



## The role of social value creation in business model formulation at the bottom of the pyramid – Implications for MNEs?



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### ABSTRACT

This paper presents an exploratory study of how social value creation and business models may be interrelated in the context of the bottom of the pyramid (BOP) business formation. We develop our analysis around five case studies of actual businesses set up in rural India by people in the BOP. We attempt to draw implications from the performance of the business models in the BOP for what MNE strategies of engagement with the BOP may learn from the processes we analysed.

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### 1. Introduction

China, India, Brazil, Indonesia, and other economies of the global south are more and more frequently referred to as “heavyweights”, “rising stars”, or “rising powers” (e.g. Bremmer, 2010). What makes these countries interesting for politicians, business practitioners and researchers alike, is not only their fast growing economy. These countries are often the birth place of firms that are capable of teaching developed market MNCs a valuable lesson in terms of new models of innovation such as “cost”, “reverse” and “polycentric” innovations (Madhavan, 2010), that pose quite serious challenges to incumbent western companies including in their own territories (Brittain, 2010) and force them to rethink their dominant business or innovation models.

Paradoxically perhaps, Rising Powers are also countries where the majority of people in the so-called bottom or base of the pyramid (BOP) are struggling to work and live. IB scholarship has recently displayed an increasing cognizance of the BOP

(Dahan, Doh, Oetzel, & Yaziji, 2010; London & Hart, 2004, 2010). This strand of literature seeks to enhance understanding of how working with the BOP can generate mutual value for both BOP ventures and their partners such as producers and sub-contractors (London, Anupindi, & Sheth, 2010). Thus the key issues in the International Business (IB) related literature on Rising Powers boil down to appropriate business strategies and social value creation.

The present paper seeks to make a contribution to this literature by enriching our understanding of how BOP business models and social value creation are actually related. Here, we define social value creation as an activity that leads to the realisation of any of the three core values of development, i.e. sustenance, self-esteem, and freedom from servitude (Todaro & Smith, 2011). These dimensions along with the debate around social value creation will be discussed in detail in later sections.

There is already a recognition of the fact that existing, dominant MNE business models will prove ineffective at the lowest level of the BOP (Rohatynskyj, 2011) and that MNEs will be challenged to develop BOP-relevant business models without developing strong partnerships in host countries in order to build ‘mutual’ value (Dahan et al., 2010). The majority of these studies focus on ventures that are at the intersection of the bottom and the middle or the bottom and the top of the pyramid. In other words, although they are aimed at the BOP they are actually set up by individuals or companies originating from outside the BOP.

In this paper we take a rather different approach. Our starting premise is that in order to gain a better insight into how business models can build social value ‘for’ or ‘with’ the BOP, we should start by investigating how social value creation actually takes place by the BOP and in BOP communities. Thus our key objective is to gain

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an understanding of how BOP firms themselves use their business models to simultaneously create commercial and social value. Surprisingly, research on this subject is limited within the IB literature. Social value creation has been discussed largely as part of a broader discourse about social entrepreneurship research. However, on top of the debate about the definition of social value (Rohatynskyj, 2011), social value creation seems to be predominantly characterised as a behaviour that is not confined within the boundaries of an enterprise. It “can occur within or across the non-profit, business, or government sectors” (Austin, Stevenson, & Wei-Skillern, 2006, p. 2). Furthermore, even if it takes place within a business organisation that achieves more than full cost recovery (Yunus, 2008), the company’s social mission is prioritised over its financial goals (Dees & Elias, 1998). Hence, it might impair the firm’s sustainability and/or scalability. Resulting from this differentiation, the social value creation in organisations that belong to the commercial end of the spectrum are often dismissed as “secondary gains” (Certo & Millera, 2008, p. 268). This perspective effectively “relegates” social value creation to an analytical arena where business models have a minor role. In the context of BOP, this perspective is bound to be unhelpful or even irrelevant.

Thus, whereas in advanced country contexts social value creation as distinct from business value creation might make sense in terms of causes or missions for advancing particular, ‘non-business’ social values often pursued by driven, single minded, “social entrepreneurs” (Dacin, Dacin, & Matear, 2010), people in the BOP may find it difficult or impossible to *conceive*, let alone create and sustain businesses that do not have social value creation as a major outcome or benefit. From their vantage point, BOP business entrepreneurs are a part of the ‘social’ for which value needs to be created! They do not necessarily need an outsider’s ‘mission’ but need to find out how to reduce or overcome constraints they and their communities face. Of course one can point out successful businesses emanating from the BOP where social value creation may have been a clearly articulated objective (Acs, Boardman, & McNeely, 2013). This raises the following research questions that we seek to explore in this paper: (1) In the context of BOP what factors influence whether social value creation is an OBJECTIVE of business formation? (2) In the context of BOP, how is social value creation related to business model formulation and dynamics?

In an attempt to avoid the definitional and operational minefield that surrounds the word “entrepreneurship”, we focus on small and medium sized businesses pursuing sustainability and growth as their primary goal. Expanding on Cantillon’s initial definition (2010 [1755]), the term “entrepreneurial” is used here to describe commercial behaviour within the boundaries of a business. It involves inherent financial risk-bearing as opposed to the relative financial security of fixed wage workers. Section 2 forms the bases of our arguments. We use abductive reasoning to frame our research questions by drawing on the debate around the nature of social value creation. As a result we identify an “anomaly” in the literature from where we infer that social value creation may take a different form in BOP markets in that it forms an organic part of the business model design. Furthermore, we build on the business model, management, and development economics literatures in addition to the social entrepreneurship literature to construct a conceptual background. The present paper investigates five rural businesses in India in order to satisfy the condition of BOP-embeddedness.

## 2. Literature review

As outlined in the introduction, this paper sets out to investigate the factors that influence whether social value creation

is a conscious objective, a by-product, or an organic part of business formation in BOP markets. For this reason, it is important to give a short overview of the debate on the relationship between business activities and social value creation. At the heart of the debate are the following questions. Is an explicit social mission a necessary condition for social value creation and can a business simultaneously and equally pursue social and economic goals?

On the one hand, policy makers such as the UK’s Department for International Development as well as international organisations such as the World Bank and the United Nations emphasise the importance the private sector can play in advancing social agendas (Newell & Frynas, 2007). On the other hand, the literature tends to suggest that although commercial enterprises can have transformative social impact, social value creation as a primary mission is more commonly found in social enterprises rather than in commercial ones (Austin et al., 2006). This view implies that enterprises with an emphasis on public good rather than on private gain will be less successful in terms of market growth and profitability. In other words, enterprises with social value creation as their main objective are expected to experience some degree of conflict between the commercial and social dimensions of their business model (McDonald, 2007).

Vega and Kidwell (2007) construct a typology to capture the similarities and differences between social and business ventures. While a pure form of social entrepreneurship termed “deeds social entrepreneurship” centres around the passion for a cause, especially a greater good for society, “dollars social entrepreneurs” are more focused on facilitating social value creation by generating money to fund ideas without significant operational involvement in the projects. The latter category displays an entrepreneurial behaviour in terms of the ability to raise money. On the commercial end of the spectrum, “incubating entrepreneurs” are argued to focus more on products and ideas and are driven by their passion to live a lifestyle of creating a business. “Enterprising entrepreneurs” on the other hand, are more market-focused and driven by the prospect of making profit. The product and the business idea are seen as a means of making money rather than a lifestyle (Vega & Kidwell, 2007).

Vega and Kidwell (2007) propose that it is possible for an entrepreneur to move through the entire spectrum of these typologies over time. Nevertheless, their typology implies that social mission and commercial mission do not occur at the same time in the same intensity. In a similar vein, Acs et al. (2013) associate “deeds entrepreneurs” with charity and “dollars entrepreneurs” with philanthropy. While charity is aimed at immediate relief and income redistribution, philanthropy’s goal is the reconstitution of wealth and opportunity creation. Charities mostly rely on donations and are thus not sustainable in the long-term. Philanthropy on the other hand relies on foundations and can be said to be self-sustaining. The main difference between these two forms of social value creation and social entrepreneurship lies in the existence of a viable business model. Social entrepreneurship creates social value through acting as a change agent and/or providing social innovation by relying on a sustainable business model (Acs et al., 2013).

At the same time, contrary to Vega and Kidwell (2007), Acs et al. (2013) suggest that all productive entrepreneurship has a double bottom line and thus creates social value. Furthermore, they make the observation that stated intentions not always lead to tangible outcomes and social value can be created without the statement of any social value creation goals (Acs et al., 2013, p. 791). The conceptual implication of this observation is that while there is some evidence of the motivating impact of a well-defined and well-communicated social mission (McDonald, 2007), the conscious statement of a social mission is neither a necessary nor a sufficient condition for social value creation.

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