relative to average incomes (Karnani, 2007), so that customers do not have to disburse a large sum relative to their income. BOP markets also require a distribution network that is not only designed for very frequent purchases in difficult-to-reach areas, but also strongly adapted to local specificities in response to the relative cultural isolation of BOP markets (Anderson & Markides, 2007; Hammond & Prahalad, 2004).

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