Built to scale? How sustainable business models can better serve the base of the pyramid

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Abstract

One of the greatest challenges for sustainable business models is achieving a scale of operations that is adequate to meet the quantity and depth of needs in their markets. In this paper, we examine scaling of sustainable business models at the base of the pyramid (BOP). Using within- and cross-case analyses, we study the sustainable business models of three firms that provide affordable housing for people with very low incomes in Mexico. Our analyses reveal the importance of community engagement as well as constraints on the ability to stimulate market forces when serving the very poor. These findings suggest that the literature on sustainable business models should be modified to account for the essential roles of community engagement and government collaboration in lieu of reliance on market forces in enabling social enterprises to scale in order to better serve the very poor.

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1. Introduction

As clarified in a report by the United Nations, adequate housing is fundamental to human life: “The right to life cannot be separated from the right to a secure place to live, and the right to a secure place to live only has meaning in the context of a right to live in dignity and security, free of violence” (Farha, 2016, p. 11). Yet large portions of the world’s population remain without access to adequate housing (UN-Habitat, 2016). In Mexico alone, it is estimated that 4.3 million new houses need to be built to meet basic needs (Torres, 2006). Of course, the poorest — those at the base of the pyramid (Prahalad and Hart, 2002) — populate this large swath of unmet need. Having a low and unstable income, people at the base of the pyramid (BOP) do not qualify for the traditional loans necessary to acquire a house. So how can their needs be met?

The private sector has responded with the development of sustainable business models that “enable social entrepreneurs to create social value and maximize social profit; of significance is the business model’s ability to act as a market device that helps in creating and further developing markets for innovations with a social purpose” (Boons and Lüdeke-Freund, 2013, p. 16). Yet despite increasing attention to their development and deployment, the collective promise of business models that resolve social and environmental problems has not been fully realized. Real social impact requires that business models achieve sufficient scale, but often such models are not scalable (Christensen et al., 2006).

We define scalability as the ability of a social business to increase the impact of a given program for more beneficiaries, while maintaining financial stability to ensure survival. Achieving both objectives allows a social business to continue its social mission, while being profitable enough to scale up in the long term. Scalability is probably the central issue for sustainable business models if they are indeed to have a significant social impact (Christensen et al., 2006). Lyon and Fernandez (2012, p. 64) point out that “the activities of social enterprises tend to be localized and small (in) scale.” If a social problem is large, such as the lack of adequate housing, potential solutions need to be scalable.

The challenge of scaling is well-exemplified by Patrimonio Hoy, a program focused on providing affordable building material for self-construction to people with limited financial resources (CEMEX, 2017). Developed by Mexican cement multinational CEMEX, this program has been widely cited as an example of how a private company can help to alleviate the problem of inadequate housing without government support (Calton et al., 2013; Dahan et al., 2010; Subrahmanyan and Gomez-Arias, 2008). CEMEX originally...
targeted the BOP, but the program failed to grow significantly. As a result, CEMEX was unable to sustain focus on the poorest and eventually moved to the higher end of the BOP and the middle of the pyramid, because these people had greater purchasing power. Given the inability of a company with CEMEX’s massive resources to maintain focus on the BOP market, it is evident that the challenges of reaching the poorest are daunting.

In this paper, we seek to understand how sustainable business models can be scaled successfully to serve the needs of those at the BOP. The SCALERS model by Bloom and Chatterji (2009) identified seven organizational capabilities necessary for successful scaling: staffing, communicating, alliance building, lobbying, earnings generation, replication, and stimulating market forces. We undertake within- and cross-case analyses of three firms engaged in housing construction at the BOP in Mexico and find that while many aspects of the established SCALERS model are key to successful scaling, the model requires adaptation when applied at the very base of the BOP, a market that has not yet been examined within the scaling literature (Bloom and Smith, 2010; Bocken et al., 2016). Based on our findings, we put forth a revised set of seven factors, which we term “RESCALE”, that better explain scalability at the BOP. We conclude by discussing the implications of these findings for research and practice.

2. Literature review

To understand how sustainable business models can be successfully scaled at the BOP, we draw from three literatures: the BOP literature, the sustainable business model literature, and the scalability literature. We briefly review each one below.

2.1. BOP literature

In their seminal article, Prahalad and Hart (2002) estimated that around four billion people were in the lower level of the economic pyramid; that is, at the bottom or “base of the pyramid.” Income is the basic unit by which people are classified as being part of the BOP (Subrahmanyan and Gomez-Arias, 2008). Some authors use the 1500–2000 USD annual income per capita proposed by Prahalad and Hart (2002), while others employ a threshold of 1 or 2 USD per day (Kolk et al., 2014). Regardless of the measure employed, there are many people at the BOP who have very low incomes and lack access to products and services needed to meet basic human needs.

The massive needs of people at the BOP have long been known, but it was not until the beginning of the 21st century that scholars started to discuss the BOP as a new business opportunity. Firms faced strong competition in developed economies and so started to look to potentially unattended markets in emerging economies dominated by BOP consumers (Seelos and Mair, 2005). The first calls for serving BOP markets were aimed at multinational corporations, which were potentially able to solve some of the problems faced by people at the BOP (Prahalad and Hammond, 2002).

However, a recent literature review of articles published on the BOP provided some important insights that challenge conventional wisdom: (1) small and local firms rather than big multinationals target the BOP more frequently; (2) BOP consumers are in most cases recipients of existing products adapted to suit their needs, rather than being co-inventors of new products; and (3) people at the BOP are mostly consumers, rather than producers or employees (Kolk et al., 2014). In 2007, the World Resources Institute and the International Finance Corporation conducted a large-scale study aimed at understanding the needs of the approximately four billion people worldwide living at the BOP (Hammond et al., 2007). The study found that 57.9% of spending by people at the BOP was on food, followed by energy (8.7%) and housing (6.6%) (Hammond et al., 2007). Regarding housing, many people at the BOP are unable to provide official documentation of their home ownership (Hammond et al., 2007). This situation limits governmental support, access to credit, services delivery (water or electricity), and even the transfer of this asset to future generations (Hammond et al., 2007).

2.2. Sustainable business models literature

The concept of the business model emerged during the 1990s with the rise of internet-based firms (Boons and Lüdeke-Freund, 2013; Shafer et al., 2005; Zott et al., 2011). The growing interest in business models has generated multiple definitions. However, scholars generally describe a business model as a representation of the different business relations a firm has in order to implement a strategy that creates value by attending to customers’ needs (Zott et al., 2011). The basic elements of a business model are the customer value proposition, a profit formula, and key resources and processes (Johnson et al., 2008). Business models should be difficult to imitate and should depict the relationships between the firm, its customers, and its suppliers (Teece, 2010).

Muhammad Yunus and his colleagues distinguish three main types of businesses: (1) profit-maximizing businesses that seek financial profit maximization and the repayment of invested capital, (2) not-for-profit organizations that do not seek the recovery of invested capital and seek social profit maximization, and (3) social businesses that seek both the repayment of invested capital or self-sustainability and social profit maximization (Yunus et al., 2010). The key to this third type of business is the simultaneous creation of both economic and social value (Seelos and Mair, 2007).

How can economic and social value be created together? Social entrepreneurs have emerged to answer this question by generating business models to satisfy basic human needs that traditional institutions and approaches have inadequately addressed (Seelos and Mair, 2005). A sustainable business model seeks to maximize social profit (Boons and Lüdeke-Freund, 2013), but firms that adopt a sustainable business model are also interested in generating financial revenues, since they do not usually receive donations or support as charities or foundations do. However, in order to generate systemic change, the sustainable business model must also be scalable (Christensen et al., 2006), which is the key focus of this article.

2.3. Scalability literature

Lack of scalability is a major challenge for sustainable business models (Bocken et al., 2016; Christensen et al., 2006). Though many social enterprises have successfully served local market needs, relatively few have successfully scaled to meet the needs of a larger market (Bocken et al., 2016). Scalability has traditionally been conceptualized as replication or expansion, which is achievable once a firm has standardized elements of its business model (Bradach, 2003; Uvin et al., 2006). Standardizing elements of a sustainable business model is especially challenging; all the more so when dealing with the BOP. Although consumers at the BOP may share some common characteristics, such as their limited income, addressing their needs often requires taking into account a range of environmental factors and so necessitates the design of tailor-made solutions (Whitney and Kellner, 2004).

Scalability can be conceptualized along at least two dimensions: width, which is the number of people reached by the initiative; and depth, which addresses the substantiveness of the social impacts on each beneficiary (André and Pache, 2016; Bloom and Chatterji, ...
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