



# The organisational requirements for exploring low-income markets

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## Abstract

There are commercial imperatives for companies to consider low-income markets for expansion. This research study investigated how firms, who traditionally focused on the upper- and middle-income markets, were adapting to operating in dual markets, an ability termed ‘ambidexterity’. While there is abundant research available on ambidexterity, this construct has not been studied in the context of the low-income market.

The primary aim of this study was to explore the tensions that existed for firms exploring the low-income market and how firms went about resolving these tensions. A deductive research approach was followed and 23 managers, representing 14 companies across eight commercial sectors, were interviewed using semi-structured interviews and qualitative research methodology. The data was analysed using content, thematic and narrative analysis techniques.

A central finding of this research study was that companies needed committed leaders to help resolve tensions for the firm and create the balance between exploring low-income markets and exploiting the traditional markets. Change management was found to be a critical integration technique to help resolve tensions between the “explore” and “exploit” business units.

The outcome of this research adds to the theory base of both low-income markets and ambidexterity. It also provides a decision-making framework for firms who are considering the organisational requirements for the exploration of low-income markets.

**Keywords:** Low-income markets, ambidexterity, exploration, adaptability.

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name: Ashika Pillay



Signature: \_\_\_\_\_

Date: 7 November 2012

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# Chapter 1: Introduction to the research problem

## 1.1 Research title

The organisational requirements for exploring low-income markets.

## 1.2 Description of the problem and background

Until recently, it was considered that globalisation and economic growth would be driven by the West (*The Economist*, 2010). However, rapid economic progress and an expanding middle class, in low-income markets, means that companies need to view these markets differently. India and China are set to contribute the biggest growth in terms of a wealthy middle class with Asia-Pacific projected to represent 66% of this group by 2030 (Kharas, 2011). Developing countries will also be responsible for more of the population growth especially with regards to young people, while developed world trends show an aging population (United Nations, 2009).

The economic growth story shows a similar trend. The GDP of the emerging and developing countries will, by 2013, be more than half of that of the world's (Tham, 2011). Further, according to the World Bank, developing countries are still growing substantially higher than that of the developed world (World Bank, 2012). A recent IMF report (IMF, 2012) has shown that many emerging economies may be the "engine of world growth" (p.42), growing above the 2008 financial crisis levels unlike that of the developed markets.

Many companies are now also looking to low-income markets for growth as traditional western markets mature and growth stagnates. The United Nations World Investment Report estimates 21,500 multinationals based in emerging economies (*The Economist*, 2010). Yet, in the quest for growth and value creation, many first generation strategies have failed (Anderson & Billou, 2007). At its core, the low-income market or bottom of the pyramid (BOP) proposition requires innovation in business models, development of new capabilities and the creation of partnerships (London & Anupindi, 2010). All of which require innovative thinking and an approach that is different to currently employed corporate models and strategies.

Thus far, most literature has focused on external factors (Halme, Lindeman & Linna, 2012) that will create mutual value in these markets. Considering the nature of change that is required for the dual pursuit of traditional and low-income markets, it is

imperative that internal factors be looked at as well (Olsen & Boxenbaum, 2009; Van den Waeyenberg & Hens, 2012). The understanding of how companies organise themselves to enable this dual pursuit should therefore take top priority to meet the future growth requirements, while adding value to low-income markets as a sustainability motive.

The low-income market, however, is different to that which companies have become accustomed to in the traditional western markets which focuses on the upper- and middle-income segments. Challenges that companies face range from low and irregular income levels (Rivera-Santos & Rufin, 2010) to geographical challenges, lack of infrastructure, and an informal institutional environment (Tarafdar, Anekal & Singh, 2012). Knowledge learned in the core upper- and middle-segments cannot be translated to the low-income market and may sometimes even be limiting (Schuster & Holtbrügge, 2011). As a result, new capabilities and business models require new mindsets too (London, 2007).

The ability to adapt and change to meet changing market demands is crucial for long-term firm sustainability, success and profitability (O'Reilly, Harreld & Tushman, 2009; Raisch, Birkinshaw, Probst & Tushman, 2009). While firms exploit traditional western markets for the short-term growth through existing knowledge and routines, long-term growth will be realised from exploring low-income markets. This duality that is now required is a dynamic capability called “ambidexterity” and poses a new challenge for companies that are seeking to explore and exploit within these two economic contexts.

The relevance of this capability is that it will enable the simultaneous pursuit of both incremental and discontinuous innovations (Raisch et al., 2009) required for the respective markets. Companies that are ambidextrous have a competitive advantage as they have the ability to reconfigure the firm's resources in different ways (Eisenhardt, Furr & Bingham, 2010) and be ecologically fit (O' Reilly et al., 2009) to meet the changing business landscape and opportunity that the low-income markets offer.

At its core though, exploitation and exploration have very different organisational requirements. Whereas exploration requires flexibility, exploitation requires efficiency (Eisenhardt et al., 2010). This paradox is one which the firm needs to manage and organise in a way that creates a balance between the two (Andriopoulos & Lewis, 2009), so that they can both coexist and add value dynamically together. It is therefore important to understand how firms, working in the dual market contexts of traditional

and low-income economies, balance these two to achieve optimum benefit for the present and the future.

The main problem driving this research is that little is understood about how companies are adapting to the unique needs of the low-income markets, after having a core focus on upper- and middle-income segments. Additionally, although various elements of how companies can explore with simultaneous exploitation are known, these are mainly based on exploitation *within* traditional markets while exploring innovation. The concept of ambidexterity has not been researched *across* economic segments especially with respect to exploring the low-income market space.

### **1.3 Purpose and objectives of this study**

The purpose of this study is to firstly investigate how companies, who have traditionally focused on the upper- and middle-income market segments, are adapting to meet the needs of the lower-income segment. The adaptation constructs are reviewed through several lenses: how companies structure the low-income market business units, the autonomy of these units, performance management of unit members and the allocation of resources.

Secondly, the study looks at the challenges and tensions that adaptation to the new market presents and considers the mechanisms that companies are using to address the challenges encountered.

### **1.4 Research scope**

This research is limited to companies that have business units in both the upper/middle and lower-income market segments and examines how these companies are organising these units. The research is exploratory and considers the perceptions of managers in these companies through the use of semi-structured interviews. It uses data obtained from 23 managers in 14 firms, across eight commercial sectors.

## Chapter 2: Literature Review

### 2.1 Introduction

This literature review is made up of the two main sections relating to the two central constructs of the research questions. Each section has subsections that provide background related to the questions. For the purpose of this study, the bottom of the pyramid (BOP) is referred to as the low-income market for most of the rest of this report.

The first main section focuses on the low-income markets. The literature surrounding the BOP since Prahalad's seminal paper in 2002 is abundant. This literature review however focuses on establishing a context for why companies may need to organise themselves differently if they plan to enter, and be successful, in low-income markets. This is especially relevant if these companies have previously focused on the upper- and middle-income segments. Against this backdrop, the review that follows firstly defines the BOP and why the imperative exists for companies to pursue growth in this market. Next, it focuses on why this market is different, requiring a different approach especially noting that performance by companies in this sector has been mixed so far. It then provides evidence that different business models and processes of innovation are needed, which have unique organisational requirements.

The second part of the literature review is centred on the theories of ambidexterity. Firstly, it defines ambidexterity as the ability to exploit known markets, while exploring the unknown – the low-income market in this case. It then compares exploitation to exploration, focusing on the different organisational requirements for each and the tensions that each presents to the firm. Next, the review highlights that this may be a dynamic capability, requiring the reconfiguration of resources, in adaptation to the markets. Lastly, it details the different ways that organisations can achieve ambidexterity.

### 2.2 The bottom of the pyramid/low-income market segment

#### 2.2.1 What is the BOP / low-income market segment and how big is it?

Much debate has surrounded the actual size of the base of the economic pyramid. Recently, however, authors have proposed that the traditional measure of purchasing power parity (PPP) as an empiric measure may be fraught with challenges and rather proposed that this segment be defined as people at the “base of the global socio-

economic ladder” as those “who primarily transact in an informal market economy” (London, 2007, p.11; London, Anupindi & Sheth, 2010). Olsen & Boxenbaum (2009) have also, proposed a move away from the PPP definition. They pose that the BOP be defined as “the creation of new profit-seeking market opportunities to low-income segments in the developing world with the simultaneous goal of contributing to the resolution of significant societal problems in the region” (p.102).

As mentioned earlier, controversy surrounds the actual numbers that are represented in the low-income (bottom of the pyramid) group. While Prahalad & Hammond (2002) cited four billion people with PPP of less than \$2,000 in 2002, more recent work by Hammond, Krammer, Tran & Walker (2007) cite the low-income segment as people with per capita incomes of less than \$3,000 in PPP. The most recent Global Wealth Report by Credit Suisse refers to 67.6% of the world’s population, amounting to 3 054 million people, with a wealth level of < \$10 000 (Credit Suisse, 2011). Whichever way it is looked at, the market potential seems significant. Some authors, like Karnani (2007), however, are sceptical of this number and its promises. He alludes to the “mirage at the bottom of the pyramid” (p.90) as being considerably smaller due to the fact that the poor have little to spend after they have accounted for their subsistence requirements like food, clothing and transport.

This concept of the bottom of the pyramid (BOP) was first introduced by C. K. Prahalad in his book, *The Fortune at the Bottom of the Pyramid, Eradicating Poverty through Profits* in 2004. Prahalad & Hart (2002) initially described the world as being segmented into four tiers based on income levels. They described the top tier as representing the most affluent tier of 75 - 100 million people, the middle layers (layer two and three) as representing the poor customers of developed countries and the rising middle class of the developing countries, tier four was considered to be the lowest income group of about 4 billion people with a PPP of less than \$1,500 – a per capita income of less than \$1 per day. Irrespective of actual numbers, the low-income segment has generated much interest from scholars and practitioners alike, with most agreeing that there is opportunity for the business sector to collaborate to alleviate poverty in an economically feasible way (Schuster & Holtbrügge, 2011).

### **2.2.2 The imperative to consider the low-income markets**

As firms have saturated the traditional markets and customer bases, evidenced by declining growth and fast commoditisation (London, 2007; London & Hart, 2004; Seelos & Mair, 2007), the low-income segment, presents an opportunity for expansion, growth and value creation (Gollakota, Gupta & Bork, 2010; Seelos & Mair, 2007).

According to Prahalad & Hart (2002), the success of companies does not rely on the rich few in developed countries, but the “billions of aspiring poor who are joining the world economy for the first time” (p.1). There are two key advantages of looking at this new market. These are expanded on in the following paragraphs.

Firstly, being largely untapped, the low-income market provides the opportunity for the sustainability and profitability (London & Hart, 2004; Prahalad, 2012) of companies, due to the large unmet needs of the people in this segment (Hammond et al., 2007). Prahalad & Hart (2002), provide evidence of this opportunity by referring to the large and growing informal economy that exists within the developing countries which account for a significant portion of economic activity in those countries. Secondly, the market presents an opportunity for a market-based approach for poverty reduction (Hammond et al., 2007), and other social and political issues such as social decay, terrorism and environmental deterioration. According to Prahalad & Hart (2002), these are likely to continue if the income gap between the rich and poor in the world continues to increase. They motivate that together these issues represent an opportunity to “do well and to do good” (p.3) through creating buying power and increasing the earning levels of the poor.

The alleviation of poverty has moved into the global stage with increased attention from the developed world (Hammond et al., 2007). The Millennium Development Goals (United Nations, 2012), is a call to reduce global poverty, through inclusive growth, where the poor are included in the economic development process. Sharma, Agarwal & Bharti (2012) conclude that companies have a responsibility to engage the low-income consumers through innovative and sustainable business models, resulting in a “lasting and long-term impact on the poor” (p.1497). However, in addition to the business case, lies the ethical consideration of corporate citizenship; to leverage the superior capabilities of multinational companies and uphold basic human rights of development (Hahn, 2009). London & Hart (2004), echo that societal performance matters, the need for inclusive capitalism and the need for corporates to take a more active role in poverty eradication are crucial for local relevance. Pitta, Guesalaga & Marshall (2008) summarise this appropriately, by suggesting that firms enter low-income markets for two reasons. Firstly, to convert the purchasing power of this segment into profits, and secondly, to bring prosperity and alleviate poverty in this segment of society.

There seems to be other reasons for pursuing opportunities in low-income markets. Firstly, according to Wood, Pitta & Franzak (2008), firms that are able to succeed in this new market context increase their competitiveness through an enhancement of their knowledge, insights and understanding together with the profits that they gain. As

a result, these firms may be continually gaining new knowledge and creating even more value (Wood et al., 2008). Secondly, successful innovations created within low-income markets can in fact influence consumer choices at the level of developed world consumers too (Prahalad & Hart, 2002; Sehgal, Dehoff & Panneer, 2010) further adding profitability to companies that operate in both market segments. Low-income markets therefore become a new source of innovations, (Prahalad, 2012,) which may be adopted globally (Govindarajan & Ramamurti, 2011). Called reverse innovation, these innovations “trickle up” (Govindarajan & Ramamurti, 2011, p.194) from developing countries to developed countries and increase the value creation ability of the firm. Recent research has shown that emerging countries are now being considered as “incubators of innovation” (Petrick & Suwan, 2011) using different innovation paths, disruptive technologies and business models, driven by the unique needs of the low-income consumer (Petrick & Suwan, 2011).

In essence, the business proposition for strategies in low-income markets relies on “mutual value creation” with value created for customers being in proportion to that created for the company (London, 2007). This effectively brings together two previously unrelated domains, that of business strategy and poverty alleviation, which have historically been considered in isolation of each other (London et al., 2010). It must however be noted that scholars like Karnani (2007) disagree with the role of the people in the low-income sector as consumers and postulates that seeing them in a role as producers is a more sustainable proposition as this mindset shift will enable capability development of poor people by companies. This view is seemingly consistent with the second generation strategies (London & Hart, 2011) which put forth the idea of co-creation. We can consider this as an evolution of strategies for companies wanting to be successful in low-income markets. London et al. (2010) elaborate that the perspectives have progressed from “consumers and capabilities” (p.582), to “producers and constraints” (p.582), where products and services developed need to consider and address the constraints that the low-income community is faced with, for greater economic returns.

### **2.2.3 The low-income market is different**

Having considered there is an imperative to enter the low-income market, implies a need for a deep understanding of the market context too. The low-income market segment is different to the traditional upper- and middle-income market segments in many ways, making business operations challenging. One of the first, most notable characteristics of low-income markets is not only the low-income levels, but also the irregularity of incomes (Rivera-Santos & Rufin, 2010) which limits purchasing power.

This is further exacerbated by lack of basic financial services (Schuster & Holtbrügge, 2011), and the transaction-enablers like point of sale terminals and basic banking functions (Sheth, 2011).

Secondly, geographical challenges that exist are that these consumers may be situated rurally or in densely populated slums (Rivera-Santos & Rufin, 2010), making market access an issue. As a result, infrastructure gaps range from lack of road infrastructure, electricity and water supply which add to the resource shortage for production, and consumption of goods (Sheth, 2011). To add, restricted information access causes a lack of knowledge of products and marketplace literacy, thereby impacting on an “ecologically, economically and socially sustainable marketplace” (Tarafdar et al., 2012; Viswanathan, Sridharan, Gau & Ritchie, 2009).

Thirdly, the institutional environment is also considerably different, with several regulatory deficiencies (Tarafdar et al., 2012; Rivera-Santos & Rufin, 2010). The lack of formal regulations means that informal institutions dominate, with transactions being governed by relationships and trust rather than by contracts (Rivera-Santos & Rufin, 2010). This makes enforcement of contracts and regulations challenging (Tarafdar et al., 2012) where, according to Sheth (2011) “sociopolitical institutions” (p.168) govern more so than competition. Other market specific considerations for firms to understand are cultural and ethnic differences and literacy levels (Prahalad, 2012), together with sociopolitical features like corruption, religious and racial conflicts.

Most of these differences add to the complexity of doing business in a very heterogeneous (Prahalad, 2012; Sheth, 2011) and diverse segment (Gollakota et al., 2010). As a result, domination of local firms (Rivera-Santos & Rufin, 2010) and unbranded competition (Sheth, 2011) require that existing perspectives and practices be rethought (Sheth, 2011).

#### **2.2.4 A different approach is required**

Having considered these differences in market conditions, uncertainty, constraints and “voids in the institutional context” (Van den Waeyenberg & Hens, 2012, p.6.), implies that a different approach is required from companies (London & Hart, 2004; Schuster & Holtbrügge, 2011). Schrader, Freiman & Seuring (2011) articulate that this different approach is not simply “small and simple solutions of western products” (p.2). Capabilities gained in traditional western markets like global efficiency, national responsiveness and worldwide learning are not beneficial, and could be constraining in the low-income context (London & Hart, 2004; Van den Waeyenberg & Hens, 2012). As a result, from a learning perspective, knowledge and capabilities gained in



traditional markets has limited transferability to the low-income market due to the significant market differences (Schuster & Holtbrügge, 2011; Van den Waeyenberg & Hens, 2012). Scholars agree that not only are different and disruptive business models, systems and approaches required to enter and be successful in the low-income segment (Chesbrough, Ahern Finn & Guerraz, 2006; Prahalad & Hart, 2002; Prahalad & Mashelkar, 2010; Prahalad, 2012; Pitta et al., 2008; Seelos & Mair, 2007), but also how corporations think and do business (Simanis & Hart, 2006).

### **2.2.5 The performance so far**

Interestingly, while low-income markets are an opportunity, and have received considerable attention from scholars and businesses (Olsen & Boxenbaum, 2009), the results so far have been mixed (Wood et al., 2008), with few companies succeeding in implementation (Olsen & Boxenbaum, 2009) or being able to serve poor customers profitably (Gollakota et al., 2010; Garrette & Karnani, 2010). While there have been some examples of success, most of the “first generation strategies” have failed to yield profitability (Anderson & Billou, 2007; Garrette & Karnani, 2010, Gollakota et al., 2010; Simanis & Hart, 2008). Many reasons, external to the firm, have been cited for the failure. These range from lack of infrastructure, corruption, lack of buying power (Olsen & Boxenbaum, 2009) and businesses remaining extracted from the communities that they serve (Simanis & Hart, 2008). London & Anupindi (2012) suggest that the second generation of BOP strategies must move from “finding fortune at the BOP” (p.1) to “creating a fortune with the BOP” (p.1), thus suggesting a change in mindset.

While these external conditions and reasons are important to consider, equally important, are the internal organisational barriers and intra-firm processes (Halme et al., 2012) that may affect implementation and success of low-income market strategies (Olsen & Boxenbaum, 2009). Van den Waeyenberg & Hens (2012), allude that organisations engaged in low-income market strategies may have inefficient knowledge transfer processes. Hart & Milstein (2003) in Van den Waeyenberg & Hens (2012) suggest that experience of managers is necessary in dealing with these strategies, therefore firms should “separate their base-of-pyramid” (p.3) departments with employees that are “knowledgeable and comfortable with working in base-of-pyramid marketplaces” (p.3). Other barriers have been cited as short-term views of profit maximisation, business unit based incentive structures and uncertainty avoidance (Halme et al., 2012). However, research on how firms should organise themselves internally, with respect to structuring their units, the challenges they face and how they are responding to the challenges, is minimal and needs further investigation.

## 2.2.6 Requirements for operating in low-income markets

Having looked at the imperative to enter the low-income market, a market which has unique characteristics and one that requires a different approach, it is now important to understand what the basic requirements of this market are. Mutual value creation through new capabilities, involving collaborative partnerships and different innovation processes were recurring themes in the literature that are elaborated on below.

Unlike traditional approaches, doing business in low-income markets requires a focus on creating mutual value for both the business venture and society (London & Hart, 2004). Whereas initially the focus was on creating profits for businesses (so called first generation strategies) (Gollakota et al., 2010), the newer second generation strategies are focused on how to engage with people in low-income markets for mutual benefit (Gollakota et al., 2010; London et al., 2012; London et al., 2010; Martinez & Carbonell, 2007). This needs to start with a deep understanding of the customer's needs and wants (Gollakota et al., 2010; Anderson, Kupp & Vandermerwe, 2010). The literature also suggests that prior assumptions and myopia (Martinez & Carbonell, 2007) about doing business with the poor needs to be reconsidered. Some of these assumptions are that the poor have no money, that spending by the poor is restricted to basic needs and that the poor only buy cheap goods (Martinez & Carbonell, 2007).

### ***Change in mindsets, business models and capabilities***

Viable businesses within the low-income context require a shift in mindsets, capabilities and partnerships (London & Anupindi, 2010). Dhanaraj & Khanna (2011), emphasise that a "shift in one's mental models is necessary to develop a deeper understanding of emerging markets" (p.686). Additionally, approaches for this segment often require a departure from core businesses (Karamchandani, Kubzansky & Lalwani, 2011) and a radical change in routines (Olsen & Boxenbaum, 2009), where old business models and mindsets will not be appropriate (London, 2007).

To illustrate, major changes are required for most business operations, ranging from buying, manufacturing, packaging, marketing, to distribution and advertising (Olsen & Boxenbaum, 2009) in the context of serving the low-income customer. Karamchandani et al. (2011) articulate that the most encouraging business model innovations are those that are radical innovations, which address multiple barriers within the market context, at the same time. Barriers and voids can be addressed through business models that consider micro-finance to create buying power, the establishment of alliances and a relook at the marketing mix (Pitta et al., 2008). Anderson & Markides (2006) have described that the marketing mix should incorporate acceptability, affordability,

availability and awareness. These changes of approaches, may serve a dual purpose of exploiting the opportunities that exist, while even becoming part of the opportunity (Alvarez & Barney, 2007 in Sanchez & Ricart, 2010), thus creating value through innovation of the business model.

However, Chesbrough (2010) proposes that changes in business models require not only changes in organisational processes, but also alterations in the architecture of the business, together with how the business will organise itself to deliver value (Teece, 2010). Additionally, Martinez & Carbonell (2007) add that these actions by the business must be voluntary, align with business strategy, be liberal in resource commitment and unobscured from the entire organisation. There also seems to be agreement that for new business models to succeed, all elements of the internal structure and processes within a company need to be aligned, mutually reinforcing (London, 2010) and strongly focused on grounded opportunities and business drivers (Simanis & Milstein, 2012, p.86). Essentially, changes in business models need to be driven by strong business drivers, and require alignment of the firm at all levels, enabled by business processes and architecture that are appropriate for the low-income market.

However, capabilities and resources are also important elements of the business model for success in the low-income market. Seelos & Mair (2007), encourage companies to build new resources and employ multiple strategies concurrently, by leveraging and reconfiguring existing capabilities into new business models. Capabilities such as scalability, flexibility, knowledge sharing, local sourcing, fragmented distribution, non-traditional partners, societal performance and local entrepreneurship (London & Hart, 2004) help meet the challenges of low cost, quality, sustainability and profitability (Pitta et al., 2008). Being a significant departure from what many companies have been used to, these changes, require adaptability and determine how the company evolves to changing business environments (Teece, 2010).

***New capabilities: Collaboration, partnerships, and networks.***

Networks and partnerships are an important element of evolving business models in low-income markets (Rivera-Santos & Rufin, 2010). Some of the reasons for this are the shift from the approach of “finding fortune at the bottom of the pyramid”, to “creating a fortune with the bottom of the pyramid” (London & Anupindi, 2010, p.1). Additionally, as companies have typically not focused on this market segment, they lack local knowledge; co-operation through networks therefore enhances their learning and knowledge of low-income markets (Schuster and Holtbrügge, 2011).

The approach of mutual value creation requires finding what is right for these low-income consumers together with increasing their purchasing power at the same time (Gollakota et al., 2010). Parallel to this change in perspective, is the new view of people in low-income markets as “consumers” or “producers” (London, 2007, p.12). London et al. (2010) further elaborate that partnerships between the poor and companies act as “bridges, straddling the formal and informal sectors” (p.583) and in so doing utilise or enhance the strengths that exist in the informal sector through involvement and empowerment of the poor (Arora & Romijn, 2012). This may even result in local products being sold in other domestic and international markets, a capability that can be performed by the firms, which local producers do not have, through companies addressing this constraint (London et al., 2010).

“Social embeddedness” (London & Hart, 2004), is therefore the new capability that companies need to nurture in order to co-create locally relevant solutions for consumers. The creation of “inclusive channels” (Gollakota et al., 2010, p.363) in areas like design manufacturing, delivery and servicing, essentially entails a reconfiguration of the entire value chain to deliver mutual value. Distribution, for example, can be a key means of including low-income entrepreneurs into a firm’s strategy. Vachani & Smith (2007), elaborate on this and suggest outsourcing the “last mile” (p.72) to entrepreneurs will impact on cost for the firm and accessibility of products to consumers, while alleviating some of the disadvantages that these entrepreneurs face. Long-term partnerships and “co-creation” (Brugmann & Prahalad, 2007, p.89) allows external partners to be integrated and could result in opportunities such as low prices, hybrid business models while increasing the firm’s ‘social legitimacy’ (p.89). Seelos & Mair (2007) have motivated that collaboration with local social entrepreneurs illustrates how to do business in the low-income markets. They suggest that accessing and configuring resources already built by “local pioneers” is a route to enter and succeed in this market. A “bottom-up co-invention” (London & Hart, 2004, p.364) approach is required in order to seek locally relevant solutions.

Further, companies need a strong social orientation (London & Hart, 2004) with traditionally unusual partners like non-governmental organisations, private companies, governments, financial institutions (London & Hart, 2004; Pitta et al., 2008). These types of partnerships provide a sustainable competitive advantage for the company and its partners (London, 2007).

In essence, the ecosystem of the business should change (Prahalad, 2012), through collaborations for socially relevant and cost effective solutions. A changing ecosystem, with dynamic business models may firstly have a positive impact on the environment

and vice versa (Sanchez & Ricart, 2010). Secondly, the implication for the firm is a reevaluation for traditional boundaries (London & Hart, 2004). Porous firm boundaries, allow for innovations that connect the various actors due to institutional gaps that exist in the low-income market (Sanchez & Ricart, 2010). London (2007) adds that this is “not business as usual” (p.18) requiring a different perspective from the typical strategies that have existed in the past. A “systems thinking” approach may be part of the new perspective and mindset required to build a new ecosystem (Prahalad, 2012, p.11), implying a complete shift from old ways of doing business.

### ***Innovation is unique and has unique organisational requirements***

In addition to business model development which requires a different mindset, innovation too, follows a different developmental path to traditional western approaches. Socio-economic need and functionality (Petrick & Suwan, 2011) are the foremost requirements for innovation in the low-income market, thus requiring a different perspective. The approach to innovation has been termed “reverse innovation” or “frugal engineering” (Sehgal, et al., 2010) and requires a “clean sheet” approach (p.1) to avoid unnecessary costs to start with, and focuses on the basic needs of the consumer (Prahalad & Mashelkar, 2010). Prahalad (2012) and Prahalad & Mashelkar (2010) also emphasise that innovation and understanding consumer needs must occur within the constraints that the low-income customer faces through deep immersion and understanding of needs and the context.

Due to the different path of innovation of both products and business models, comprehensive organisational change may be required in order to be successful in these dynamic markets (Olsen & Boxenbaum, 2009). A few authors have alluded to some of these specific requirements. Sehgal et al. (2010) have articulated that the new organisational agility requires cross-functional teams, a non-traditional supply chain and leadership support with a learning culture (Simanis & Hart, 2006). Simanis & Hart (2006), allude that organisations need to be more tolerant to uncertainty and ambiguity with flexibility in how they allocate resources. London (2007) also adds that structures and traditional organisational processes may also need to be reconsidered as managers “overcome existing biases” (p.20) about the poor.

Additionally, another important theme that recurred in the literature is that of time and long-term perspective. London (2007), proposes that innovation in the low-income context requires a “patient” (p.20) perspective, both in terms of time and financial implications. The sentiment of a long-term mindset is echoed by other authors who motivate that the time taken to reach profitability is often longer (Karamchandani,

Kubzansky & Lalwani, 2011; Olsen & Boxenbaum, 2009; Pitta et al., 2008) than those in traditional markets. As a result, metrics to evaluate the return on investment and risk of innovations may also need to be different (London, 2007; Halme et al., 2012).

One can therefore appreciate that these changes in business models, processes, mindsets, capabilities (Van den Waeyenberg & Hens, 2012) are crucial to developing innovative and sustainable solutions, and require changes in how the firm organises itself, organisational processes and structures (Halme et al., 2012). Organisational culture, values and leadership seem to be crucial to developing strategies within low-income markets (Karamchandani et al., 2011; Christensen & Overdorf, 2000).

## **2.3 Ambidexterity**

This section reviews the literature on ambidexterity. This concept has not been widely studied with respect to the low-income markets; therefore, it was likened to rapidly changing markets. As the low-income market can be characterised as dynamic and needing innovation, the importance for ambidexterity is clear, and is evaluated in this context. Following this, the concept of ambidexterity is defined together with how it has evolved over time. Next, a review of the differences between exploration and exploitation, both of which are key requirements for ambidexterity, is presented in order to create an understanding of how different these concepts are with respect to each other, yet a balance between the two is required for a company to be able to explore and exploit. Following this, data is presented on the relationship between ambidexterity and firm performance, together with why this concept should be considered a dynamic capability. Next, it was important to review the mechanisms that firms can use to create the ambidextrous capability in their organisations. These options, structural, contextual and leadership-based solutions are expanded in detail.

### **2.3.1 The importance of ambidexterity in rapidly changing markets**

The global economy is rapidly changing with a shift from the traditional markets to a focus on low-income markets where rapid growth and development is expected. Such rapidly changing and hypercompetitive environments are characterised by “technical innovation, globalisation and entrepreneurial action” (Eisenhardt et al., 2010, p.1263). For companies, this in turn requires the exploration of new competencies for future growth while simultaneously exploiting existing areas of revenues and profit (Jansen, Van Den Bosch & Volberda, 2005a; Raisch et al., 2009; Tushman & O’Reilly, 1996). The ability to simultaneously explore and exploit has been linked to sustained organisational performance (O’ Reilly et al., 2009; Smith & Tushman, 2005), survival

(Luo & Rui, 2009) and long-term success (Raisch et al., 2009; Jansen, Tempelaar, Van Den Bosch & Volberda, 2009). Therefore the low-income markets provide an exploration opportunity for companies that have previously focused on the upper- and middle-income segments as their core markets.

O' Reilly et al. (2009) consider that the longevity of firms requires adaptation and evolution to changing environmental conditions, not dissimilar to the evolution and natural selection processes as per Darwinian Theory. Tushman & O'Reilly (1996) coined this as evolutionary and revolutionary change (p.8). Therefore, for companies that wish to pursue growth in low-income markets, a shift of mindsets and organisational adaptation is required, from the traditional western markets to that of the low-income markets.

Long-term performance and competitiveness requires adaptation and change (Smith & Tushman, 2005) coupled with innovation to improve the position of the firm for the present and the future (Cantarello, Martini & Nosella, 2012). Innovation, too, requires an exploratory approach for radical, breakthrough innovations (O' Reilly & Tushman, 2004; Raisch & Birkinshaw, 2008) to meet the needs of "emergent customers" (Raisch & Birkinshaw, 2008, p.378), and is unfortunately the point at which firms often fail (O' Reilly & Tushman, 2004). Tushman & O'Reilly (1996) suggest that the pursuit of incremental and disruptive type innovations must occur simultaneously. For the firms considering entry into the low-income markets, this segment may also impose specific requirements on how a firm explores or exploits due to the different opportunities and threats in this environment (Luo & Rui, 2009). It is therefore possible to appreciate that firms must consider adaptation, not only with respect to entering the new low-income markets, but additionally also adapt to the requirements of innovation in this market. In effect, this gives rise to a two-fold imperative to understand the requirements for exploration and exploitation, which also gives rise to organisational tensions.

Whereas innovation for the future requires the management of new knowledge to generate products and competencies and radical innovations, exploitation seeks full utilisation of present knowledge and efficiency to enable the incremental innovations (Andriopoulos & Lewis, 2009). In effect, exploration and exploitation create a "paradox of innovation" (Andriopoulos & Lewis, 2009) resulting in organisational tension due to their different and inconsistent demands placed on the firm, requiring different architectures (Benner & Tushman, 2003). Long term success requires that a firm "master both alignment and adaptability" an attribute referred to as ambidexterity (Gibson & Birkinshaw, 2004, p.45).

### **2.3.2 Definition and origins**

The concept of ambidexterity was first proposed by Duncan in 1976, as an organisation that has “dual structures” (Cantarello et al., 2012; Luo & Rui, 2009; Raisch et al., 2009) with further research catalysed by an article by March in 1991 (Raisch & Birkinshaw, 2008). There are many definitions that have been proposed for organisational ambidexterity which range from abilities, capacities to capabilities. However, most scholars seem to agree on the concept as a capability (Cantarello et al., 2012). Building on the work of Duncan, Tushman & Reilly (1996) were the first to present the theory of organisational ambidexterity (Raisch et.al, 2009) and define it as “the ability to simultaneously pursue both incremental and discontinuous innovation and change that result from hosting multiple contradictory structures, processes and cultures within the same firm” (p.25). Since then, the scholarly interest in ambidexterity has increased substantially (Cantarello et al., 2012; Raisch et al., 2009) and span many disciplines in business literature (Cantarello et al., 2012; Luo & Rui, 2009; Simsek, 2009). These disciplines include organisational learning, organisational design, technological innovation, organisational adaptation and strategic management (Cantarello et al., 2012; Luo & Rui, 2009).

### **2.3.3 Exploration versus Exploitation**

At its core, most authors agree that exploration and exploitation have very different organisational requirements and outcomes, and that a balance between the two is crucial (Cantarello et al., 2012; Raisch & Birkinshaw, 2008). Exploitation is said to require “refinement, efficiency selection and implementation” (March, 1991 in Raisch & Birkinshaw, 2008, p.376), the reuse of existing knowledge (Simsek, 2009) with convergent thinking to leverage current knowledge and improve product offerings (Andriopoulos & Lewis, 2009). The organisational requirements are therefore “efficiency, centralisation and tight cultures” (Jansen et al., 2009, p.3). Baum, Li & Usher, 2000 in Gupta, Smith & Shalley, 2006, p.694) agree that exploitation is defined as “learning gained via local search, experiential refinement and selection and reuse of existing routines”. For many companies, this means the continual focus on, and extraction of, value from existing upper- and middle-income segments, which they have become accustomed to.

Exploration on the other hand refers to “search, variation, experimentation and discovery” (March, 1991 in Raisch & Birkinshaw, 2008, p.376), to develop new and innovative re-combinations of knowledge (Andriopoulos & Lewis, 2009). Exploration requires “flexibility, loose cultures and decentralisation” (Jansen et al., 2009, p.3) and



further also requires proactivity and collaboration with clients and suppliers. Baum, Li & Usher, (2000, in Gupta et al., 2006, p.694) defines exploration as “learning gained through processes of concerted variation, planned experimentation and play”. Table 1 below summarises the differences between these two concepts. Exploring the low-income market would require these characteristics especially noting the evolution of business models and products that are required in this market.

*Table 1: Summary of differences between exploration and exploitation*

<b>Exploration</b>	<b>Exploitation</b>
Refinement, efficiency	Search and variation
Reuse existing knowledge	Discovery and experimentation
Centralised culture	Flexibility and decentralised culture
Tight cultures	Loose cultures
Routines	Experimentation and discovery

Essentially the tensions therefore exist between “flexibility and efficiency” (Eisenhardt et al., 2010, p.1264) and the knowledge processes that govern each (Andriopoulos & Lewis, 2009). Noting these fundamental differences between the two, implies that different structures and strategies in the firm (Raisch & Birkinshaw, 2008), are required if the two are to coexist. Additionally, trade-offs would be required if they were present together (Luo & Rui, 2009; Raisch & Birkinshaw, 2008; Smith & Tushman, 2005). However, another school of thought poses that trade-offs may not be necessary if a firm is able to think paradoxically (Raisch & Birkinshaw, 2008), and achieve a balance between the two (Andriopoulos & Lewis, 2009; Birkinshaw & Gibson, 2004; Raisch & Birkinshaw, 2008; Simsek, 2009). Effectively this balance would enable a firm to innovate for the low-income market, without adversely affecting the core business of the upper and middle segments.

A company that is polarised to either exploration or exploitation can get caught up in certain traps, characterised by complacency and self-destruction (Andriopoulos & Lewis, 2009). A one-sided focus on exploitation can result in the short-term focus on profits, leading eventually to slow growth and vulnerability to the competitive forces of technological changes, as would be the case if a company chose to focus on the upper/middle segments only. This exploitation-only focus will also eventually lead to highly “specialised competencies which could become core rigidities” (Leonard–Barton, 1993, in Raisch & Birkinshaw, 2008, p.392). For the firm, this implies a lack of flexibility

to adapt to the low-income market. In such cases even though short-term performance is enhanced, the ability to respond to the changing environment will be impeded (Raisch & Birkinshaw, 2008).

Similarly, a one-sided focus on exploration results in the “failure traps” (Andriopoulos & Lewis, 2009, p.696), where learning from past innovations are ignored and current capabilities are not leveraged. These firms could become stuck in unrewarding search cycles which never reap the benefits of its knowledge (Raisch & Birkinshaw, 2008) resulting possibly in “building tomorrow’s business at the expense of today’s” (Birkinshaw & Gibson, 2008, p.47).

Many scholars therefore agree that sustained long-term performance comes not only from jointly pursuing exploration and exploitation (Raisch & Birkinshaw, 2008), but from pursuing them simultaneously (Gupta et al., 2006). If this were to occur, then the firm realises a dynamic capability (Raisch & Birkinshaw, 2008). This effectively implies that companies should pursue the opportunities in both their core and the lower-income markets concurrently.

#### **2.3.4 Performance and ambidexterity**

Even though empirical tests of the relationship between financial performance ambidexterity remains mixed, many scholars have shown a positive relationship between the two (Raisch & Birkinshaw, 2008). He & Wong (2004), for example, showed positive correlations between sales growth and exploitation and explorative strategies. Additionally, the expectation is that a firm’s performance will be enhanced if ambidexterity is pursued especially in dynamic markets. This expectation is rooted in the belief that a company will be able to increase innovations through simultaneous exploration and exploitation (Jansen, Van Den Bosch & Volberda, 2005b), needed for dynamic market contexts. Simsek (2009) agrees that in dynamic environments, companies that are not ambidextrous will be neither “dynamic nor adaptive” (p.617). The implication for companies is that the ability to exploit their core markets, while exploring the lower-income markets, should have a positive impact on their performance, innovation capability and adaptability.

#### **2.3.5 Ambidexterity – a dynamic capability**

There seems to be agreement among many scholars that the ability to be ambidextrous is a dynamic capability (Cantarello et al., 2012; Eisenhardt et al., 2010; Jansen et al., 2009; Luo & Rui, 2009; O’Reilly et al., 2009; O’Reilly & Tushman, 2008)

and that ambidexterity is in fact a central construct to a firm's dynamic capabilities (Luo & Rui, 2009).

The dynamic capabilities perspective of how a company can achieve competitive advantage under changing environmental conditions is an adaptation of the resource-based view of the firm. This view looks at the resources and capabilities that a firm has (Baretto, 2010), as originally defined by Teece in 1997. Teece, Pisano & Shuen (1997) originally defined dynamic capabilities as “the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (p.516).

Additionally they put forward that a firm's competitive advantage lies with its managerial and organisational processes, asset position and the paths available to it. Critical to the organisational processes is the coordination and integration of activities by managers together with learning and reconfiguration (Teece et al., 1997). Dynamic capabilities encompass the ability of the firm to innovate, shape its ecosystem in order to be sustainable and capture long-term sustainable value (Teece, 2007).

According to Barreto (2010), the dynamic capabilities framework is multidimensional and includes four pillars. These are the propensity to sense opportunities and threats, to make timely decisions, to make market-orientated decisions and to change the resource base of the firm. All four pillars are relevant to companies with strategies in the low-income market space.

Ambidexterity, as a dynamic capability, allows the firm's resources to be reconfigured, in unique ways (Eisenhardt et al., 2010) and allows resources to change from being static to becoming a sustainable competitive advantage (Luo & Rui, 2009). However, strategic leadership is required in order to adapt the firm to changing environmental opportunities and threats (O'Reilly et al., 2009) for “ecological fitness” of the firm (O'Reilly et al., 2009, p.84). This capability, being crucial in both “mature and emerging markets” and from a long-term and strategic perspective (O'Reilly & Tushman, 2008, p.12), implies that for firms seeking exploration of the low-income markets, the dynamic capability of ambidexterity will enable the reconfiguration of resources, processes and activities to meet the needs of both markets. Firms can achieve this capability through a few routes.

### **2.3.6 How can ambidexterity be achieved?**

Many scholars agree that both exploration and exploitation need to be present together and at the same time in a firm, (Gibson & Birkinshaw, 2004; Gupta et al., 2006; Raisch

et al., 2009; Smith & Tushman, 2005; Tushman & O' Reilly, 1996) but should be strategically integrated (O' Reilly & Tushman, 2008; Jansen et al., 2009). In fact, Gupta et al. (2006) are clear that ambidexterity is different from “punctuated equilibrium” (p.693), where firms alternate between exploration and exploitation at different periods of time. The literature has focused on three ways that firms can use to achieve ambidexterity (Cantarello et al., 2012; Raisch & Birkinshaw, 2008). These are structural solutions (O' Reilly & Tushman, 2004; Raisch & Birkinshaw, 2008) contextual solutions (Gibson & Birkinshaw, 2004; Raisch & Birkinshaw, 2008) and leadership-based solutions (Raisch & Birkinshaw, 2008; Smith & Tushman, 2005). Cantarello et al. (2012) allude that these three solutions do not have to be mutually exclusive, but are rather integrated as a multi-level approach where all three solutions coexist at the operational and managerial levels and are “deeply linked” (p.45).

### ***Structural solutions advocate differentiation of business units, with integration***

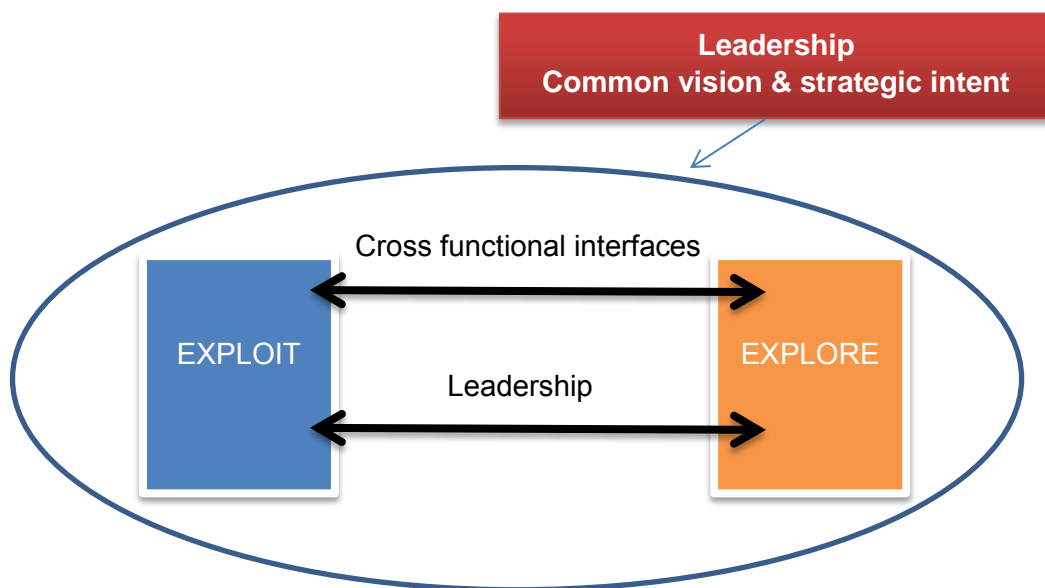
Structural solutions are essentially dual structures (Simsek, 2009) achieved through spatial separation of explorative and exploitative activities, with integration at the top management level (Benner & Tushman, 2003; Smith & Tushman, 2005). This spatial separation (Andriopoulos & Lewis, 2009; Eisenhardt et al., 2010) and segmentation (Jansen et al., 2009) is enhanced through different competencies, systems, incentives, processes and cultures for each unit and can be achieved through organisational spin-outs (Benner & Tushman, 2003; Eisenhardt et al., 2010; O' Reilly & Tushman, 2011). Jelinek & Schoonhoven (1993 in Simsek, 2009) posit that separation allows “distinctive processes, structures and cultures” to enable exploration or exploitation (p.604) and mindsets (Jansen et al., 2009) with deliberate focus (Andriopoulos & Lewis, 2009). Additionally, exploratory units have the freedom and flexibility (Jansen et al., 2009) as they are decentralised and are generally smaller (Raisch et al., 2009). This structural separation protects the freedom and flexibility of exploratory units to develop and innovate new skills and knowledge (Jansen et al., 2009) by creating “pragmatic boundaries” (p.7), that enable contradictory and inconsistent activities to co-exist, however, many authors agree that integration is essential.

Integration serves varied functions between the “loosely coupled subsystems” (Benner & Tushman, 2003) of exploration and exploitation. Firstly, manifesting as common strategic intent and values (Simsek, 2009), integration provides a common identity across groups (O' Reilly & Tushman, 2011), mitigating the isolation of independent units. Jansen et al. (2009) motivate that without integration, structural separation would result in differentiated capabilities in each of the units, preventing new combinations of capabilities being developed and leveraged.

However, senior teams should also be aligned and united in order to create an enabling environment for exploration and exploitation while resolving tensions that the dual market focus presents. Firstly, alignment of leaders allows the balancing of resource allocation, while ensuring “cross-fertilisation” between exploratory and exploitative units (Jansen et al., 2009, p.4). Secondly, a cohesive leadership is crucial due to “the chances of “conflict, disagreement and poor coordination” (O’ Reilly & Tushman, 2008) being increased. Senior teams are also crucial to maintain the balance between short-term and long-term perspectives together with centralised and decentralised (Benner & Tushman, 2003; Eisenhardt et al., 2010) approaches. Top management behavioural integration, however, is therefore crucial to integrating and managing the conflicting demands of these differentiated business units (Lubatkin, Simsek, Ling & Veiga, 2006). Some of the integration between leaders can be achieved through social integration (Jansen et al., 2009), by encouraging openness, reciprocity and trust.

Besides the role that leaders play in integration of the “explore” and “exploit” units, Jansen et al. (2009) found that cross-functional interfaces may also facilitate knowledge transfer between units. These interfaces could be task forces with members from both units that are held together in a “flexible formal arrangement” (Jansen et al., 2009, p.12) that enable understanding and facilitates knowledge transfer (Jansen, 2005b) and which may also enable managers’ ambidexterity (Mom, Van Den Bosch & Volberda, 2009).

*Figure 1: How structural solutions can achieve ambidexterity & integration achieved*



### ***The contextual approach***

Developed by Birkinshaw & Gibson (2004), the contextual approach allows individuals in business units to use their discretion to move between exploration and exploitation during their day-to-day activities. Being a behavioural and social means of gaining organisational ambidexterity (Andriopoulos & Lewis, 2009), Birkinshaw & Gibson (2004) argue that it is potentially more sustainable than the structural approach. They assert that ambidexterity achieved in this way, allows every member of an organisation to deliver value in the present, while seeking opportunities for the future.

It seems, therefore, that this approach relies on ambidextrous individuals, who according to Birkinshaw & Gibson (2004), take more initiative for opportunity identification, are cooperative and seek out opportunities. They add that these employees are always looking to “build internal linkages” (Birkinshaw & Gibson, 2004, p.49), can multitask, therefore are flexible and are also more generalists than specialists. Gibson & Birkinshaw (2004) maintain that this approach will avoid the integration that is required in the structural approach while providing a dynamic and flexible environment for individuals to work in. The ability to be *contextual* requires certain enabling conditions in the environment.

Some of the conditions that support this approach are carefully selected processes (Simsek, 2009; Birkinshaw & Gibson, 2004) and cultural values (Cantarello et al., 2012). Gibson & Birkinshaw (2004) elaborate that the ability for managers to move between exploitation and exploration modes can be supported through the performance systems and the social support. The four attributes of stretch, discipline, support and trust (Ghoshal & Bartlett, 1994 in Gibson & Birkinshaw, 2004) appear to be necessary to create a high-performing ambidextrous organisation.

These four features, as defined by Gibson & Birkinshaw (2004) are important requirements for the contextual approach. Discipline means that individuals strive to meet all expectations with clear, consistent standards and transparent feedback. Stretch implies that all members make every effort to reach ambitious targets through shared ambition and collective identity. Support requires not only that people assist each other, but that there is also access to resources and guidance from senior managers. Lastly, trust is described by Gibson & Birkinshaw (2004) as fairness and equity, with the ability to rely on others, together with the firm having the right people (with appropriate competencies) in the right positions.

Andriopoulos & Lewis (2009), however, believe that the *contextual* approach has been recommended more at the executive level as a behavioural integration tool that is

complementary to the structural approach. This will allow senior executives to deal with the conflicting demands of exploitation and exploration and influence the firm appropriately (Lubatkin et al., 2006; Smith & Tushman, 2005).

In summary, contextual ambidexterity at the organisational level is the “collective orientation of the employees to the simultaneous pursuit of alignment and adaptability” (Gibson & Birkinshaw, 2004, p.50). It empowers individuals to engage in both routine and non-routine tasks simultaneously by “switching” (Raisch et al., 2009) between them. Even though the time spent on each is shorter, there is a tighter coupling between exploration and exploitation.

### ***The leadership approach***

Leadership-based approaches allow for the tensions and paradoxes that arise from either the contextual or structural approaches to be reconciled (Cantarello et al., 2012; Smith & Tushman, 2005; Raisch & Birkinshaw, 2008). Researchers on both the contextual and structural poles, described above, accept that leadership is pivotal to the ability to attain organisational ambidexterity as a capability (Simsek, 2009). Even though some of the concepts have been described above, it is important to reiterate the roles that leaders play, due to its emphasis in the literature. Leaders have roles to create the right context (Gibson & Birkinshaw, 2004), facilitate integration (Andriopoulos & Lewis, 2009; Jansen et al., 2009), and allocate resources and make organisational design decisions (Smith & Tushman, 2005).

O’ Reilly & Tushman (2007), conclude that it is in fact not how units are separated that is crucial, but actually, how they are integrated back to create value. Smith & Tushman (2005) add that senior managers need to manage the conflict that arises from areas like architectural inconsistencies, along with creating the conditions for these inconsistencies to coexist. Effectively, by filling these responsibilities, they are able to maintain the balance between exploration and exploitation in changing market conditions (O’ Reilly & Tushman, 2008). According to O’ Reilly & Tushman (2008), senior managers need to also articulate a clear vision as to why these conflicts should coexist and why units should collaborate.

Looking at this, through the lens of this study, it seems that leaders therefore need to balance exploration of the low-income market with the exploitation of their core markets. This implies making the right choices on how to structure business units and allocate resources, while managing conflicts and trade-offs through strategic intent and common vision for both units.

By virtue of the fact that leaders are responsible for making decisions on resource allocation and owning the strategy to explore and exploit, some authors have posed that leadership may be an independent determinant of ambidexterity (Cantarello et al., 2012; O' Reilly & Tushman, 2011; Raisch & Birkinshaw, 2008; Simsek, 2009). To add to this view, O' Reilly & Tushman (2011) maintain that in order for ambidexterity to be a dynamic capability, senior managers need to also be skillful in sensing and seizing new opportunities, while simultaneously reconfiguring resources.

Additionally, it is also important that there is consensus and alignment within the senior team themselves about the importance of ambidexterity (O' Reilly & Tushman, 2008). Lubatkin et al. (2011) define behavioural integration as “senior teams’ wholeness or unity of effort” (p.647). This, they allude, facilitates synchronisation of effort, collaboration, joint decision making together with the management of contradictory tensions and conflicts within their teams. Behavioural integration at the senior management level can also foster social mechanisms such as “trust and reciprocity” (Lubatkin et al., 2011, p.652), further enhancing common vision and team effort.

Leadership may therefore be an independent driver of ambidexterity in an organisation, by virtue of the roles that senior managers play and its impact on the ability of a firm to explore the low-income markets while exploiting the core upper/middle income segments.

## **2.4 Conclusion to literature review**

The literature review has shown the commercial imperative for companies to consider the low-income market for expansion. Since many traditional western markets are seeing a slowing of growth and saturation, the low-income market provides an opportunity to meet the needs of a large, untapped segment of society. The literature also points to other reasons that companies need to consider the low-income segment. Market-based approaches for poverty alleviation afford the poor an opportunity to enter into commercial activity, adding a global sustainability priority for corporate citizens. While previous strategies for low-income markets looked at making profits at the bottom of the pyramid, the new sentiment is inclusive growth and making profits with the bottom of the pyramid.

The literature elucidates that organisational evolution and adaptation over time is crucial for survival and prosperity (O'Reilly et al., 2009). Consequently, companies that choose to approach the low-income market for growth need to adapt and evolve to different and challenging market conditions.



Evidence exists for the complexity that exists in this segment, as market dynamics are very different to what companies are familiar with. Key themes from the literature point to income levels that are low and irregular, geographical challenges, institutional voids, and the informality that dominates this segment, adding to the need to have a different approach from traditional mechanisms learned in core markets. As such, many scholars have agreed that companies need to change aspects of their business operations, such as, innovating products and business models, and changing the business ecosystem completely. A recurring theme was that partnerships are integral to developing sustainable business models for mutual value, a crucial requirement for the low-income markets. The literature is not extensive on how organisations need to change internally in order to meet the needs of these diverse segments. A few considerations that have been mentioned are the need for agility, changes in organisational structures, the ability to tolerate ambiguity and the need for a long-term perspective and mindset, especially with regards to profits.

An organisational dilemma is created when companies need to change from exploiting their core markets to exploring the low-income markets, creating the need for ambidexterity – the ability to do two things at once. Essentially, companies need to be efficient for the traditional markets, while being flexible for the low-income markets. It is clear from the literature that these two markets are different and require different organisational processes, cultures, structures and people, which in turn create organisational tensions that need to be managed by committed leaders. Leaders need to integrate the “exploit” and “explore” business units, articulate a common strategic intent and vision, thus enabling the coexistence of the two units. Being able to explore and exploit demonstrates ambidexterity and organisational adaptability, a requirement for long-term sustainability. Many authors agree that ambidexterity is in fact a dynamic capability, that is, the ability to reconfigure resources and competencies in a changing environment.

The literature demonstrates that there are various mechanisms for companies to achieve ambidexterity. A structural separation of the two business units enables exploration and exploitation in distinct units, with unique cultures, processes and performance measures. This requires leadership to integrate the two units through the articulation of a common vision and intent. The “contextual approach”, as termed by authors, suggests managers need to have ambidexterity as an inherent ability to move between exploitation and exploration using their own discernment and prioritisation. Authors also suggested that leadership may be an independent determinant of

ambidexterity, by creating strategic direction and facilitating the balance between the two, while resolving tensions that may arise.

The literature review points to the need for further investigation on how companies can achieve ambidexterity in the context of dual markets, the upper/middle and lower-income markets, simultaneously. Key considerations for this adaptability are how they relate to the unique characteristics of the low-income market. Whereas exploitation of traditional markets requires efficiency, routine-based activities and a short-term mindset; the low-income market needs flexibility, innovation and a long-term mindset. This view has an implication for both performance measures and resource allocation for each of the units. What requires further insight is how companies are adapting to explore the low-income market, given its unique characteristics and the roles that leaders play in the context of exploring low-income markets. There is also a need to understand what tensions this adaptation brings and how companies are resolving some of these tensions.

The answers to these questions will formulate the basis for understanding ambidexterity in the context of low-income markets, creating a reference point for companies needing to adapt for this segment and those already operating in the low-income market.

## Chapter 3: Research Questions

The purpose of this study is to find out how companies are adapting to meet the needs of low-income markets, i.e., how they are adapting to explore low-income markets which are different to their core markets and for which they have developed specific capabilities and mindsets.

### **Research question 1: How are firms adapting to explore low-income markets while exploiting the upper- and middle-income markets?**

1. How is the low-income market unit structured?
2. How much flexibility is the low-income (explore) unit given?
3. Is performance in the low-income (explore) unit different to that of the (exploit) unit?
4. How are resources allocated between the low-income (explore) and the traditional (exploit) unit?

This research question sought to determine adaptability using the constructs of structure, autonomy, performance management and resource allocation. These constructs were identified during the literature review as needing unique consideration, different to what companies were used to.

### **Research Question 2: What are the internal organisational challenges and tensions that firms face when exploring low-income markets while exploiting the traditional upper- and middle-income segments?**

This research question focused on the tensions that companies experience in exploring the low-income market against the backdrop of having focused historically in the upper/middle income segments. This would add to the insight of companies, while possibly adding depth to the organisational challenges, when approaching the low-income market.

### **Research question 3: What mechanisms are firms using to resolve these tensions?**

This research question focused on how companies were resolving these tensions in order to provide insight and answers to how tensions can be resolved, so as to add to the theory base while being practically relevant for managers.

## Chapter 4: Research Methodology

### 4.1 Research approach

The purpose of this research study was to understand ambidexterity in the context of low-income markets.

The overall research philosophy that guided this study was critical realism and pragmatism (Saunders & Lewis, 2012). Critical realism allowed the researcher to observe how companies are adapting to the low-income market at a surface level, but also what the “relationships and structures” (p.106) beneath this were. A pragmatic philosophy allowed that the most important determinant of the research philosophy be the research questions and objectives (Saunders & Lewis, 2012).

The approach followed was a deductive one, allowing current theory on ambidexterity to be tested to provide insight on how companies were adapting, their challenges and solutions to these challenges. The general theory of both low-income markets and ambidexterity highlighted some of the organisational requirements for adaptability, which this study tested in detail, in order to understand how organisations manage exploitation and exploration for long-term sustainability.

### 4.2 Research design

This was an explorative research study as general information about ambidexterity in the context of low-income markets needed to be discovered (Saunders & Lewis, 2012), and the subject itself was new (Babbie & Mouton, 2003).

Methods most often used in exploratory research include literature reviews, and expert and other interviews (Saunders & Lewis, 2012; Babbie & Mouton, 2003). This research study’s literature review of both the constructs of the low-income markets and ambidexterity provided guidelines for the interview questionnaire. The time dimension for the study was cross-sectional and provided a snapshot of the data at a point in time.

The research was qualitative so that “actors” (Babbie & Mouton, 2003, p.270), who were the insiders, were able to give rich and in-depth descriptions and understanding of events. This qualitative approach was also seen as a “naturalistic” approach with managers in their natural environments to add credibility to their settings as opposed to an experiment or a survey (Babbie & Mouton, 2003, p.270). This allowed the adaptation to low-income markets, challenges and solutions to be observed in day-to-

day settings and hence avoided comments from interviewees to be made in isolation of the environment.

## **4.3 Data Collection**

### **4.3.1 Population and sample**

The population for the study was senior managers within companies that have low-income market strategies together with traditional (middle- and upper-income) market strategies. The study focused primarily on companies in South Africa.

The unit of analysis was managers' perspectives of how their firms were adapting, the tensions that exploration and exploitation presented and how they attempted to resolve these tensions.

The sample of companies approached for interviews had business units operating in both middle/upper income markets and lower-income market segments. Data was obtained from 23 managers in 14 firms, across eight commercial sectors.

### **4.3.2 Sampling method**

As a complete frame of the companies that operate in low-income markets was inaccessible, a non-probability sampling technique was used (Saunders & Lewis, 2012). Specifically, a purposive technique was applied, based on predetermined criteria and reasons. According to Babbie & Mouton (2003) purposive sampling: "increases the range of specific information that can be obtained from and about that context" (p.277). This ensured a richness of data with regards to the research questions. Yu & Tedlie (2007) maintained that "purposive sampling techniques are primarily used in qualitative studies and may be defined as selecting units (e.g., individuals, groups of individuals, institutions) based on specific purposes associated with answering a research study's questions" (p.77).

Purposive sampling provided an understanding of what was happening in these companies with respect to how they are organising units to achieve exploration and exploitation, in order to make logical generalisations (Saunders & Lewis, 2012). In particular, a heterogeneous purposive sampling method was employed that provided diverse characteristics and variation to the data that was collected.

Due to the lack of a sampling frame for this population, companies were identified through the Gordon Institute of Business Science's Innovation Hub, the researcher's network and other online web resources. Senior managers that were selected were

prioritised based on accessibility, and their involvement in exploration or the exploitation business units.

Saunders & Lewis (2009) recommended that for heterogeneous groups, 15 - 20 interviews need to be conducted before data saturation is reached. Data saturation was defined as the “stage where additional data collection provides few, if any, new insights into the research questions and objectives” (p.158). For this study, 21 interviews were conducted. The researcher found that this confirmed to a point of data saturation as suggested by Saunders & Lewis (2009).

### **4.3.3 Data collection instrument**

The data collection instrument was an interview guide designed around the central research questions worded with unbiased language (Saunders & Lewis, 2012). (See Appendix 1). The types of questions used were a mixture of probing, specifying, direct, indirect, structuring and interpreting (Saunders & Lewis, 2012), yet left room for flexibility for the respondent to provide additional information. Interviews lasted between 1 - 1.5 hours per interview. Field notes were taken by the researcher during the interview. The interviews were recorded and transcribed to facilitate data analysis.

The questions for the interview guide were formulated throughout the literature review process. The researcher noted the importance of concepts and factors that were required in the low-income markets, together with elements that were crucial to companies moving from the exploitation of one market to the exploration of another. These were added into the guide.

For Research Question 1, the researcher considered elements that would enable the assessment of how companies were adapting based on the recurring themes from the published literature, such as, performance measures, the degree of autonomy given to units and resource allocation.

Research Questions 2 and 3 were designed to be evaluated from various sections of the guide, as the tensions and resolution of these tensions would emerge from those sections. As a precaution, the researcher also included a specific question on challenges, should this information not be volunteered through the other questions.

### **4.3.4 Data collection process**

Semi-structured, face-to-face interviews were conducted. Denscombe (2007) stated that interviews were suitable for exploration of more complex and subtle phenomena, in order to gain insights into feelings, emotions and experiences. Interviews were

frequently used for gaining data within qualitative studies (Babbie & Mouton, 2003). This methodology was appropriate in the context of ambidexterity as the researcher was able to sense the tensions that exploration and exploitation presented, which aided the narrative analysis process.

The interview guide was designed within a list of related constructs to be explored, yet provided the flexibility for interviewees to volunteer information at the same time. A general direction was therefore set by the researcher, but responses were not restricted to the interview guide, as many respondents were eager to discuss their areas of passion and interest and tell their own stories. Topics were therefore pursued as raised by the respondents (Babbie & Mouton, 2003). Mason (2002) stated that the interviewer had to constantly decide, during the interview process, whether to pursue the topic being discussed by the respondent or to move to another topic, based on the relevance to the research being conducted. John and Lyn Holland (1995, in Babbie & Mouton, 2003) suggested that interviewers assumed the role of the “socially-acceptable incompetent” (p.290), who needed to be taught even the most basic aspects of the situation.

A pilot interview was conducted with a family member, who was employed by a large corporation. This allowed the flow, relevance and format of the questionnaire to be tested. Questions that were repetitive were noted, but kept in the guide for triangulation of responses given, which allowed the researcher flexibility during the interview process. This test allowed the researcher to check that there was alignment with the research questions, and that data could be gathered for all questions.

The researcher attempted to conduct, where possible, two interviews per company, in order to validate and triangulate findings. There were a few points of note regarding the interview process:

- Two of the teleconferences were conducted via Skype as one of the respondents from 3M was based in Turkey and the respondent from Hollard was based in Cape Town.
- The respondent from Cemex (Patrimonio Hoy) was based in Mexico. This interview was conducted via teleconference as the Cemex security policy did not allow Skype teleconferences. The respondent for Cemex requested that the interview guide be sent to him, before the teleconference, so that he could input the answers. The data analysis for this was therefore assimilated from the completed guide, the transcript and the audiotapes. The researcher had to validate the responses from

this respondent during the interview process, to ensure correct understanding due to possible language barriers.

- The interviews with Respondent 3 from Standard Bank and the respondent from Airtel Malawi were conducted on the campus of the Gordon Institute of Business Science.
- All the other interviews were face-to-face interviews at the respondents' offices.
- One of the managers from Hollard and two from Standard Bank had already left those respective companies at the time of the interviews. The respondents from Standard Bank are now in the process of setting up a new company in the low-income market space, while the respondent from Hollard now works in a different company, also focusing on the low-income market segment. Despite having left the employ of the companies above, the interviewees were deemed important for inclusion as they were instrumental in the design and synthesis of the low-income strategies being analysed in this study.
- The researcher believed it important to provide some background of Massmart and Cambridge Foods, to establish an understanding of their relationship to one another. Massmart is a regional management group focusing on the wholesale and retail markets, while Cambridge Foods is one of Massmart's brands, focusing on the low-income market. It exists as part of the Masscash division within Massmart (Massmart, 2012).

#### **4.4 Data analysis**

The data was analysed using mixed, content, thematic and narrative analysis through multiple phases to ensure that underlying messages and structure were evaluated, validated, understood and recorded. Content analysis looked for characteristics and made inferences in words or phrases (Babbie & Mouton, 2003). The interpretive perspective allowed the researcher to “read” the meaning of the interviews, while making inferences within the context of what was being said (Mason, 2002).

The process of data analysis was iterative and followed various stages, which allowed the data to be verified and the researcher to get to know the files well. Mason (2002) stated that familiarity with data enabled coding and indexing, while allowing the “intellectual puzzle” (p.159) of questions and responses to be put together.

As the data analysis advanced, the researcher was able to dissect the content and look for associations and relationships between responses given to different questions,



while at the same time making references to the types of companies and sectors that they belonged to.

#### **4.4.1 Stages of data analysis**

##### ***Stage 1***

The researcher listened to the audio files of the recorded interviews, mapped the content and derived the first order content and themes. The duration of this was approximately one hour and was dependent on the length of the interview. Davies (2007) stated that the words of the interviewee determined the coding frame, while the researcher acted as the “intellectual intermediary” (p. 194) between what was said and how it applied to the context of the topic.

##### ***Stage 2 and Stage 3***

The transcripts of the interviews were electronically coded in Microsoft Word format. Transcripts were converted into tables and codes allocated according to responses. This took between 45 minutes to an hour per interview. In parallel, the content was recorded in a Microsoft Excel file using the Microsoft Word format and the maps from Stage 1. The interview questions were used as a framework to create spreadsheets. These spreadsheets had three columns showing the company name, the content code and the quote from the transcript. Frequency analysis for key words was conducted using word count functions in Microsoft Word.

##### ***Stage 4***

The data was themed and reconfigured per themes to help reduce the data to manageable amounts (Davies, 2007), within the interview questionnaire framework. This process lasted between one and one and half hour per interview.

##### ***Stage 5***

Interviews were listened to again as a data verification process, and lasted as per the duration of the interviews. Silverman (2010), stated that the repeated listening detected previously “unnoted recurring features” (p. 241).

#### **4.4.2 Data analysis in alignment to research questions and questionnaire**

Table 2 shows the alignment between the research questions and the interview guide. Questions from Section 2 of the interview guide were used to inform the answers to Research Question 1. Specifically, the questions relating to structural (No.7) and contextual (No.8) subsections were used to answer this question. Unknown to the

researcher when formulating the questionnaire, most units in the research sample were found to be structurally organised, making the questions relating to contextual units (No. 8 in the interview guide) irrelevant in these circumstances. These questions would have been relevant if units were contextually organised.

Questions from Section 2 were also used to derive the answers to Research Question 2. These were aggregated through the responses to questions from this section and through indirect inferences. Many responses to questions from subsection No.9 also provided data for the challenges that companies face while exploring low-income markets.

Responses to questions from subsection No.9 were used for Research Questions 1, 2 or 3 dependent on the responses.

*Table 2: Alignment between interview questions and research questions*

<b>Section One – Introduction and check</b>	<b>Alignment and relevance to research questions</b>
• How long has your company been operating in both the upper/middle and the low-income market context?	Background
• What are your geographical areas of focus?	Background
• Is the low-income strategy run by a separate unit?	Background
• Is the low-income market unit profitable?	Background
• What other units are present in the company?	Background
• Are they profitable?	Background
<b>Section Two: How are the differing groups organised? (ask questions relating to structural/contextual modes as appropriate to response)</b>	
• <b>Structural</b>	
a. Are the units that focus on traditional and dual markets located together or separately?	Research Question 1, 2
b. Do different people (i.e. people that work in traditional markets is not the same as those in the low-income market) work in these units?	Research Question 1, 2
c. How do people in the low-income market unit feel about their strategies and work?	Research Question 1, 2
d. Are the units controlled through centralised or decentralised means?	Research Question 1, 2
e. What are the linkage mechanisms between units for example cross-functional units?	Research Question 1, 2, 3
f. How are people's performance measured?	Research Question 1,2
• <b>Contextual</b>	Research Question 1 and 2 (although redundant as many units are structurally

	organised).
a. How is work prioritised between the traditional (exploit) and low-income market (explore)?	
b. How are people measured regarding their explorative (adapt) or exploitative strategies (align)?	
c. What flexibility to decide which project to work on is given?	
d. How are workers trained to be ambidextrous?	
e. What is the supportive environment?	
f. What is the business unit culture like?	
g. How is the element of stretch attained?	
h. How is the element of discipline attained?	
i. How is the element of support attained?	
j. How is the element of trust attained?	
k. How are people measured?	
• <b>Leadership</b>	
a. How do senior managers integrate the “explore” vs. “exploit” units?	Research Question 2 and 3
b. Is there understanding of the need to explore and exploit?	Research Question 2 and 3
c. Is there a common vision created for these units?	Research Question 2 and 3
d. How are resources allocated across the units?	Research Question 1 and 2
e. How are the different units incentivised?	Research Question 1, 2 and 3
f. Do you believe that there is behavioural integration at the level of senior managers (unity of effort)?	Research Question 2 and 3
g. What are the biggest challenges that the company faces in trying to explore the low-income market, while exploiting the upper/middle segments? (To be asked if challenges are not revealed earlier)	Research Question 2

## 4.5 Research limitations

The sampling method used for this study was purposive and therefore subject to researcher bias as to which companies were selected. These results therefore are limited with respect to generalisability. As this was an exploratory, qualitative study, it provided broad themes and possible relationships that may exist. Quantitative analysis will add to the robustness of these findings.

Being cross-sectional, this research provided only a snapshot in time. As companies may evolve their strategies over time, a longitudinal study would be able to follow the evolution of these strategies. This would be relevant considering that ambidexterity was viewed as a dynamic capability, which implied that the allocation of resources and unit structures may be fluid with adjustments in response to market needs.

The sample used in this research was based predominantly in South Africa. Even though a few respondents were based internationally, the results may not be generalised. Cultural and business dynamics, unique to the South African market may also therefore influence the reliability of the study. Additionally, this study was deliberately conducted across sectors, to provide a broad-based understanding of the requirements to explore the upper/middle income segments while exploiting the lower-income segments. The trade-off for this sample was therefore that it was not possible to achieve deep sector specific issues, challenges and adaptation strategies.

The unit of analysis for this study was the perceptions of managers that worked in either the traditional or low-income market units within the companies. The limitation that this provided was that it did not take into account the perspectives of leaders that operated at a higher level and between both the “exploit” and “explore” business units.

## **Chapter 5: Research Results**

### **5.1 Introduction**

The previous chapter looked at the methodology of this study and the process of data collection and analysis. This chapter presents the research results, organised according to the research questions of Chapter 3.

Direct quotes from the interviews are presented in a table format. When there are more than one respondent from a company, this is numerically shown, for example, Company X (1); Company X (2), to maintain confidentiality. In certain instances names that were mentioned by respondents were also removed.

### **5.2 Research Objectives**

The objective of this study was to understand how companies were adapting to exploration of the low-income markets, specifically if they had previously focused predominantly on the upper- and middle-income segments as their core markets. Additionally, the research investigated the tensions that the companies were presented with within the context of exploring the new market and how these tensions were being resolved. These objectives were defined for two reasons. Firstly, in order to add to the body of knowledge around ambidexterity and more specifically, ambidexterity in the light of low-income markets. Secondly, to create a meaningful and practical approach for companies to use in their pursuit of low-income market strategies.

### **5.3 Summary of companies interviewed**

Twenty-one interviews were conducted across eight commercial sectors, in 14 companies. In total, 23 respondents added to the dataset for this study; as some interviews had two respondents. All companies had a strategy in the upper/middle and lower-income markets. Table 3 provides a summary of the companies, sectors and number of respondents interviewed.

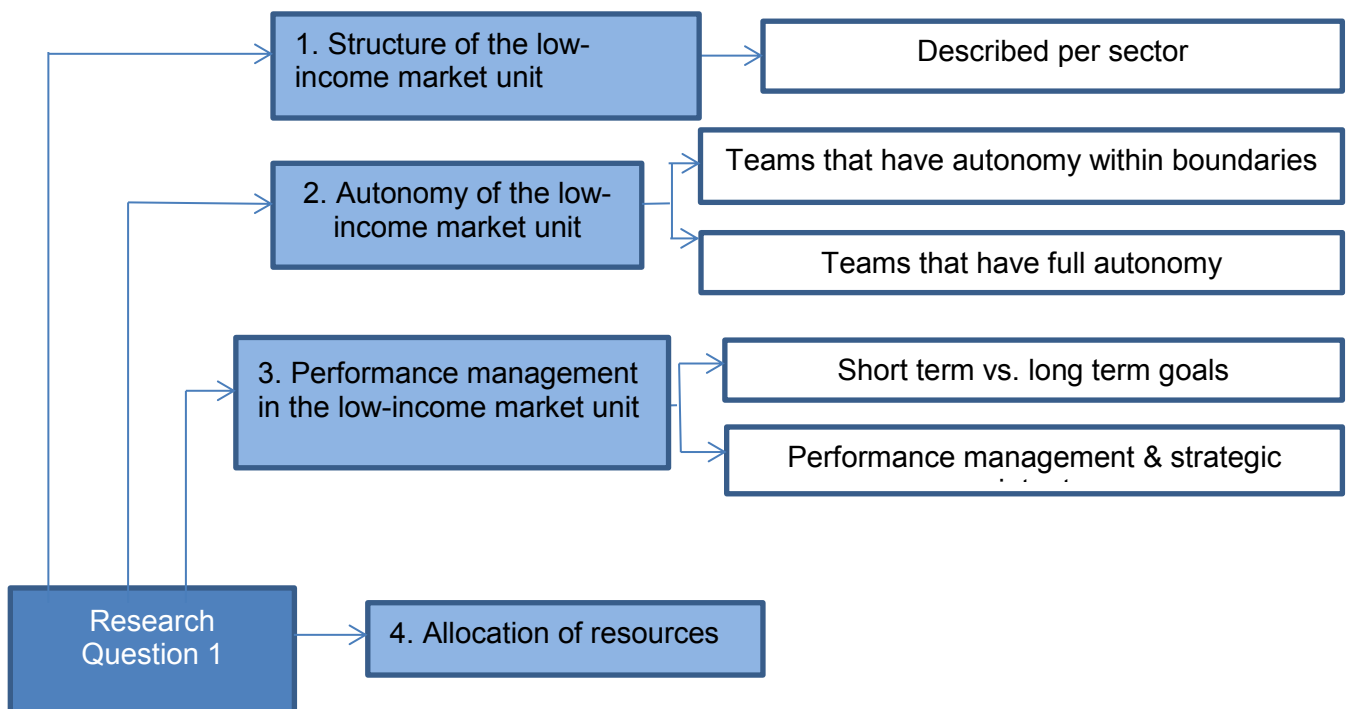
Table 3: Summary of description of companies

No of companies	Names	Sector	No of interviews	No of respondents
1	ABSA	Financial	1	1
2	Nedbank	Financial	2	2
3	Hollard	Financial	2	2
4	Standard Bank	Financial	2	3
5	First National Bank	Financial	2	2
6	Blue Label Telecoms	Telecommunications	2	2
7	Airtel Malawi	Telecommunications	1	1
8	Nestlé	FMCG	1	1
9	Massmart	Retail	2	2
10	3M	Diversified technology	2	3
11	McCain	Perishables	1	1
12	RTT	Logistics	1	1
13	Cemex(Patrimonio Hoy)	Construction	1	1
14	Pepsico	Perishables	1	1
			<b>21</b>	<b>23</b>

## 5.4 Research Question 1

**How are firms adapting to explore low-income markets while exploiting the upper- and middle-income markets?**

Figure 2: Map of Research Question 1



### 5.4.1 Structure of the low-income market unit

All fourteen companies in this research sample chose to structurally separate the low income market team from the core business units. Only one unit, that of the 3M affiliate in South Africa followed a contextual model, and this was mostly due to resource constraints.

Table 4: Unit structure of companies interviewed

Company Name	Structural Units	Contextual Units	Comment
ABSA	Yes		Cross-functional matrix (product houses)
Nedbank	Yes		Cross-functional matrix
Hollard 1	Yes		Cross-functional matrix (product houses)
Standard Bank	Yes		Cross-functional matrix (product houses)
First National Bank	Yes		Cross-functional matrix (product houses)
Nestlé	Yes (sales)		Cross-functional matrix (marketing)
Pepsico	Yes	No	Cross-functional matrix (support functions e.g. R and D)
Airtel Malawi	Yes	No	
Blue Label Telecoms	Yes	No	
Massmart	Yes	No	
Cemex (Patrimonio Hoy)	Yes	No	
3M	Yes (international units)	Yes (South African unit)	
McCain	Yes	No	
RTT	Yes	No	

However, companies had two main approaches as to how they were separating their low income units. These are detailed below.

The companies below have **fully separated** low income market units with minimal integration between the “explore” and “exploit” units:

- Patrimonio Hoy (Cemex(Patrimonio Hoy))
- Massmart & Cambridge
- Airtel Malawi

- Blue Label Telecoms

On the other hand, the following companies have ***partially separated low income units*** requiring significant integration and alignment mechanisms.

- Nedbank
- Standard Bank (in its present form)
- FNB
- ABSA
- Nestlé
- Hollard
- Pepsico
- RTT
- 3M (international units)
- McCain

### ***Financial Sector***

From the table above, it appears that the companies in the financial sector have structured their units similarly. They have followed a structural approach where teams are organised in distinct separate units, with partial separation. Most of these companies have cross-functional units in a matrix-type structure, within the product development houses. There is diversity in the approach of these companies. While one of the financial institutions has dedicated people allocated within the product division to the low-income segment, two of the other institutions have team members in the product houses that work across the different segments.

#### ABSA

*“And now if I go into a product house meeting, they actually organise the product house into segments. So they say ‘... you are responsible for the inclusive banking segment, so you run the products that are mostly aligned to inclusive banking...’”*

Two of the companies had initially structured the low-income unit separately from the parent company. The approach of reintegrating the unit back into the main company did not succeed in both cases, as evidenced by this quote from the ABSA respondent:

*“And what they did is they actually then took this flexi-banking division and pulled it into the product houses, which was strategically a major mistake, because it lost its flavour of a segment cross-cutting across those.”*



All financial companies in the sample had deliberate integration and alignment mechanisms between the “explore” and “exploit’ units”.

According to the respondent from ABSA, for organisational learning to occur, the low-income unit should be located within the firm:

*“But the counter argument is unless you do that inside a big organisation you never get the learning in the organisation! So you can do it outside, the learning never comes back.”*

### **Telecommunications Sector**

Two companies were grouped as telecommunications, even though, strictly speaking, one of the companies also offered prepaid products and other services. The approach in both of these companies was distinct structural units, with integration only where synergies existed and where it made business sense for these companies. Both companies had initiated their business operations in the low-income market segment.

*“So the customer interface, fundamentally, is what is critical in the business. So wherever the customer is, those groups of people only focus in that area.”*

### **Retail Sector**

Massmart was the only retail company interviewed. This firm has differentiated structural units for the market segments with minimal integration and contact across business areas that oversee different customer groups. This company was very clear that each member company of the group was responsible for its own segment and that these companies must intensely focus on their particular segment. Integration, where it happened, was directed by senior leadership. An example of this is where the company may purchase merchandise as a group.

*“So what we have found working now is we have got a focused approach, segment-specific with different teams.”*

### **FMCG, Perishables and Diverse Technology Companies**

The three companies that fall into this grouping had different approaches to unit structure, as they had different circumstances.

Nestlé was structurally organised, having a sales team that focuses only on the low income market, while the marketing teams focus on all market segments.

3M had international operations in low-income markets, like China and India, where the low income teams were structurally differentiated having dedicated units in these regions. The local South African affiliate has a single team however, looking after both

market segments i.e. they are contextually organised. The main reason for this was a headcount freeze at the time of the interview.

McCain, a food company, has a structurally separate low income team. This unit was fairly new, having been in operation in the low-income segment for 18 months.

Pepsico initially had a single team for both market segments (contextual) and recently changed their approach to a structural units focusing on the low-income market. They have cross-functional team members where needed such as in the research and development department.

### **Logistics Sector**

RTT is a logistics company, whose low-income market unit, situated outside its core operations, was initiated 22 months ago. The company had a single team member overseeing the low income market at the time.

### **Construction Sector**

Cemex had a structurally differentiated and independent unit facing the low-income market, called Patrimonio Hoy. The degree of independence that this unit had is indicated in the following quote from the manager of this unit.

*“Okay, well we have a lot of independent quality, we have to understand that in 1999 when Patrimonio Hoy was conceived, Cemex was thinking about how much he knows about the low-income market and they realised that they didn’t know anything about it – well not too much about that segment. And they sent a group of people to that segment. Well that initial statement of not knowing the low-income market, that even though the spin offs are obvious, let us operate in a very independent way, more independent than any other business unit in Cemex. Right now we are trying to integrate our ERP, to the Cemex ERP, to understand how independent we are, and we need a situation about how we are organised.”*

#### **5.4.2 Autonomy of the low-income (explore) market unit**

The responses to the question of how much autonomy the low-income unit was given were analysed using the respondents’ answers to questions relating to the words: “flexibility”, “autonomy”, “decentralised”, and “centralised”. The words “command and control” were used by one respondent six times and was analysed to reflect control structures that existed in one of the financial institutions. The researcher associated these words with “bureaucracy”, “long decision-making processes” and “hierarchy”. The analysis of this section was therefore done in the context of the above words from a content perspective. However, narrative analysis was also necessary as sometimes

these words were not used, but the same meaning was conveyed. The theme of autonomy had been classified to reflect:

- Units that have full autonomy
- Units that have autonomy within boundaries
- Respondents' recommendations regarding autonomy

*Table 5: Word counts related to autonomy*

Word	Frequency	Respondents
Command and control	6	1
Governance	13	3
Decentralised/Centralised	30	3
Autonomy	15	5
Freedom/Flexibility	17	4

### ***Companies whose units have full autonomy***

Table 6 below illustrates the quotes from companies that seemed to articulate more autonomy than the other companies. It was important to note:

- RTT is in a pilot phase and this may be partly the reason for this degree of independence.
- Within the South African 3M affiliate, the technical unit articulates full autonomy as this is where product innovation stems from, illustrating the innovative culture that this company portrays.
- The response from Standard Bank is a reflection of the initial start-up phase, when the low-income unit was completely separate from the rest of the bank.
- Cambridge Foods, which forms part of the Masscash group within Massmart, seems to be in an evolutionary state between decentralised operation and centralised operations *within Cambridge only*. Within the group of Massmart, they have full flexibility to respond to customers' needs as long as they remain in the broader group strategy. This is illustrative of the fully structural approach that the group has taken.
- Patrimonio Hoy, within Cemex (Patrimonio Hoy), is structurally separate and also has full independence within operations. The latter two companies, with almost complete independence are also managed as separate brands from the parent company.

Table 6: Quotes from companies that indicated flexibility and autonomy.

Company	Quote
<b>RTT</b>	<i>I think you know that is one of the greater things about it, is that I have changed the pilot, half the times we try to introduce something, some product, we have changed our working hours, we have changed our advertising strategy, you know, we have really done a lot of things within the pilot. We have done customer surveys and client interviews, so I have been given full autonomy for the project.</i>
<b>3M (local)</b>	<i>"..on the technical side the guys have got carte blanche. So there is nothing that is out of bounds or off limits. It is merely about how real and sustainable is this?"</i>
<b>3M (international)</b>	<i>"I think it is probably the only way that they are able to get going and be successful, if they are given full autonomy - of course within very broad parameters".</i>
<b>Standard Bank</b>	<i>"We had so much free range it was not even funny, for as long as we were very small, as soon as we started getting a bit of traction and started putting on big numbers of customers, the bank quickly realised that gee-whiz this model actually works, so it could possibly work."</i>
<b>Hollard (1)</b>	<i>"Pretty much, pretty much. We obviously tried to have a common belief of where we wanted to go to, but they had the ability to basically drive forward initiatives of their own and represent the team in different environments."</i>
<b>Hollard (2)</b>	<i>"Ja, the guys are quite flexible, I think maybe sometimes in the risk we are not, but that is fine, that is okay."</i>
<b>MassMart</b>	<i>"Well, we hope they do, and we will respond to it. You know we would rather have traders than keepers."</i>
<b>Cambridge</b>	<i>We are somewhere in between but what I would say is right now we are more decentralised than other supermarket chains.</i>
<b>Cemex (Patrimonio Hoy)</b>	<i>"There is to a certain extent centralised but the operation is decentralised, but we have money to operate as a business unit and that is the way in which we are centralised; they give us the resources to operate and we have to go and check the strategy. The operation is running decentralised though." "Well that initial statement of not knowing the low-income market, that even though the spin offs are obvious, let us operate in a very independent way, more independent than any other business unit in Cemex (Patrimonio Hoy). Right now we are trying to integrate our ERP, to the Cemex (Patrimonio Hoy) ERP, to understand how independent we are."</i>

### **Units that had flexibility within boundaries**

Some respondents indicated that the employees within the low-income market segment were given freedom and flexibility to respond to market needs, however, that it was necessary to create boundaries that acted as controls on elements of pricing and margin. Both companies in the telecommunications sectors responded that pricing was an important guide that was given to the units.

*Table 7: Quotes from companies that indicated flexibility within boundaries*

<b>Company</b>	<b>Quote</b>
<b>Nestlé</b>	<i>“Pricing is guided”</i>
<b>Blue Label Telecoms (2)</b>	<i>“The only thing we have got blanket is a price list that goes into independent, and that price list which consists of multiple tiers is based on turnover of customer. But besides that everything is customised.”</i>
<b>Blue Label Telecoms (1)</b>	<i>So innovation up to a point, in the sense that people come back and say ‘You know what, the following things we are doing are not working, can you help me?’ And then the group gets together and we decide on a new strategy and we will develop new products/solutions for that and then implement. Then they sell very tightly within that boundary. We don’t let the sales people go out and just go willy-nilly.</i>
<b>Airtel Malawi</b>	<i>“Okay, the individual teams work on it based on the market segment and also we usually have a guideline from our head office which tells you okay, let’s say you are a market leader, this is how you should price. If you are a market follower this is how you should price. So based on that, like the group would work on pricing, different pricing scenarios, and they share with the team to validate them, but generally it is done by the segment.” “Okay, internally, on the mass offerings I think sometimes we take a bit of time to launch something because of the different levels of approval that we have to go through.”</i>
<b>McCain</b>	<i>“So ja, do we have all the autonomy in the world? I would say to sum it up, it is ‘freedom within a framework’. We are kind of being given, as long as it all aligns to the global strategy of doubling the business and there is profit enabling and delivery on consumer values – I mean I think those are..... But largely it is still locally executed.”</i>
<b>Nedbank</b>	<i>“We are bound by a lot of regulation internally and externally” “But I suppose our boundaries are a little bit more flexible but they are still not as flexible as I think we need to be.”</i>
<b>Pepsico</b>	<i>“There is, but they do have check points so if they are going to launch something it is going to have to be at a specific margin.”</i>

### **Respondents' recommendations regarding autonomy**

Respondent (1) from Standard Bank (ex-employee) mentioned the words “command and control” six times. Even though this respondent was the only person in the sample to mention these words, the researcher found this significant for two reasons. The first is that there was emotion and emphasis on these words during the interview, and the second is the context in which the words were mentioned. These were interpreted to reflect inflexibility and centralised decision making where the company was portrayed as “the big beast”, a phrase that was mentioned five times by the same respondent. Narrative and content analysis revealed that “command and control” are not desirable as it resulted in longer times to make decisions and to implement change.

*Standard Bank (1): “So again what I think is ideal is that I think completely especially if you are doing it as part of a big corporate, is a very lean decentralised structure with relatively flat organograms because all that does is encourage decision making which usually happens very quickly and then you can implement or change very quickly.”*

*“Start the business with a brand new name or under a new company which is obviously still owned by the bigger beast, but you allow the new company to set up all its processes and structures to effectively do what they need to do.”*

*“The most important thing to make your BOP business work is to separate that business completely from the command and control structures of the parent company, now that is one thing to say it, but you still need the parent company to relinquish that command and control to allow you to do what you do, so essentially that was probably the biggest stumbling block.”*

Standard Bank (2) mentioned the word “governance” eight times and emphasised that independence in governance and decision making, as the first important requirement for exploration of the low-income markets.

*“I think firstly it's governance and from a governance perspective it's what you refer to as the structural solution, I think what is important in your structural solution is that the decision-making process is completely divorced from decision making and governance of your business as usual.”*

Respondent (3) from Standard Bank also alluded that bureaucracy, from lack of autonomy, does not create an enabling environment for the low-income unit.

*“Initially, because one of the comments I made to ... is if you want to build this within Standard Bank's stuff right now, it is never going to work; bureaucracy will kill it. And exactly what killed it in the end was bureaucracy. So we worked totally separately, we didn't have initially a very huge management structure, it was very lean, six of us at head office ...”*

### 5.4.3 Performance management in the low-income market unit

Two focal themes emerged regarding performance management. These were:

1. Long-term vs. short-term measurements.
2. Performance management in relation to vision and strategic intent.

#### ***Long-term vs. short-term measurements***

A focal sub-theme that was expressed regarding performance management was the issue of long-term goals versus short-term goals, mentioned by seven respondents from five companies. These respondents expressed that short-term measures still dominated managers' key performance indicators.

Two respondents, those from Nedbank and Nestlé, mentioned that even though long-term vision was clear, managers were still measured by short-term metrics. It appeared that managers chose to invest and pursue areas of growth that were quicker and easier in the short term, as they were measured on turnover for that particular year. Additionally, measuring people and units on conventional measures of profitability, posed challenges as these units and strategies may take a longer time to reach scale and value.

Only two respondents, of the sample, mentioned that their units were measured in ways different to the upper/middle income units, and longer term. The manager from Nestlé mentioned that their sales staff was measured on outlets that were covered. Cemex (Patrimonio Hoy) measured their low-income unit on how many people were impacted rather than bags of cement sold.

*Table 8: Quotes regarding long-term vs. short-term measurements*

Company	Quote
<b>Nedbank (1)</b>	<i>"It's still dominated by what I do this year versus what I do in 10 years' time that is the point." "It's an evolution; we are not close to where we want to be there."</i>
<b>Nedbank (2)</b>	<i>"So when you look at the profitability the branches are not profitable as they stand, but it is because we are measuring them differently. Our battle is to try and say 'okay, this is a long term initiative for the sustainability of the company – and the country ultimately.' We are going to have to say in the long term – and I firmly believe we will get them to a profitable state – but once we understand what all the levers are, and that is going to take time, it is going to take a lot of time to change mindsets here as well, because people look at you on your comparisons as you know; the shareholders want value, ultimately everything rolls up, and so while the board might say 'yes,</i>

	<i>this is strategically what we need to do' if it is going to affect their bottom line it is a very different discussion."</i>
<b>Hollard (2)</b>	<i>"So anyway, the trickiest thing to address is changing the metrics to allow a longer lead time to get something up to scale."</i>
<b>Nestlé</b>	<p><i>"I think again if it's a broad strategy you have to understand where you find growth, so putting it as key KPI's because your KPI is just turnover, you are not saying maybe I need to invest here or I have an imbalance of investment but the return will come later, you are looking at immediate returns for that financial year and saying I am not going to invest too much in the bottom pyramid because I can get growth in the middle and the top anyway."</i></p> <p><i>"I think, this is where it is interesting is when senior management talks about things we talk medium to long term but our people on the ground talk short term which is sort of the way I guess it is supposed to be, you are giving them direction for medium to long term, but how do you cascade some of these things into short term."</i></p> <p><i>"so we are saying actually guys you don't have to get your sales target, fix the other hygiene factors and the sales side will come, so it is a different way of doing it, but that is what we have done and it has been hard because even the distributors we worked with were not comfortable with this because what they would do is go and sell to the bigger stores, get there target but they won't get the penetration that I want, so I tell them actually I don't care how many sales you make, I care how many outlets you cover."</i></p>
<b>Massmart</b>	<i>"Well let's establish that all those business units are incentivised. There is a very clear incentivisation in terms of short and long term at a senior level. So you will always get – when I say shorter and long term you will get performance for immediate budgetary requirements, and the long term is a share in the wealth within Massmart. So everybody has the view of it is very important for me on short term to deliver on my performance, at the same time I earn shares out of the group."</i>
<b>3M (1)</b>	<i>"Now what is missing in the 3M world is that you have got the strategic intent from the corporation, everybody at senior leadership buys it – whether it is paying lip service to it or really genuinely believing it; they are saying all the right mantras. Reality is that it comes down to the country MD: if he finds he is unable to meet those metrics I have just mentioned by giving sole focus or giving lots of focus to the entry level strategy, he is not going to do it and he is not going to be challenged as long as he is delivering on his mandate; in other words delivering on income, on the turnover."</i>
<b>Cemex (Patrimonio Hoy)</b>	<p><i>"Well the traditional way to measure the performance of a group of people in this particular way of doing business is maybe in the operative, this may be more short term than the way they measure it."</i></p> <p><i>"As an example maybe the questions they make to us is 'how many pounds of cement do you sell?'"</i></p> <p><i>"The first question is 'how many people did you impact this on?'"</i></p>



### ***Performance management in relation to vision and strategic intent***

The researcher found that even though some companies had clearly articulated a vision to address the needs of the low-income markets, true strategic intent may not have been present.

Two managers mentioned the words “lip service”. The researcher interpreted this to mean that true intention and commitment might not exist. Leaders may be publically expressing the vision of exploring the low-income markets, yet managers were still being measured by short-term metrics, therefore influencing their behaviour to reach short-term goals.

One of the managers also cited that as the middle- and upper-income markets could still be penetrated, this was what managers focused on to reach goals quickly.

*Table 9: Quotes regarding performance management and strategic intent.*

<b>Company</b>	<b>Quote</b>
<b>Nestlé</b>	<p><i>“It’s KPI and that is a challenge because PPP is a vision it’s not a KPI, KPI is top line growth, bottom line growth and market share but I think nobody has understood yet enough.”</i></p> <p><i>“It’s easy, if you look at middle to upper income percentage of basket spend is more let me try and crack the top and make more money quicker, that is the issue.”</i></p>
<b>ABSA</b>	<p><i>“Ja, but also we must be honest about stuff. There is a lot of lip service to these things and I am being very honest here, in general. I always ask: if you really have a triple bottom line and you have an economic downturn, what do you cut first? Do you cut what you pay yourselves, or do you cut what you do in your CSI programmes? What do you cut first? And you can test a lot of companies with brilliant programmes like that; the real thing is that people still do not understand that by really living the values they will be far more profitable on the finance side than by focusing first on profit. And that has not been grasped as yet.”</i></p>
<b>3M(1)</b>	<p><i>“Now what is missing in the 3M world is that you have got the strategic intent from the corporation, everybody at senior leadership buys it – whether it is paying lip service to it or really genuinely believing it; they are saying all the right mantras. Reality is that it comes down to the country MD: if he finds he is unable to meet those metrics I have just mentioned by giving sole focus or giving lots of focus to the entry level strategy, he is not going to do it and he is not going to be challenged as long as he is delivering on his mandate; in other words delivering on income, on the turnover.”</i></p>
<b>Hollard(1)</b>	<p><i>“...a completely different matter when you come down to the middle managers, when they are basically measured on profitability for their area. And if something is less profitable or is taking a long time to get there, they lose interest.”</i></p>

#### 5.4.4 Allocation of resources

Questions focused on how resources were allocated between the low-income (explore) and the traditional (exploit) units. On review of the data on resource allocation, the researcher was of the opinion that even though some of the responses could be themed and grouped, this might compress the responses and their content. The resources allocation approaches were varied. Some of these responses can be summarised as:

- The use of social innovation funds.
- Allocation of funds from parent group to low-income market unit which then has autonomy to use resources as required.
- Resources were allocated on merit of the business case presented.

Table 10: Quotes regarding resource allocation

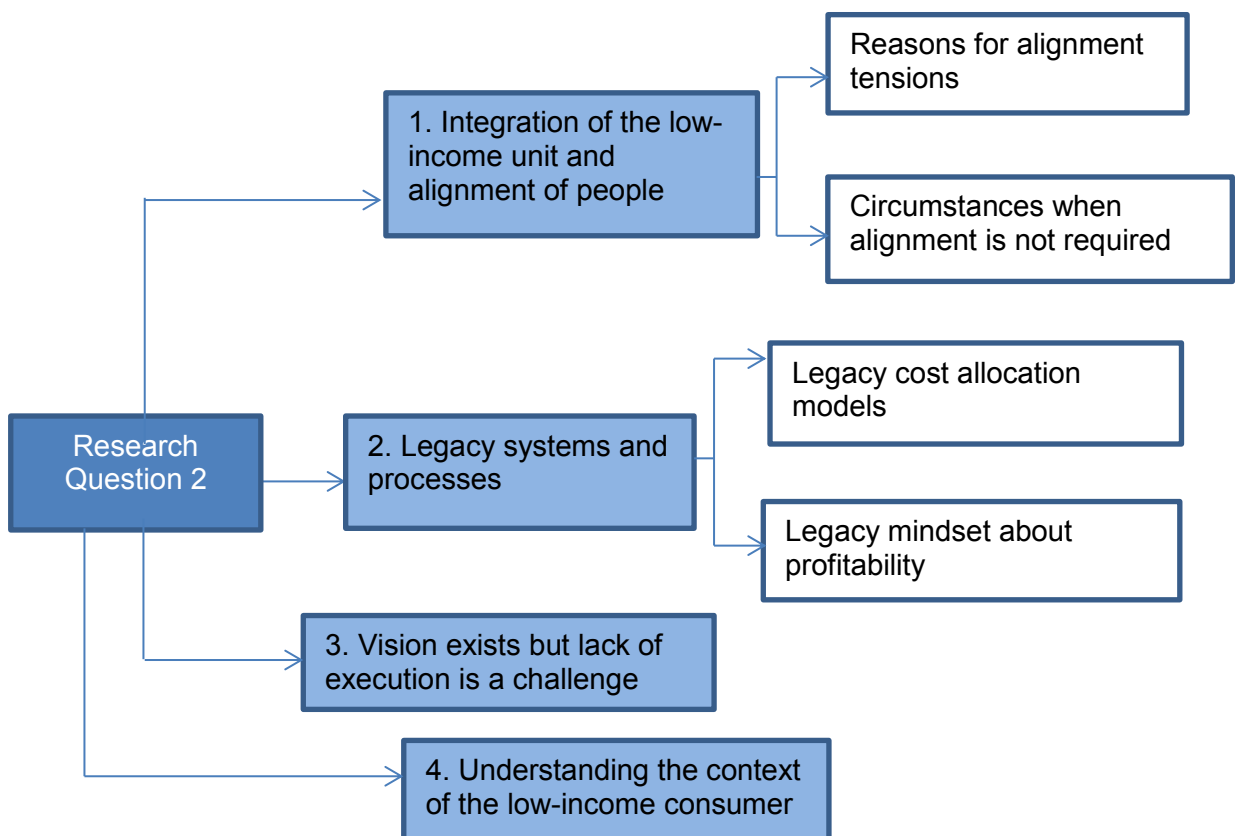
Company	Quote
<b>BLT(2)</b>	<i>“And it also depends on my customer because some of your customers will say ‘Blue Label I am looking for this’ and you go and develop it and see if the business case makes sense and you will bring it to them. Some of your other customers will say ‘You come and tell me what I need to do’.”</i>
<b>Hollard (1)</b>	<i>“Commercial case: the one challenge here is that often a lot of these initiatives will be profitable, but the time lines may be slightly longer than for other initiatives; and that is tricky. That is very tricky. So you may need to have some kind of agreement that you will accept a lower kind of profitability for this business because of the long term potential or the other kind of benefits that may come from that. So that is a much harder negotiation.”</i>
<b>Massmart</b>	<i>“You see new stores no chain can actually open a new store; it has to come here. So they propose it, but the allocation of capital happens within Massmart. So nobody can just run off and open stores, they can propose stores and the allocation of capital is here, and that is where the team works and says where is the best return for our money.”</i>
<b>Nedbank (2)</b>	<i>“Our role is largely based on kind of matrix managing in the organisation. So it is up to us to go and negotiate and source the kinds of resources that we need. I think there is a certain amount of emphasis placed on strategic imperatives and then it becomes an all hands on deck approach, whereas mine because it is a more long-term one, I kind of need to deal with what I get allocated. So sometimes I get bumped down the queue, sometimes not, but that is part of the job. I also understand that obviously from a bigger picture there are certain strategic imperatives that need the resource, so therefore they will be re-allocated.”</i>
<b>Patrimonio</b>	<i>“They give us the resources to operate and we have to go and check</i>

<b>Hoy</b>	<i>the strategy. The operation is running decentralised though.”</i>
<b>ABSA</b>	<i>“Barclays have a social innovation fund, and the rule of the social innovation fund is that it must be a commercial project but it must have a social innovation side.”</i>

## 5.5 Research Question 2

**What are the internal organisational challenges that a firm faces when exploring low-income markets while exploiting the traditional upper- and middle-income segments?**

Figure 3: Map of Research Question 2



### 5.5.1 Integration of the low-income unit and alignment of people

Aligning people, at different levels of the organisation, to the strategy of penetrating the low income markets appeared to be one of the most significant complexities that the organisations faced. The researcher deduced that the reason for this was due to the significant mindset shift required to operate in this new segment. The word “mindset” was mentioned 46 times by 10 respondents.

Alignment was a challenge especially in partially separate units. The presence of cross-functional unit members within the partially separated units meant that all employees needed to buy-in and support the vision of exploring both markets. Companies that displayed this tension were the financial sector companies, Nestlé and 3M, who had core operations in the upper/ middle-income sector first.

These tensions existed mainly within cross-functional unit members, who were part of the matrix structure, and who were therefore supporting both the core and low-income units. The alignment issues seemed to be centred on a few themes listed below:

- Lack of focus and commitment to the low-income market.
- Lack of understanding as to why the company was approaching this segment.
- Resistance to changing from known ways of operating, to new ways of achieving goals that were more suited to the needs of the low-income market.

*Table 11: Quotes regarding the alignment of people or the different levels of the organisation*

Company	Quote
<b>Hollard (1)</b>	<p><i>“..And then it is a case of trying to get more of a buy in and energy from the different ... I guess the other parts of top management. And as I said to the end there was a mix, there were a few of them who were extremely committed, and others who didn’t really see it as being so relevant for them.”</i></p> <p><i>“But you also had to engage with other parts of the business which weren’t so interested or focused on this environment. And it was actually quite hard going trying to convince them and entice them into this space.”</i></p>
<b>Hollard (2)</b>	<p><i>“So then you also have in the organisation, different levels that don’t understand why you are doing certain things.”</i></p> <p><i>“Because things did need to change, from administration to policy wordings to approach to pricing. Because internally they didn’t have a lot of that skills or understanding.”</i></p>
<b>Standard Bank (1)</b>	<p><i>“You get the same mind-set of people running routine business and people running new business.”</i></p> <p><i>“The amount of legacy that is in a big corporate you have to deal with</i></p>

	<i>on a daily basis as well and that always becomes the difficult thing.”</i>
<b>ABSA</b>	<i>“How do you get a positive interaction between the conventional way of doing things and the new way of doing things, because if you run them separate you ruin both.” “...how do you drive clients to change behaviour? First changing the behaviour within the organisation and then changing the behaviour outside!”</i>
<b>Nedbank (2)</b>	<i>“I think human nature is one of being resistant to change, so we have done things for 20 years now why should we change? To be fair that is slowly changing because I think as a natural evolution of a corporate you are going to get new blood coming in and people with different ways of doing things.”</i>
<b>3M (2)</b>	<i>“..from a technical point of view, let’s say for example we have identified an opportunity which we believe is going to be the next best thing for the low-income group, let’s say it is something which we have which is going to make it even more affordable and literally this thing will cost you a cent or two cents for example. In the selling of that concept to the marketing and to the business side is where the challenge lies; that is quite a tough one.”</i>
<b>Nestlé</b>	<i>“We are not getting the right support and we push back all the time in getting that right support.”</i>
<b>Pepsico</b>	<i>“I think from a total business perspective it was just confusion, because I think change will do that, people go ‘well I don’t understand this, what are you doing?’”</i>

### ***Reasons for alignment tensions and challenges***

The researcher identified reasons for lack of alignment of people. Reasons came across strongly were:

- Long-term vs. short-term mindset and thinking, due to the manner in which managers were measured. Linked to this was the fact that the middle and upper-income segments may still have potential to make profits quickly.
- Strategic intent and vision by all members of the company to enter the market may not be present by all employees.
- Resistance to change seemed prevalent in one company where success had been achieved in the low-income market, by default. This resulted in complacency and resistance to adopt new ways of thinking. A second reason articulated for resistance to change was the perception that people that had been in the company for long were resistant to new ways of thinking.

Table 12: Quotes regarding reasons for alignment challenges

Company	Quote
<b>Nestlé</b>	<p><i>It's easy, if you look at middle to upper income percentage of basket spend is more, let me try and crack the top and make more money quicker, that is the issue.</i></p> <p><i>"I think again if it's a broad strategy you have to understand where you find growth, so putting it as key KPI's because your KPI is just turnover, you are not saying maybe I need to invest here or I have an imbalance of investment but the return will come later, you are looking at immediate returns for that financial year and saying I am not going to invest too much in the bottom pyramid because I can get growth in the middle and the top anyway, so why would I put money into it now, it's not saying that in 10 years' time those people will have access to my product or they will consume my brands."</i></p>
<b>Hollard (2)</b>	<p><i>"But at the moment the middle market is so big and is sustaining a lot of the companies, so they don't see the need to actually go and innovate and do these different things."</i></p> <p><i>"Because they found they were already big in that space they then felt they didn't have to do anything more."</i></p>
<b>3M (1)</b>	<p><i>"Reality is that it comes down to the country MD: if he finds he is unable to meet those metrics I have just mentioned by giving sole focus or giving lots of focus to the entry level strategy, he is not going to do it and he is not going to be challenged as long as he is delivering on his mandate; in other words delivering on income, on the turnover."</i></p> <p><i>"People who have been in 3M for a long time, are ones that really struggle with this concept, because we have been famous for supplying to the prestigious few, and we have been very fortunate in that we have made fantastic profits and so that has been the modus operandi for many, many years and that..., so this mindset completely challenges people that you know have come through the ranks."</i></p>
<b>Nedbank (2)</b>	<p><i>"Issues that we face are that this is not a one-day game. So you have got to look at it in a long term sense. We, specifically Nedbank, but you could say the same for all the banks, for a very long time we have not touched that market, purely because the way we measure profit means that that is an unprofitable market."</i></p> <p><i>"..I think the short term kind of incentives is the other one."</i></p>
<b>Hollard (1)</b>	<p><i>"A completely different matter when you come down to the middle managers, when they are basically measured on profitability for their area. And if something is less profitable or is taking a long time to get there, they lose interest."</i></p>

### ***Circumstances when integration or alignment were not required***

Three respondents felt that integration should be kept at a minimum. In analysing this finding, some similarities between companies became apparent. These companies had structurally separate units with distinct customer interfacing units for each of the segments. Only some of the processes in these units were integrated and where it made commercial sense.

Two of the companies, Airtel Malawi and BLT, had started their businesses in the low-income segment first, before approaching the upper- and middle-income segments.

*Table 13: Quotes supporting circumstances when integration was not required.*

<b>Company</b>	<b>Quote</b>
<b>Massmart</b>	<p><i>“Now we manage this thing quite uniquely in that we do buy together, but you will never know that, and the way we buy together is our USB. That is our unique proposition.”</i></p> <p><i>“..where we can, wherever it is not customer interfaced, and it makes commercial sense, we will integrate.”</i></p> <p><i>“...this company would resist integration completely – even Wal-Mart coming in – they had a view of a one dimensional view of life – and this organisation will push back very fast.”</i></p>
<b>Airtel Malawi</b>	<p><i>“...usually it is when there is something that can benefit both.”</i></p>
<b>BLT (1)</b>	<p><i>“So silos, they are good and bad. So silos are good in the sense that people know what the boundaries are that they have to look after and worry about. Silos are bad because then people only worry about those boundaries. So what we do at the heads of the silos is that we make sure that the people driving them are well integrated and a head level.”</i></p>

### **5.5.2 Legacy systems and processes**

The researcher defined legacy systems and processes, as learnt processes and routines created for exploiting the upper/middle-income segment. This definition was arrived at by understanding the context in which these words were used. These systems and processes seemed to create tensions when trying to explore the low-income market and resulted in lack of flexibility and resistance to change. The researcher deduced that traditional (legacy) systems like technology platforms used in core markets, did not work in the exploration of low-income markets. The use of legacy practices stemmed from a lack of understanding of the low-income consumer.

Table 14: Quotes regarding legacy systems and processes

Company	Quote
<b>Nedbank (2)</b>	<i>“The problem is getting our internal processes aligned, and understanding.”</i>
<b>Hollard (2)</b>	<p><i>“And the systems are not flexible and require lots of development and that sort of thing to get them to the right point. So then you also have in the organisation, different levels that don’t understand why you are doing certain things...”</i></p> <p><i>“..it is sort of risk issues where people are not willing to relax..”</i></p> <p><i>“Now what happened is when we bought this business we started implementing our corporate rules into this business, which will totally kill it.”</i></p> <p><i>“So now our risk guys didn’t understand that and we said to them ‘how can you have a seven page claim form?’ I mean you are faxing these things, right, and they wanted signatures on every page to see if the signature on page 1 matched page 5 for fraud prevention. I understand that you have to prevent fraud, right, but not to the level where you are actually creating damage of your brand in the market.”</i></p>
<b>Standard Bank(1)</b>	<p><i>“The guy who is in charge all he knows how to do is drive his income statement come hell or high water, so he put in all the governance processes, changed quite a lot of what the business originally was at the time, to do what he thought was the right thing to do.”</i></p> <p><i>“They then try and come and implement the very same processes to get a profitable bottom line here instantaneously which then drives all the wrong behaviour in driving that income statement..”</i></p> <p><i>“Almost plug and play and purely because they believed they had mastered the R13 billion profits for the organisation, they had to be doing something right but spending R120 million a year on your BOP business but making use of the very same processes that is wasting your money.”</i></p>
<b>ABSA</b>	<i>“The place where it didn’t work so well, is how to get your IT systems focused in that area and your IT resources; how to get your compliance systems focused in that area, your anti-laundering, your bribery and corruption training, all of that. So that is where our biggest challenges are. The rest is slowly falling into place, but those two are the biggest challenges.”</i>
<b>Standard Bank (3)</b>	<i>“Well we had to go to separate platform, and that was a huge hurdle, because the existing banking platform is so outdated it is scary and that is why we had to build something totally separate, and we went to MTN and we created a mobile bank account. It is an amazing piece of work; I mean you could transfer funds to anybody anywhere in the world but is that what was required?”</i>
<b>McCain</b>	<p><i>“I think we are a typical study of a big business that has very formalised processes with formalised customers, we have payment terms; you know, we are not a cash business. And us trying to operate sort of under the premise of running these formal systems.”</i></p> <p><i>“.. trying to use sort of [a] traditional mindset in terms of how do we reach these customers, or again trying to set up our own distribution, typically using or not using a diversified set of partners in terms of</i></p>



	<p><i>getting there.”</i></p> <p><i>“So again the mindset around how you run that business wasn’t there. So again I think we were applying the same systems and processes that we do in our normal day to day business, which is fairly robust and regimented and we don’t carry lots of bad debt and we get cash, but again, people know those systems.”</i></p>
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**Legacy cost allocation models**

How companies allocate costs across business units was a theme that the researcher felt needed independent recognition under the main category of legacy systems. This was evident in four of the financial institutions and Pepsico. It appeared as if the use of traditional cost-allocation structures for low-income units made the unit appear unprofitable in the short term.

*Table 15: Quotes regarding cost allocation*

Company	Quote
<b>Nedbank(2)</b>	<i>“Therefore your cost models have to change and we have not managed to crack that yet.”</i>
<b>Hollard (2)</b>	<i>“So as soon as you bring something into a bank or into a big organisation, when you start allocating costs and stuff to it, it starts killing it. Unless it is designed in a way that at a certain number it can absorb those costs.”</i>
<b>Standard Bank(2)</b>	<p><i>“You get massive tension because on the one side you believe that on BOP business you need to reduce the cost of service whereas traditional channel banking is quite expensive because of the infrastructure that exists, so from a banking perspective you are trying to reduce the cost of service.”</i></p> <p><i>What ABSA did very well and it was an accounting trick, so again they did segmentation at SB and said everyone earning between 0 and R8K every month is inclusive banking customers, so they took everyone out of the system earning that, took it out of the PNL of what was then the personal market and moved it to inclusive banking, that customer base was loss making as it is, so it only appeared to be a good base when it was combined with the personal market segment because all the other customers were cross-subsidising that loss.”</i></p>
<b>Pepsico</b>	<p><i>“Well the reason why we did this was for focus, so as long as my P&amp;L is focused on making money that is what I am going to do. I manage Niknaks within my portfolio so there are some that make more money than others, but you minute you start going to a bailer you literally more than halve your GP or your profits. Let’s work on GP. If I bought bailer into my division it is going to detract all the overheads that we have got.”</i></p> <p><i>“We were cannibalising our full revenue. So it was just killing our business. And we said we are not doing this anymore and we focused on core and that was the focus to get us back on track.”</i></p>

<b>ABSA</b>	<i>“And here is the big, important driver that most people miss: most banks focus on cost to serve, but that is a bank-orientated way of looking at it. So what we have brought in is cost to client: what is the cost to [the] client to interact with the bank.”</i>
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### **Legacy mindset around profitability**

The analysis around profit revealed that a long-term profit mindset was needed for the low-income unit. One of the reasons cited was that the low-income unit should be viewed as a start-up, with a longer time to understand the market and reach profitability. The researcher noted again, that two out of the three companies were financial institutions struggling with this mindset around profitability.

*Table 16: Quotes regarding profitability mindset*

Company	Quote
<b>Nedbank (2)</b>	<i>“What we haven’t cracked is ‘how do we make it profitable’ because you are never going to get the kind of profitable products in those areas – certainly not in the next ten years”</i>
<b>Standard Bank (2)</b>	<i>“becomes impossible to establish what is essentially a start-up business inside a big beast” “generating large, large profits across small segments and if you take the size of BOP which most probably happens to be the biggest segment in the country then you expect the same magnitude or if not bigger magnitudes of revenue from bigger markets without being cognisant of what is then required to make those markets work first.” “..huge profits, which is not necessarily wrong and perhaps very normal across big corporates, but the expectation is that all attended profit centres do exactly that make big profits very quickly.”</i>
<b>Nestlé</b>	<i>“Nervous about value erosion and being able to really harvest a lot more profit. And they don’t understand the concept of market-based pricing.”</i>

### **5.5.3 Vision exists, but lack of execution is a challenge**

A significant theme that stood out to the researcher was that the vision of needing to penetrate the low-income market was clearly evident in the companies listed below. However, the issue may be lack of execution and prioritisation, at middle-manager level possibly due to how managers were incentivised with a focus on short-term goals.

Table 17: Quotes regarding execution challenges

Company	Quote
Nedbank(2)	<i>"I think the real issue is in the execution."</i>
Hollard(2)	<p><i>"So the directors get it, but the problem is they don't have the power to influence the middle layer which is operations."</i></p> <p><i>"..I mean operationally or execution-wise we are not very good, but we are good at thinking about it, creatively doing things. So now there is a focus on Hollard to say we are good at this now let's become good at putting the thing to bed. So that is the next level."</i></p> <p><i>"Again, others where, I will give you one example, there was one particular channel where actually you had interest from the top management, the MD and GM, but then it was the underlying team who had very little interest or energy there; they just saw other priorities."</i></p>
Nestlé	<p><i>"..it is also a vision that comes from the highest positions of Nestlé, our zone head also talks about the same thing, but the challenge I think is this issue of the structure and I was chatting to someone the other day saying that we should split up this whole building and have two Nestlés, because that is exactly what you need."</i></p> <p><i>"It's KPI and that is a challenge because PPP is a vision it's not a KPI, KPI is top line growth, bottom line growth and market share but I think nobody has understood yet enough."</i></p>

#### 5.5.4 Understanding the context of the low-income market consumer

Understanding the low-income market and customers posed tensions for the firm. Whereas, managers were accustomed to designing products to create a need in the core markets, the approach for low-income markets was different and needed to fill a true need, adding tangible value for the consumer. This change in perspective created tensions for the firm and were due to a lack of true understanding of the customer in the low-income segment and what their real needs are as well as having assumptions about market needs based on historical approaches and success in other segments.

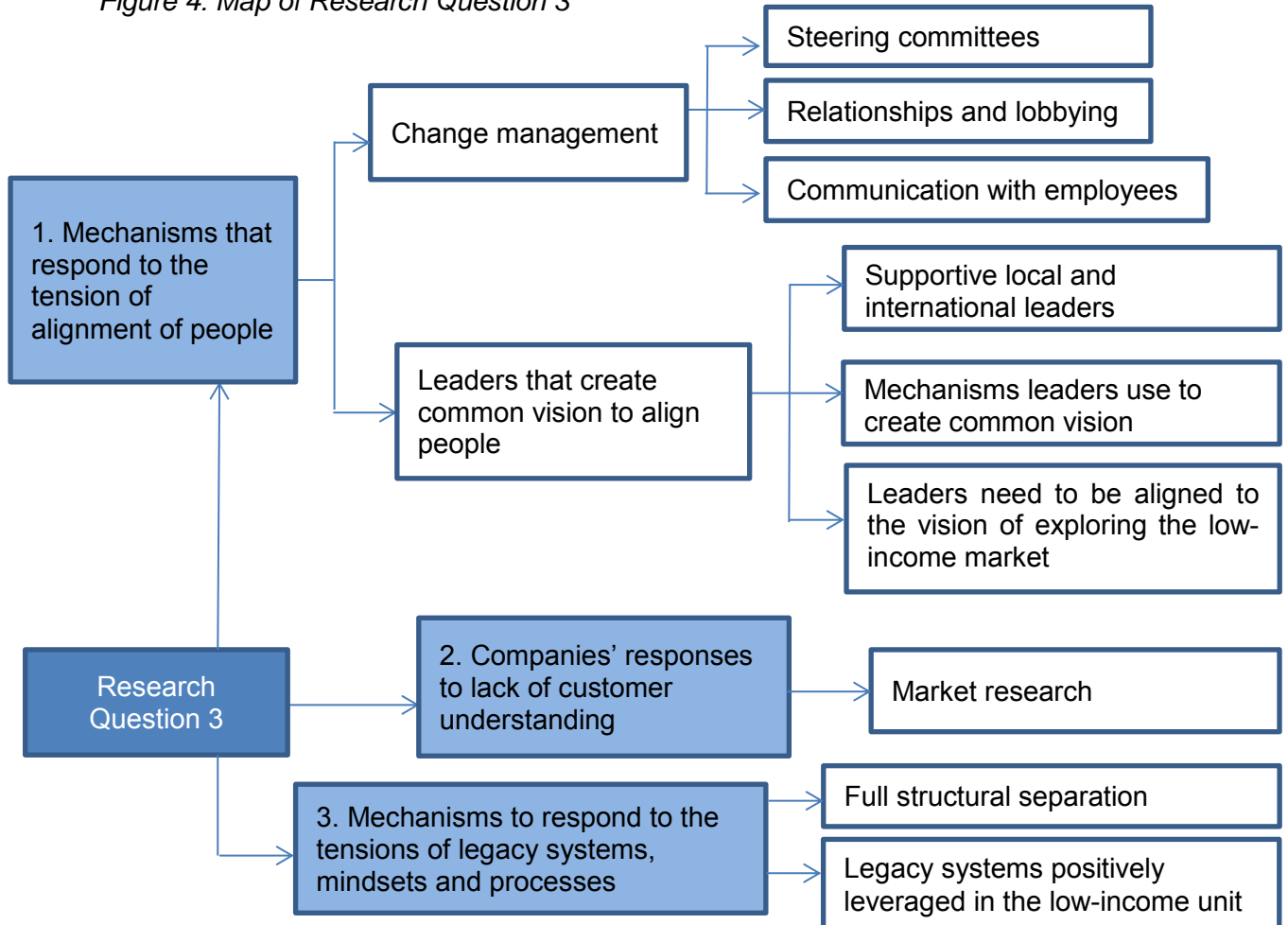
Table 18: Quotes regarding understanding the customer and low-income market context

Company	Quote
Hollard (2)	<p><i>"So it is a whole lot of new dynamics that came in – which they initially battled to come to terms with. And you see it in the board meetings, you know when you sit in the board meetings and the guys are interested in doing sales, because they come from a sales environment, and on the flipside you see the same thing at Hollard, because we are a middle market insurance company, so we have never done mass market before."</i></p> <p><i>"So it is cultural issues that people don't understand."</i></p>

	<p><i>“So now the lower down you go the more education you need for your clients, but you also need more simplicity. But simplicity is not easy to design you know.”</i></p> <p><i>“You can’t assume that because someone is poor that they don’t want an Iphone or they don’t want a Blackberry.”</i></p>
<b>Nestlé</b>	<p><i>“So in South Africa we live in two very different worlds and as an organisation we are not embracing those two worlds properly yet and its clear because the mindset of all the people here, if you take a brand manager, he drives a BMW to work, lives in a fancy area and then says what is my marketing strategy for BOP.”</i></p>
<b>Nedbank(1)</b>	<p><i>“We don’t want to bank every single person, we want to bank any person no matter what income they have got as long as they are willing to try in whatever small way, we don’t mean someone must move from an informal settlement to a house, that is not improvement, but whatever improvement they want.”</i></p>
<b>McCain</b>	<p><i>“That we had this perception that we had to put a low end product in this market: so we had to put something that was cheap, when I say cheap is it more value for money.”</i></p> <p><i>“So again, the mind set of ‘we need to go in with something cheap or lower value’ was also something that was incorrect.”</i></p>
<b>Standard bank(1)</b>	<p><i>“A lot of banking instruments solve invisible problems, so there is a product, we will push it into the market, people will adopt it if we market it well enough, whether that makes sense or not.”</i></p>
<b>Standard Bank (2)</b>	<p><i>“You know everybody thought this was a great thing to do, bank the unbanked and it will transform the economy. If you are banking people who don’t have the need to bank – and this is what we were doing, we were banking people because they were unbanked – they don’t have a need to bank so why do you want to bank them?”</i></p> <p><i>We had access. What we didn’t do was do an analysis of who the unbanked is, what their particular needs were. We just said ‘let’s bank the unbanked’.”</i></p>

## 5.6 Research Question 3: What mechanisms are firms using to resolve tensions?

Figure 4: Map of Research Question 3



### 5.6.1 Mechanisms that respond to the tension of alignment of people

After analysis of Research Question 2, the researcher conducted a one-to-one mapping of the *tensions/challenges* that companies had articulated and the *mechanisms* that had been used to try and resolve these tensions, by either the same firm or a different firm. This mapping was done from the data captured on the two separate Excel spread sheets during the data capture phase of the research and was only done where a *mechanism* existed. The mapping is reflected in Table 19 below.

Discrimination and prudence were used to map *mechanisms* and *tensions* across companies and sectors. It was interesting to the researcher that the broad themes of the *tensions/challenges* matched the themes in the *mechanisms* very closely. The

ensuing paragraphs have therefore been aligned to reflect *mechanisms* identified for the already described *tensions*.

*Table 19: Mapping of tensions found in Research question 2 and mechanisms to resolve tensions*

Tensions found in research question 2	Mechanisms to resolve tensions : Research question 3
Alignment of people/integration	Change management
	<ul style="list-style-type: none"> <li>Steering committees</li> <li>Relationships and lobbying</li> <li>Communication</li> </ul>
	Leadership and common vision
	<ul style="list-style-type: none"> <li>The importance of supportive local and international leaders in creating common vision</li> <li>The mechanisms that leaders use to create common vision</li> <li>Leaders are aligned to the vision of exploring the low-income market</li> <li>Circumstances when alignment is not needed</li> </ul>
Understanding the context of the low-income consumer	<ul style="list-style-type: none"> <li>Market research</li> </ul>
Legacy systems and processes	<ul style="list-style-type: none"> <li>Structural separation</li> </ul>
	<ul style="list-style-type: none"> <li>Legacy systems and processes can be positively leveraged</li> </ul>

### ***Change management***

The theme of change management was evident to the researcher in three of the four financial institutions, and in 3M. The interview from the latter respondent did not provide as much data as those from the financial institutions. As this theme was mentioned in detail by the heads/leaders of the low-income market unit, at the time, the researcher considered this a significant finding. Narrative analysis and validation by the researcher restating the responses back to the respondents added to the validity of this conclusion. The quotes listed in the table below are also extensive in order to provide evidence for this outcome.

The word “change”, in the context of change needing to happen in the organisation was high, with a frequency of 41 from 13 respondents. The researcher viewed the requirement for change as high due to the company needing to adapt from the “exploit” mode in known markets to the “explore” mode in the low-income markets. This seemed to require significant organisational process change, together with change in the

perspectives of the employees. The researcher conducted general word counts for the following words: “change”, “change agents” and change campaign”.

*Table 20: Word counts related to change management*

Word	Frequency	Respondents
Change	41	13
Change agents/change management	14	4

*Table 21: Quotes regarding change*

Company	Quote
<b>Nedbank (2)</b>	<i>“So the people at the right levels, not the decision makers, the senior management, the ones that are the rock and rollers and they started to change and we had a mass of them, I mean say we only had five before, now there are like 20, but the 20 were so influential they started making the 20 into 40 and the 40 into 60, so even the people who had been here for longer started to say ‘oh, okay’, because whenever you talked the mass market internally, it was like ‘oh shit, that is the place we lose the money, even if we show we are making a profit’, it’s those people or you get two thoughts, the negative thought is like ‘oh boy’, affirmative action or another thought is ‘oh yes, such brilliant ways, I want to help these people’, you know that kind of thing.”</i>
<b>ABSA</b>	<i>“And so I send every month, I have sessions, I haven’t had one for a while, where I actually run a sort of master class, saying ‘are you interested in this, this is the way it will apply’. I choose projects that are like high profile projects, I assign projects, steerco membership to people I want in – not necessarily because they should be there but because.... So you have to run it like a change campaign.”</i>
<b>Hollard (1)</b>	<i>“So, I think on the one hand we achieved a lot and it was only a few bruises that we could have done without but maybe the point was that was what we needed to do; we needed to be the change agents to drive that change.”</i>
<b>3M(1)</b>	<i>“One of it is you need to find a change agent, you need to find a leadership consensus, and you need to have for example a leader being able to drive that strategy going forward.”</i>

### ***The use of steering committees***

Within the context of the change management theme the researcher believed that it was noteworthy that two of the companies mentioned the use of steering committees to enable the change management process, and to get buy-in from the senior management levels. The narrative analysis of both these companies also suggested

that the steering committee was a means of aligning leaders to a common vision regarding the low-income markets.

Table 22: Quotes regarding steering committees

Company	Quote
<b>Hollard (1)</b>	<p><i>“By the end there was what is called a financial megatrend steer committee still meeting after I had left, which had half of steerco meeting once a month to look at the low-income market opportunities. So there it was chaired by the COO, the CEO attends every month, you have two MDs – that is four – plus a representative from the Hollard shareholders, the Enthoven family and the Hollard shareholders for Yellowwoods, plus about three or four senior general managers. So you had serious focus on it by the end. So the view of the space certainly changed dramatically in those four years.”</i></p>
<b>ABSA</b>	<p><i>“And we pull all of that together in a steerco that is called the Branchless Banking steerco; so it is the governance system of that. So not only did we segment but we built governance, and how we react and how we build the process and approach around it and that is the way we do it.”</i></p> <p><i>“So you have to go with a joint approach, buy them in. They are sitting on the same steerco, they are part of that steerco: you buy them in and you make sure that there is an upside for them in participation.”</i></p> <p><i>“..I assign projects, steerco membership to people I want in – not necessarily because they should be there but because.... So you have to run it like a change campaign.”</i></p> <p><i>“...as I explained, and it is working, we are getting traction, we are getting steerco, we are getting support units sort of formed, and all of that. So it is working, but it is not easy.”</i></p>

### ***Relationships and lobbying***

The researcher noted that for the companies using a change management approach, relationships and lobbying seemed to be an important driver of alignment of the employees and the senior management. Various mechanisms seemed to be used to develop relationships and create alignment, such as:

- Building the business cases
- Using illustrative examples
- Information sharing to change people’s perspective on various aspects of the low-income market.



Table 23: Quotes regarding relationships and lobbying

Company	Quote
<b>Hollard (1)</b>	<p><i>“It came down to a relationship with the head of legal, he was very good, he actually stepped in and over-rode one of his legal team because we were struggling to get things going, to get things changed.”</i></p> <p><i>“So it is an organisation that typically works by consensus, by personal relationships, and then once you have got that kind of buy-in you can move forward.”</i></p> <p><i>“And then there was engagement with the various other GMs who were responsible for different channels or initiatives – both in terms of relationships but also through business cases, if you have something you want to do and it will work if you try and develop it back in a business case.”</i></p>
<b>ABSA</b>	<p><i>“And that is a lot of interaction, a lot of illustrative cases, a lot of examples, a lot of lobbying, a lot of information sharing. I mean I run a thing monthly where I send to 250 senior people in the whole network, Barclays and here, an article where I illustrate the point, with a topical article.”</i></p>

### **Communication with employees**

Communication strategies aimed at creating understanding of the low income market context were used across the various sectors in the research sample. Some of the strategies used were:

- Taking people into the market environments so that people could emotionally engage with the context and the people that live in it.
- Having formal communication sessions.
- Global senior leaders addressing the company on the strategy.
- Publication of regular newsletters.
- Monthly low-income market think tank to engage people and get buy-in.
- Appointing brand ambassadors in different geographic areas in which strategy was being implemented.
- The steering committee was also used as a communication strategy.

Table 24: Quotes regarding communication mechanisms

Company	Quote
<b>Nedbank(2)</b>	<p><i>“So you know we get the folks there so that they can feel and understand and you know just be there.”</i></p> <p><i>“So that I think is pretty much my key weapon if you like, is to get people out there to feel it and touch it.”</i></p>

<b>3M (2)</b>	<i>“I think formally we have a series of communication afternoons, and that is every quarter, but we also have something that is called an Opcom that the leadership team meets on a monthly basis and after that Opcom, every divisional head sits with their teams and they communicate the essence of that meeting and what is important. We also have that supplemented by a lot of international visits, where every time there is a very senior international person who comes to SA, they will also address things via a 3M organisation about their vision.”</i>
<b>Hollard(1)</b>	<i>“Well, we used different instruments to try and get energy and interest into our business, so we had a low-income market think tank, which used to meet once a month, with key parts of the business, to try and ... well one, it helped to address difficult problems but also to get buy-in in terms of the thinking and energy within the company. And periodic newsletters, which highlighted some of the key successes or things that happened within that period –to kind of create awareness and energy and there was engagement with senior management.”</i>
<b>Pepsico</b>	<i>“We normally have a conference hall with the top 85 managers from a certain level up, and they communicate. Then it goes to all of them – we go to some, we have what we call time warming sessions.”</i>
<b>McCain</b>	<i>“...have done a lot of open invitations to the manufacturing teams, the agric teams, the quality teams, to go and experience what is there, and we have even invited some suppliers there.”</i>
<b>RTT</b>	<i>“So what we have done now, we are in the process of it, we have got all the payroll data, all the physical addresses of the employees, and what I am looking at is to say okay, per province can I maybe put one or two clinics in a high employee concentrated area where they can also go and visit the clinic. So I think you know, as I said to you, the trust is branded differently, but Unjani is branded RTT.” “Brand ambassador/champion per area. So that is also in our vision of the scale up plan, and again it is finding the right person in the organisation.”</i>

### ***Leaders that created common vision to align people***

The broader subject of how leaders used common vision to align people, revealed four themes:

- The importance of supportive local and international leaders in creating common vision.
- Various mechanisms were being used to create common vision.
- Leaders needed to be aligned to the vision of exploring the low-income market.
- There were circumstances when alignment was not needed.

The ensuing paragraphs are structured to provide evidence of the four themes above.

### **Supportive local and international leaders**

Eight companies in different sectors expressed the importance of leaders in creating common vision. The researcher made the following deductions based on the content and narrative analysis:

- Some leaders had to be deliberate in enforcing the vision with the company, especially if employees were resistant to adopting the strategies for the low-income markets.
- The CEO's impact was significant in creating buy-in to the vision of exploring the low-income markets.
- International leaders also had a significant impact to generate commitment.
- Active endorsement of the vision by the leaders created a favourable environment for the low-income market unit.
- By creating common vision, the CEO was able to make strategic decisions and trade-offs for the company as a whole. The companies could visualise the future direction of the company with respect to the low-income market and its customers.

Table 25: Quotes regarding supportive local and international leaders

Company	Quote
<b>Nedbank(1)</b>	<i>“And she enforces it, we will have entry level banking customers here and that is our core focus and the reaction would be no, I don’t care about the answer, that is where we are going, you make it work, make it economically feasible and that mindset changes people.”</i>
<b>3M (1)</b>	<i>“But the leadership that is forward thinking and pioneering this initiative, they have got a lot of support; so it is a case of being able, for this leadership, and in fact our CEO by the way comes from the international markets business, so he is very, very aware about the challenges and the domain we are playing in. So he is an advocate for this grouping of people and so much so that when it comes from the CEO’s mouth it becomes like gospel and in fact it very quickly becomes part of the DNA of the culture.”</i>
<b>3M (2)</b>	<i>And I think maybe previously as I said it had failed because you didn’t have that leadership support and Len is very engaged. And I think that top management leadership is critical. And that belief – that it will be done and it can be done.”</i> <i>“And what we have is a team of experts in the US who are working with us to really unlock the potential of SADEC and where those pockets of growth are...”</i>
<b>RTT</b>	<i>“...I think when I took over the project it was very much a special project, a side-line type of project, and I think I have done a lot of work to actually introduce it and integrate it into the organisation. And my CEO is very supportive and it was actually his initial idea and</i>

	<p><i>vision to have this network of clinics. Between him and I we are really pushing to say this is about transforming the healthcare space and RTT's role in the healthcare space.</i></p> <p><i>"So I think the main way that he shows his support is that he has been actively involved in the development of the franchise and the biggest thing for me is the way that he advertises or markets Unjani to our customers, our existing clients and then to the external market."</i></p>
<b>Nestlé</b>	<p><i>"My position allows me to have influence over all marketing as well, so my push back is listened to which is a big issue which is wrong because there should be this big energy coming from I have to crack the bottom of the pyramid and how do I do it and we can talk about all the obstacles which we know are packaging, cost and logistics cost but we are not saying what is the business solution, so in a way in my team I have undertaken to provide the business solution and then push back and say guys we want XY and Z and one of the things."</i></p>
<b>FNB</b>	<p><i>"So we are putting a product there, he looks at it and he says if it is not good, he says 'go and simplify it'. I think that also has helped the business units, with that sort of leadership and stuff to make us think when we are thinking about a product."</i></p>
<b>Standard Bank(2)</b>	<p><i>"Yes, and what you want is you want a world where all the managers in the organisation and the people in the organisation are proud of this new thing that is being done, identifies with it, sees it as something good and almost something with a benign intent that they are supporting by continuing to do this other thing."</i></p> <p><i>"..governance means your decision making, the point at which decision making comes together between your old world and your new world must be right at the CEO and if it is not right up there at the CEO level where the CEO can make the trade-offs and can go personally and convince the board of doing different things, then you are back into the incremental improvement world."</i></p>

### ***Mechanisms leaders use to create common vision***

From the data, it appeared that there were various mechanisms that leaders used to ensure a common vision, including the articulation of a long-term financial goal and the market opportunities that existed in the low-income segment. A vision to be the most loved brand in the country was articulated by one of the managers.

*Table 26: Quotes regarding mechanisms that leaders use to create common vision*

<b>Company</b>	<b>Quote</b>
<b>McCain</b>	<i>"So in this last phase, I mean we are all committed to this new vision of doubling the business and that is the global vision."</i>
<b>Hollard (1)</b>	<i>"So this idea of financial inclusion megatrend seemed to get people's attention and that is why they have the Steerco happening once a month. So there are a number of things in terms of persuading them that it was important: it was the size of the business, the potential profitability, and intentionally understated was social impact –</i>

	<p><i>because of the fear that it would become a CSR initiative.”</i></p> <p><i>“...lower-income market opportunity and activities, the feedback in terms of units you are engaging with and whether they are comfortable with the support or the input that you are giving to them, managing relationships was also quite strong in that space.”</i></p>
<b>3M (2)</b>	<p><i>But I think you know we realise that this subsidiary needs to get to 300 million by 2017 – 320 million by 2017. We are currently sitting at about 131 million.”</i></p> <p><i>“...because if we don’t get to Nigeria now, in five years’ time it is going to be too late and we learn the mistakes in a certain economy that we know we are going to be successful in and we can then translate that.”</i></p>
<b>Cemex (Patrimonio Hoy)</b>	<p><i>“The way Cemex is being a leader or how they lead this segment is you have to change, even here they are trying to change the concept; there are more clients that are re-selling the products we produce and that makes them understand the final consumer is the one who is deciding which product to consume.”</i></p>
<b>Airtel Malawi</b>	<p><i>“Yes, be the most-loved brand in Malawi. So you have to make sure that you are cutting across all these guys if you want to be the most-loved brand, because you can’t be the most-loved brand only from the low-income side and then ignore the others”.</i></p>
<b>Nestlé</b>	<p><i>“...it is also a vision that comes from the highest positions of Nestlé, our zone head also talks about the same thing, but the challenge I think is this issue of the structure and I was chatting to someone the other day saying that we should split up this whole building and have two Nestlés, because that is exactly what you need.”</i></p>
<b>Pepsico</b>	<p><i>“The CEO stood up and said ‘the one thing I am going to guarantee you guys as a marketing team is change. So live with it’. And they are quite honest. So I think our message is coming top down.”</i></p> <p><i>“So we explain why we are doing it, so we always talk about our goals. So we normally show a map from Africa and we put like 200000 tons like 20/30 and everyone knows that is the goal, and then it is how you translate.”</i></p>
<b>FNB</b>	<p><i>“So I think FNB has got an innovative culture, one of the key drivers is we have got this internal competition every year, where participating business units, whatever projects they have implemented, there is a site that you can log on, log your idea, it goes to the necessary stages.”</i></p> <p><i>“And because it is sort of channeled through the senior management of the bank, if they think it is a good idea then they pass it on to the business unit and say ‘this is something we need to do.’”</i></p>

### ***Leaders need to be aligned to the vision of exploring the low-income market***

Some leadership teams demonstrated a commitment to pursuing the opportunities in the low-income markets. This alignment originated from trust in each other and a spirit of collaboration.

Table 27: Quotes regarding alignment of leaders

Company	Quote
<b>McCain</b>	<i>“100% aligned that this is the growth opportunity for McCain for the next five years; I mean there is no question that this is where it is going to come from.”</i>
<b>BLT(1)</b>	<i>I may challenge them just so I understand it, but we trust each other. So there is a huge amount of trust, there is a huge amount of the same sort of spirit amongst people. So there is serendipity of chemistry.</i>
<b>3M(3)</b>	<i>“Within the leadership team itself now, as opposed to what it was five years ago, there is a lot more collaboration, we can very candidly address one another, although not candidly enough yet – I think that needs to improve some more, but most certainly we are energised and excited about the vision and about the future of where this is going and we know that we can trust the guy next to you.”</i>
<b>ABSA</b>	<i>“There is complete buy-in, complete buy-in. I am amazed. We tried this a year ago and it didn’t work; we tried it again and now it is working.” “...And now people are absolutely excited about it!”</i>

## 5.6.2 Companies’ responses to a lack of customer understanding

### **Market research**

The focus on the customer in the low-income market context was significant with many respondents mentioning the word “customer”. The researcher found this significant as there was an understanding from many companies in the research sample, that they needed to understand the low-income market customer better, and that this market was diverse.

Many companies (six) were using detailed market research to understand the customers better. Research methods varied with companies using surveys, consulting agencies or even complete immersion in the low-income context (living in the townships) in order to understand the customer better. Additionally companies also employed people from within the market, to gain deeper market understanding.

The researcher found it noteworthy that Massmart and Cambridge mentioned the word “customer” 34 and 26 times respectively. Additionally, the narrative analysis of these two interviews revealed a preoccupation with customers and understanding their needs and suggested that the units that were fully separated from the core business had a deeper understanding and focus on the customer needs.

Table 28: Word counts and frequencies relating to customer understanding

Word	Frequency	Respondents
Customer	116	10
Customer understanding	82	10

Table 29: Quotes related to how companies are trying to understand the low-income consumer and context

Company	Quote
<b>Nedbank(1)</b>	<i>“The philosophy is: understand the core of the market, get to grips with their needs and then decide the structure for them but you can’t do that on top of what you had before you have got to do it in parallel on the side and that takes time.”</i>
<b>Massmart</b>	<i>“And it is quite clear that you have got to get focused on who your customers are and how you serve them.” “You see in retail you can only have one point of view about what your business is about; you can’t have multiple.” “But you can only have one point of view at a retail level, that is why you have to have dedicated teams.”</i>
<b>3M (3)</b>	<i>“...where you have the sales person or key account manager that is in direct contact with a specific customer, that would analyse and pick up on a lot of these needs in conjunction with a technical service person.”</i>
<b>Cambridge Foods</b>	<i>“We have a continuous and sustainable research program, I think a lot of people find it overwhelming, the amount of research we do. Any question we don’t know the answer to... remember retail is not a technical industry like financial services or banking or insurance; so people often have opinions very quickly, that are often unsubstantiated. What we do is I keep a log of every question we don’t know the answer to and I can do research on it quickly...”</i>
<b>3M(1)</b>	<i>“...so we do a lot of voice of customer surveys, so we have voice of customer, voice of market and these are kind of indoctrinated into the business processes that we have.”</i>
<b>Airtel</b>	<i>“Okay, there are two ways: first is we get research done, formal research we get done every quarter, and then the other way is going to the market on our own. So you go into the market and just sit down with people and do consumer immersions. So you sit down with customers in different areas and just see if there is a common thread coming out.”</i>

<b>McCain</b>	<i>“...again they went in there, they spent time talking to companies like ABI, you know some of the dairy guys and they spent a lot of time in the township, trying to understand who uses products. I mean there was no shortage of use, and again this was largely dedicated in our chip business, so it wasn’t really focused on vegetables.”</i>
<b>Standard Bank (3)</b>	<i>“On the ground. I spent weeks on the ground, months on the ground, literally slept in huts, just to get to understand the people. It was amazing. And there is so much that we learnt that you can’t even apply. You have to do it on the ground. You know you get market research companies that go out there and give you a sampling. It doesn’t work because what happens in the Eastern Cape doesn’t happen in Tembisa.”</i>

### **5.6.3 Mechanisms to respond to the tensions of legacy systems, mindsets and processes**

#### ***Full structural separation***

The researcher used the stories that respondents shared, together with content analysis, to study this part of Research Question 3. The researcher found support for full structural separation of the low-income market units, in response to how the tensions of legacy systems and processes may be resolved. This was evidenced by:

- The number of respondents that articulated this in various ways. Some of the respondents had mentioned the above as a clearly articulated recommendation and others indirectly.
- The number of companies that these respondents represented and the fact that this perception was pervasive across sectors.
- In particular, the reflection of this principle by two respondents, who were previously employed by Standard Bank, had significance. This significance was indicated by the level of conviction and, emotive and frank perspectives. These views were also considered as relatively unbiased since these respondents did not work for the company any longer.
- The fact that two financial institutions had structurally separate units at the start of the low-income market strategy. These seemed to be successful when they were fully separate and “did not work” when they were brought back into the bank.

Further examination revealed that this approach was being recommended for the following reasons:

- Structural separation allowed for independent control of costs and profits for the low-income market business versus legacy systems and processes.



- Decentralised, separated structural units allowed quick decision making and flexibility.
- Structural separation might enable radical innovation rather than incremental innovation.
- A dedicated group for each segment allowed for deep customer focus. These unique needs of the low-income customer and understanding of the low-income market context enabled the company to meet these unique needs.
- A separate entity should have its own technology platform to serve this market segment as some respondents felt that legacy technology platforms created for the high/middle income segment did not work in the low-income segment due to the differing needs and contexts.

Rigor was applied to this process as the researcher realised that the approach of structurally separating the low-income unit constituted a key dilemma that many companies were trying to answer. The data was examined from the data capture spreadsheets and revalidated with the written transcripts.

There was one variance that existed and that should be noted. This was the recommendation from one respondent, in the financial sector, that the low-income unit be situated inside the company. The view from this respondent, maintained that full structural separation came with the disadvantage that learning did not occur within the company and made future integration challenging due to the different cultures and people within the structurally separated unit.

*Table 30: Quotes regarding structurally separating the low-income unit*

Company	Quote
<b>Hollard (2)</b>	<i>“So I mean my recommendation is that you need to set this thing up separately, grow it to a certain size and then bring it across...”</i>
<b>Standard Bank (1)</b>	<p><i>“...is to separate that business completely from the command and control structures of the parent company, now that is one thing to say it, but you still need the parent company to relinquish that command and control to allow you to do what you do, so essentially that was probably the biggest stumbling block at Standard Bank and it still is the biggest stumbling block. I speak to quite a lot of them quite regularly and they still face those very same problems.”</i></p> <p><i>“..is a very lean decentralised structure with relatively flat organograms because all that does is encourage decision making which usually happens very quickly and then you can implement or change very quickly.”</i></p> <p><i>“So essentially it almost then becomes impossible to establish what is essentially a start-up business inside a big beast.”</i></p>

<p><b>Standard Bank (2)</b></p>	<p><i>“I am very convinced about this, unless you structurally isolate it; you are in the world of incremental improvement. I don’t think there is another answer.”</i></p> <p><i>“I think firstly it’s governance and from a governance perspective it’s what you refer to as the structural solution, I think what is important in your structural solution is that the decision-making process is completely divorced from decision making and governance of your business as usual.”</i></p> <p><i>“..so what looks like a very sensible corporate decision, take your brand and leverage it into the market, can have devastating effects for the new solution that you want to roll out, in the extent to which it compromises it into meeting the requirements and the customer expectations of the old world. The thing about any market breaking solution, any revolutionary solution in a market, it will always be worse by conventional standards, it will almost always be worse by conventional standards because if it offers what the conventional thing offers, by definition it is the conventional thing you know and a good example – my favourite which you and I have discussed in the past.”</i></p> <p><i>“...tendency of the organisation to try and force the new solutions onto old platforms and whether your technology is manufacturing technology, distribution technology, whatever, the moment you force the new solutions onto the old platforms you are back into incremental improvement mode.”</i></p>
<p><b>3M(1)</b></p>	<p><i>“...its market segment, don’t know if it is time for any team or company to get into this market segment, so in some cases, yes in China and Brazil we have particular market-focused organisations, on SMEs and they are focused on low-income or low perimeter customer segments and products. Anywhere else we have tried this model, without having to separate the two business units, we have come unstuck, it was a struggle. Because it is a mindset issue.”</i></p>
<p><b>ABSA</b></p>	<p><i>“And what they did is they actually then took this flexi-banking division and pulled it into the product houses, which was strategically a major mistake, because it lost its flavour of a segment cross-cutting across those. They realised this mistake in 2009, because they did it in 2006/7. 2009 created again an entry level and inclusive banking division and it was formalised in January 2010 and then realised that unless you do this second look across the bank it is not going to work, because you can’t have a segment just for the lower-income, and for private, and then for middle you are just right there as a product house.”</i></p> <p><i>“It has never worked inside a bank. But the counter argument is unless you do that inside a big organisation you never get the learning in the organisation! So you can do it outside, the learning never comes back. If you do it outside and you want to bring it inside it virtually never happens.”</i></p>
<p><b>BLT (1)</b></p>	<p><i>“Good set of core technologies which are applicable across the board. You see if you keep on trying to re-tool things for each market I think you are going to run into trouble. I always say something, it is a standard statement of mine: ‘If it works in Diepsloot it is going to work in Sandton City, but if something works in Sandton City it might not work in Diepsloot’.”</i></p>

<b>Standard Bank (3)</b>	<i>“The model is still in development and I think you mentioned you spoke to Leon, he would give you a different view, but my view is that the technology isn’t right for what we are currently doing. Now what technology is right, I don’t know, we are still looking at that? But the spaza shops still cannot facilitate the transactions that we want. In principle I think it is a very, very good idea and if we get the technology right I think it will work tremendously.”</i>
<b>Nestlé</b>	<i>“... it is also a vision that comes from the highest positions of Nestlé, our zone head also talks about the same thing, but the challenge I think is this issue of the structure and I was chatting to someone the other day saying that we should split up this whole building and have two Nestlés, because that is exactly what you need.” “I think you can force a mindset to a point but you actually have to put a structure in place. So from a mindset people will tell you yes, we are looking at it but they will always give you lots of reasons why they can’t do something but I think we have reached a point where it has to be a structural change and the business head of a particular business has to say these people will look after this side of the pyramid and that people look after that.”</i>
<b>Massmart</b>	<i>“So if I gave you one pearl of wisdom here today, it is if you want to serve different customers, have teams that are particularly focused to look after those customers.”</i>
<b>(Cemex (Patrimonio Hoy)</b>	<i>“Well we have to look at both if you are emergent, but you also have to keep in mind that if you are closer to a structured environment, it is kind of an error to go to the low market segment and try to understand it. That is why in sales we are close to the segment, in order to understand it.” “Because we couldn’t realise the real solution they need, because they need an integral solution.”</i>

### **Legacy systems positively leveraged in the low-income market unit**

It was of note that some legacy systems and processes were being positively applied between the low-income and the middle/upper income segments. In particular, some companies were employing knowledge management practices to drive efficiency by understanding company practices that may be applicable in the low-income market without needing to duplicate knowledge and processes that had been previously optimised. This may be more evident in companies with global operations.

*Table 31: Quotes regarding knowledge management*

<b>Company</b>	<b>Quote</b>
<b>3M (3)</b>	<i>“So it is a really powerful network that we have internally, to make sure we have the right products and solutions.”</i>
<b>McCain</b>	<i>“So again the learnings are there in terms of trying to.... You know it is shared learnings but... so globally managed, locally executed is sort of the new thing.”</i>

<b>Hollard (1)</b>	<i>“Ja, which is international. So we look at setting up licenses in other countries, developing different products. But we use the internal learnings, or if we see something new. So this airtime insurance product was actually developed in Africa and we have just sort of tweaked it and brought it into SA.”</i>
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## 5.7 Conclusion

This chapter analysed how companies in the sample were adapting to exploring the low-income market, while exploiting the upper/middle income markets. Specifically, adaptation was observed with respect to the structure of the units, the degree of autonomy the units had, how they were performance-managed relative to one another and how resources were allocated to these units.

As it was known that exploration and exploitation resulted in tensions within the firms, these were analysed within the research sample group. The findings were presented as four subthemes. The first, *alignment tensions* for people that were accustomed to exploiting the upper/middle income markets, now having to adopt a mindset around the low-income market, created a resistance to changing. The second, *legacy processes* and systems which provided efficiency in the upper/middle income markets were not appropriate in the low-income market. The third subtheme expanded on the fact that tensions arose when leaders presented a *vision* of exploring the low-income market, but had a persistent view of short-term metrics. This did not create an enabling environment for managers to execute on mandates in this market. The last tension analysed was that managers had difficulty *in understanding the low-income market* and context, using assumptions learned in the upper/middle income segments for the lower segment.

The analysis focussed on how various firms were resolving some of the tensions and conflicts. Change management processes and leadership were employed in response to the tensions of alignment, in partially separated business units, while structural solutions were suggested as an answer to the tensions of legacy systems and mindsets.

Chapter six will discuss these results, by synthesising, structuring and categorising some of the findings, together with illustrations of relationships that may have been found.

## Chapter 6: Discussion of Results

### 6.1 Introduction

The purpose of this study, simply put, was to understand and develop the answers to three questions:

- 1) How were firms adapting to operating in the dual economic markets, specifically the low income market?
- 2) What tensions existed for firms exploring the low-income market?
- 3) How were these tensions resolved?

This information would add to the theory base of low-income markets and ambidexterity. It also provided a decision-making framework for firms when they were considering the organisational requirements for the exploration of low-income markets

Research Question 1 looked at how companies were adapting to the needs of the low-income market with respect to the organisation of business units, performance measures, degrees of autonomy given to the low-income unit and how resources were allocated to this unit. These were believed to be important measures of adaptation, reflecting changes in organisational structure and processes needed in the market response to the low-income segment, as derived from the literature review.

Research Question 2 examined the tensions that firms were facing in their attempts to explore the low-income market, while exploring the upper- and middle-income segments. The themes that were discussed were lack of alignment, legacy issues, execution challenges and the understanding of the low-income market consumer.

Research Question 3 examined how companies were attempting to resolve these tensions. It considered the themes of change management and common vision to address the lack of alignment in partially separated units, together with the possibility of structural separation to address tensions related to legacy systems and processes.

## 6.2 Research Question 1

**How are firms adapting to explore low-income markets, while exploiting the upper- and middle-income segment?**

This question was analysed in four parts:

- How is the organisation structured with respect to exploring the low-income market while exploiting the middle and upper income segments?
- How much autonomy is the low-income (explore) unit given?
- Is performance management in the low-income (explore) unit different to that of the exploit unit?
- How are resources allocated between the “explore” and “exploit” units?

### 6.2.1 Structure of the low-income market unit

Most companies had identified a need for separating the low-income (explore) unit from the upper- and middle-income business units. Ten respondents from seven companies articulated convincing arguments for this mechanism of organising this unit. The quotes below reflect some of the respondents’ conviction.

*Standard Bank (2): I am very convinced about this, unless you structurally isolate it; you are in the world of incremental improvement. I don’t think there is another answer.”*

*Hollard (2): “So I mean my recommendation is that you need to set this thing up separately, grow it to a certain size and then bring it across...”*

*Nestlé: “I think you can force a mindset to a point but you actually have to put a structure in place. So from a mindset people will tell you yes, we are looking at it but they will always give you lots of reasons why they can’t do something but I think we have reached a point where it has to be a structural change and the business head of a particular business has to say these people will look after this side of the pyramid and that people look after that.”*

Two firms (Standard Bank and ABSA) faced many challenges, when their low-income units, initially created outside the firm, were brought back into the company. This implied that structurally separate units presented the firm with fewer tensions and that it may be “protected” from the culture and processes of rest of the organisation. Additionally, Airtel Malawi, Blue Label Telecoms, Massmart and Patrimonio Hoy (Cemex) with structurally separate low-income market units were able to focus on the low-income customer without the distraction of customers from other segments. The response from the respondent from Massmart illustrated the above point.

*Massmart: “So if I gave you one pearl of wisdom here today, it is if you want to serve different customers, have teams that are particularly focused to look after those customers.”*

Companies had a varied approach as to *how* they were separating the low-income business units. There were two clear approaches taken. The first was fully structurally separated units with their own processes, people and unique cultures like Massmart and Patrimonio Hoy (Cemex). The second approach was partially separated units with matrix structures and cross-functional members, such as, the financial institutions interviewed. Each of these choices came with advantages and disadvantages (trade-offs). Companies like Massmart and Cemex, that had structurally separated units had little need to integrate the core business and the low-income units, posing fewer alignment and integration tensions for their organisations. However, all financial companies in this sample had one or other integration mechanisms. These integration processes presented the organisation with varying tensions, due to the different requirements for these segments. The discussion above is summarised in Table 32.

*Table 32: Summary of advantages and disadvantages of structural approaches taken*

<b>Structural approach</b>	<b>Advantages</b>	<b>Disadvantages (Trade-off)</b>
<b>Fully separated</b>	Minimal integration required between low income unit and core business units	Absence of cross learning between units Firm is not ambidextrous as per academic definitions Challenges with reintegration
<b>Partially separated</b>	Organisational learning - how to explore and exploit simultaneously within the firm	Integration between units is essential resulting in tensions

According to the literature, ambidexterity can be achieved in three ways based on structural, contextual and leadership-based factors (Cantarello et al., 2012; Raisch & Birkinshaw, 2008). The literature does not have particular preference for any of the above methods. However, the establishment of structural units was noted to help companies address the challenges that exploration and exploitation brought with respect to tasks, competencies and demands that each market segment posed to the company (Lubatkin et al., 2006; Raisch & Birkinshaw, 2008). Of note, however, was the evidence in the current literature that, for an organisation to be ambidextrous and for it to be realised as a capability, exploitation and exploration needed to be present simultaneously and these needed to be integrated (Cantarello et al., 2012). Thus,

companies like Massmart, choosing to structurally separate their low income units may not necessarily develop the capability of ambidexterity, if compared to the definitions that have already been established by scholars. This sentiment was echoed by one respondent who believed that for true organisational learning to occur, the low-income unit had to be present in the company and not fully separated.

*ABSA: “It has never worked inside a bank. But the counter argument is unless you do that inside a big organisation you never get the learning in the organisation! So you can do it outside, the learning never comes back. If you do it outside and you want to bring it inside it virtually never happens.”*

Furthermore, the dual structures that were created through structural separation may create challenges of reintegration and possible failure of the individual units (Simsek, 2009), also validated by the quote above. In this light, integration, shared values and linking mechanisms were important to leverage the synergies of both groups. Respondents also indicated that failure to embed the low income unit values into the mainstream of the organisation may lead to the demise of the product or service should key individuals driving the initiative move within or out of the firm, reiterating the need to not isolate the unit.

In summary, companies were adapting to the needs of the low-income markets by structurally separating the low-income market units as in the case of companies Massmart, Cemex and Blue Label Telecoms. This is in preference to single units addressing the needs of both market segments i.e. contextually. However, some of these units were only partially separated, and therefore required integration into the core business by various means. Integration, however creates complexities and challenges for the firm, in the efforts to balance the exploration and exploitation activities, while firms that had fully separated units had fewer organisational tensions.

### **6.2.2 Autonomy of the low-income (explore) market unit**

Even though most managers seemed to understand the need for autonomy and decentralised decision making, there appeared to be degrees of autonomy that the low-income market unit was allowed to exercise. These degrees were categorised as *full autonomy* and *autonomy within boundaries* by the researcher.

Full autonomy was evident in two types of units. Firstly, units that had a fully structural approach like those of Patrimonio Hoy, Cambridge Foods and Standard Bank (in the start-up phase). This quote from the respondent from Cemex (Patrimonio Hoy) illustrates this point.



*Cemex (Patrimonio Hoy): “Well that initial statement of not knowing the low-income market, that even though the spin offs are obvious, let us operate in a very independent way, more independent than any other business unit in Cemex (Patrimonio Hoy). Right now we are trying to integrate our ERP, to the Cemex (Patrimonio Hoy) ERP, to understand how independent we are.”*

Secondly full autonomy was also noted in the early phase of two firms. These were the low income units of RTT, currently in its early phase, and Standard Bank, when, at inception the low income unit was called Community Banking. It appeared to the researcher that these business units were decentralised, in the early phase, and allowed full autonomy to experiment in order to find the appropriate strategy. However, once this autonomy was reduced, when the business model was proven, as in the case of Standard Bank, tensions were presented to the unit, who had to adapt again to centralised processes and bureaucracy. This is illustrated in the quotes below from respondent 1 of Standard Bank

*RTT: “I think you know that is one of the greater things about it, is that I have changed the pilot, half the times we try to introduce something, some product, we have changed our working hours, we have changed our advertising strategy, you know, we have really done a lot of things within the pilot. We have done customer surveys and client interviews, so I have been given full autonomy for the project”*

*Standard Bank (1): “We had so much free range it was not even funny, for as long as we were very very small, as soon as we started getting a bit of traction and started putting on big numbers of customers, the bank then quickly realised that gee-whiz this model actually works, so it could possibly work.”*

*Standard Bank (1): “...very quickly the entire governing structure changed, committees were put in place and all this hierarchy, so the minute you wanted to implement something new or even think of designing something new you had to work up the chain, get approval and if you don't get approval come back down, rework, go back up the chain until you finally get approval which most times is to late to change anything.”*

On the other hand, the business units of Nestlé, Airtel Malawi and Blue Label Telecoms had autonomy within boundaries. It was interesting that both Airtel Malawi and Blue Label Telecoms had a full structural approach, were within the telecommunications sector, with both having started off first in the low-income market. It appeared to the researcher, that the sales people of Nestlé, Airtel Malawi and Blue Label Telecoms had a trading mindset. Additionally, Blue Label Telecoms had an innovative culture and needed boundaries especially with respect to pricing. This is possibly due to the nature of their products being low margin and fairly commoditised.

*BLT (1): So innovation up to a point, in the sense that people come back and say 'You know what, the following things we are doing are not working, can you help me?' And then the group gets together and we decide on a new strategy and we will develop new products/solutions for that and then implement. Then they sell very tightly within that boundary. We don't let the sales people go out and just go willy-nilly."*

Recommendations from respondents around autonomy, revealed that companies should adopt an approach of decentralisation in order to give the low-income units the ability to make decisions quickly and respond to market needs. The response below from respondent 1 of Standard Bank is evidence of this.

*Standard Bank (1): "So again what I think is ideal is that I think completely especially if you are doing it as part of a big corporate, is a very lean decentralised structure with relatively flat organograms because all that does is encourage decision making which usually happens very quickly and then you can implement or change very quickly."*

These recommendations were indications that these units may not have true autonomy. Four respondents mentioned that the low-income market unit should be empowered to respond to its market needs without being subject to the rules that govern the traditional business due to the informal nature of the dynamics that govern low income markets such as alluded to by several authors like Rivera-Santos & Rufin (2010).

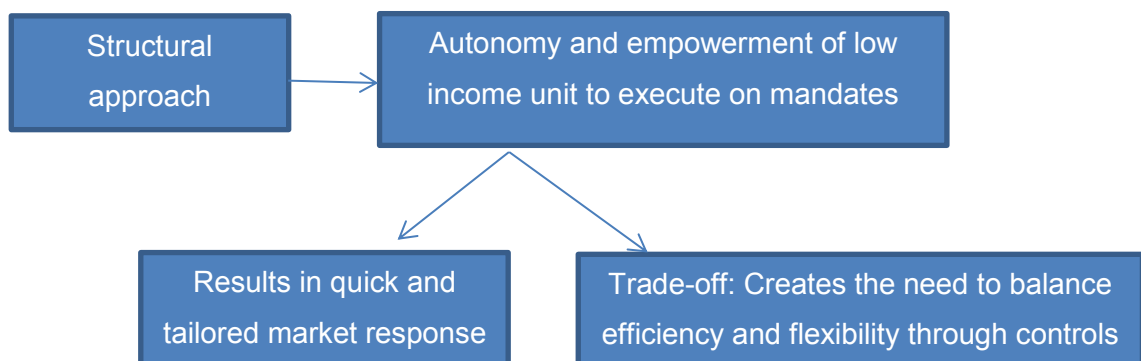
The above recommendations were consistent with current literature on the decentralisation within exploratory units, which advocated that decentralised decision making allowed for creative responses to solving problems (Jansen et al., 2005). Additionally, decentralisation, the elimination of bureaucracy and individual accountability (Tushman & O' Reilly, 1996) may encourage experimentation and risk taking. This was particularly relevant in the context of the low-income market, which, being new to firms, required quick, decentralised decision making in response to informal market dynamics and institutional deficiencies (Tarafdar, Anekal & Singh, 2012). However, firms run the risk of trading off core routines with flexibility if they choose between centralised and decentralised structures (Raisch & Birkinshaw, 2008). This was found in Blue Label Telecoms, Nestlè and Airtel Malawi who needed to "temper" their units with guided controls like pricing. The trade-off is illustrated in the quote from Respondent 1 of Standard Bank

*Standard Bank (1): "...existing markets in my mind is probably a boring business and also in my view something that every business should try and*

*achieve, which is to get the boring business because that is when it becomes routine because in my mind that is when you have fixed all your glitches, so you know if that breaks that is how you fix it, so it becomes very boring, very routine and that is most probably where you need to get to in any business whether it be BOP or not. However the nature of BOP is pure because maybe customer mindsets or customer needs are completely different.”*

In summary, as illustrated by Figure 5, the researcher concluded that companies were adapting to the needs of the low-income market by changing the level of autonomy that was given to the exploratory (low-income market unit). While the degree of autonomy given was varied across companies, there seemed to be a realisation that this was an important enabler for this unit as suggested by current literature. On the other hand, controls and guidelines needed to be set to ensure that units remained within the boundaries of the companies’ strategies to ensure efficiency of the company as a whole.

*Figure 5: Relationship between structural approach, autonomy and the effects that autonomy creates*



### **6.2.3 Performance management in the low-income market unit**

Analysis of the themes on performance management in the research data set revealed that only three companies, RTT, Nestlé (sales unit) and Cemex (Patrimonio Hoy) were measured on metrics, that they believed, were appropriate for the low-income market, and that were different to the traditional business units. This posed challenges for the managers in the low-income market unit as not only do strategies in this segment as take longer to yield profitability, but managers must also be incentivised to do business differently to the core units. (London, 2010; Karamchandani et al., 2009). As a result managers pursue their yearly targets within in the upper/middle income segments as seen in Nestlé and 3M. The quotes below demonstrate these points.

*Nedbank (1): “It’s still dominated by what I do this year versus what I do in 10 years’ time that is the point.”*

*Nestlé: “I need to invest here or I have an imbalance of investment but the return will come later, you are looking at immediate returns for that financial year and saying I am not going to invest too much in the bottom pyramid because I can get growth in the middle and the top anyway..”*

*Hollard (2): “So anyway, the trickiest thing to address is changing the metrics to allow a longer lead time to get something up to scale.”*

Firms are therefore still employing performance measurement systems, used in the traditional core business units (upper/middle income business units), for the low-income market unit, demonstrating that mindsets have not changed. The literature supported the finding that short-term metrics, evaluation criteria and incentive structures may be structural barriers to fulfilling goals within the low-income market segment (Olsen & Boxenbaum, 2009). While short-term measures seemed to protect the overall financial performance of firms, it prevented risk taking and the attainment of long-term sustainable goals within the exploratory unit of the low-income market segment (Olsen & Boxenbaum, 2009).

This finding was further supported by the lack of true strategic intent that seemed apparent in some companies. It appeared that leaders may be paying “lip service” to a vision of pursuing growth in the low-income market segment, while managers were still measured on short-term metrics as evidenced below.

*3M (1): “Now what is missing in the 3M world is that you have got the strategic intent from the corporation, everybody at senior leadership buys it – whether it is paying lip service to it or really genuinely believing it; they are saying all the right mantras. Reality is that it comes down to the country MD: if he finds he is unable to meet those metrics I have just mentioned by giving sole focus or giving lots of focus to the entry level strategy, he is not going to do it and he is not going to be challenged as long as he is delivering on his mandate; in other words delivering on income, on the turnover.”*

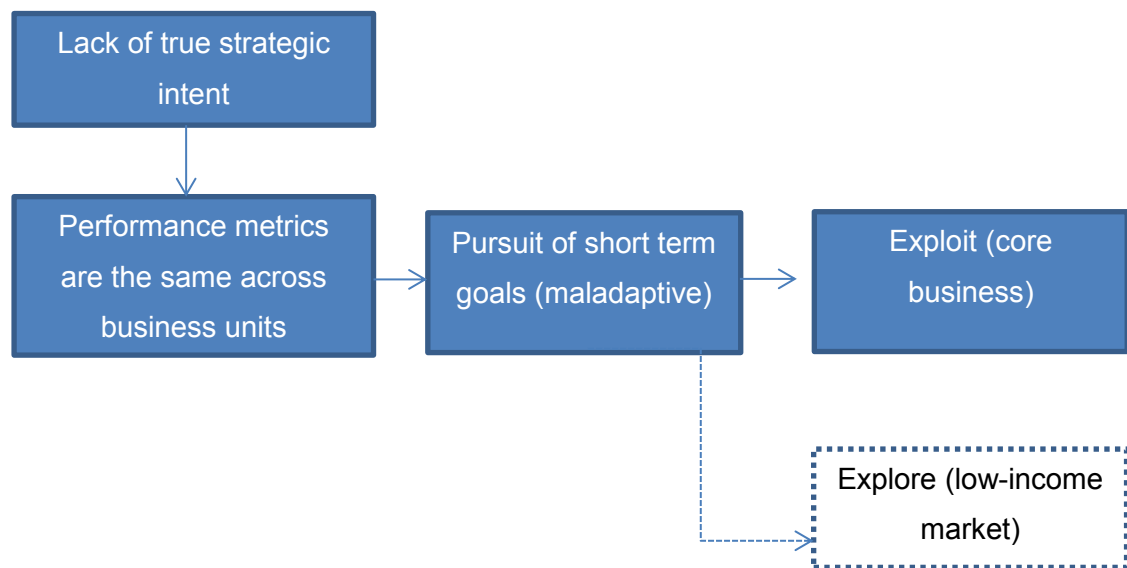
The implication was that, even for leaders of these organisations, short-term financial metrics dominated at the expense of long-term goals.

The literature indicated that strategic intent was crucial to the success of both the “explore” and “exploit” units of a firm as it held these units together (Simsek, 2009; O’Reilly & Tushman, 2011) and created an understanding of the core values of a company (O’Reilly & Tushman, 2008). Additionally, leadership assisted in managing the organisational tensions that develop through the contradictory processes that

exploration and exploitation required (Andriopoulos & Lewis, 2009) at all levels of the firm.

In conclusion, as illustrated by Figure 6, even though leaders articulated long-term vision of pursuing the low-income market, they were still motivated by short-term goals rather than a long-term mindset. This resulted in managers behaving in ways to achieve short-term goals too. As a result, the short-term company performance, achieved through exploiting in the upper/ middle income segments, overrode the long-term sustainability which can be achieved through the low-income segment, effectively steering the company back to exploiting rather than exploring the low-income market. This adoption of short-term more than long-term metrics by companies was maladaptive to exploration of the low-income market segment and confirmed the current literature on the importance of strategic intent as an enabler of ambidexterity.

*Figure 6: Relationship between lack of strategic intent and exploring/exploiting (dotted lines indicate reduced activity)*



#### 6.2.4 Allocation of resources

The response to the question of how resources were allocated between the “explore” and “exploit” units, was varied and as a result the researcher found it challenging to identify themes that were recurrent. It seemed that some firms allocated resources based on business case merit, while others used innovation funds to allocate financial resources. One respondent mentioned that resources were first allocated to the strategic imperatives before the low-income market was considered. This may suggest a lack of full commitment to the low-income market unit; however, this was not a reliable deduction, considering that it was a response from one manager.

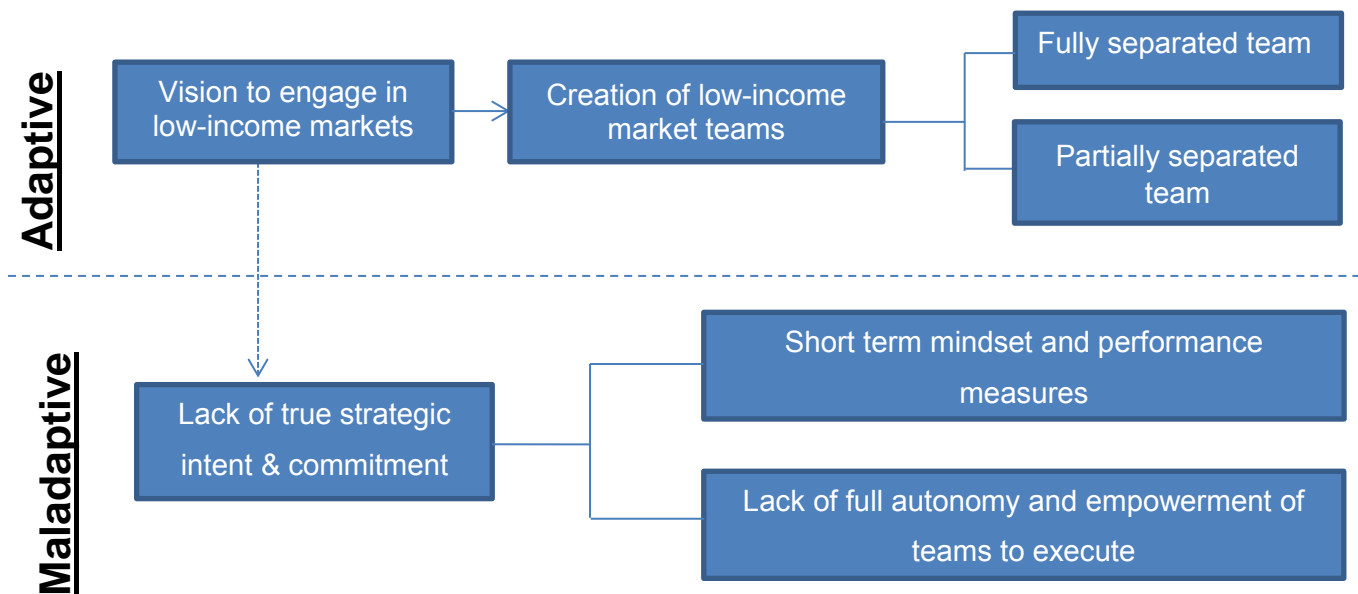
### 6.2.5 Conclusion to Research Question 1

Firms that had previously worked mainly in the upper- and middle-income segments, and who were now pursuing growth in the lower-income units, understood the need to adapt to unique and dynamic conditions within this segment. The first adaptation mechanism demonstrated was that they were structurally separating the low-income unit from the core business units in order to provide autonomy and flexibility for this unit. There was a varied response to the level of separation, however, as some companies had full structural separation with little integration between the units while other companies had partially separated units with a higher degree of connectedness. The companies with partially separated units seemed to have a greater challenge with respect to integrating the exploratory units into the company as a whole. Additionally, they had given these units less autonomy than companies that were fully structurally separated. These units were therefore still subject to centralised decision making rather than decentralised processes and may not be fully empowered to execute on their mandates for the low income market.

A key finding was that some of the adaptation may be without true commitment and strategic intent as evidenced by the continued focus on short-term goals and performance criteria rather than a long-term outlook. This short-term focus was incongruent with the long-term mindset that was required for strategies in the low-income market. This may be maladaptive, demonstrating the use of performance criteria used initially for the core (upper- and middle-) income segments.

In summary, there were varying degrees of adaptation, however, even though the vision to engage with the low-income market may be articulated by the creation of structurally separate low-income market units, in some companies, true strategic intent and leadership commitment may still be lacking. It appears that if a true commitment existed, empowerment of business units to execute performance measures and resource allocation would be a reflection of genuine allegiance to the pursuit of exploration and growth in the low-income market. Figure 7 below is an illustrative representation of the summary above.

Figure 7: How companies are adapting to meet the needs of the low-income market



### 6.3 Research Question 2

**What are the internal organisational tensions that a firm faces when exploring low-income markets while exploiting the traditional upper- and middle-income segments?**

The tensions that companies faced while trying to adapt to the needs of the low-income market were mainly observed in companies that had partially separated business units. These tensions were analysed through the lens of the following recurring themes:

- Integration of the low-income unit and alignment of the different levels of the organisation.
- The presence of legacy systems and processes.
- While vision exists, lack of execution is a challenge.
- The understanding of the low-income market and customer poses tensions for the firm.

#### 6.3.1 Integration of the low-income unit and alignment of people

It was evident that not all areas of the businesses were committed to, or understood the need to address the low-income market as a growth area, deduced from quotes from eight managers. This was especially evident in companies with matrix cross-functional structures i.e. partially separated low-income units like the financial companies in this sample. The employees of the matrix structure were technically outside the low-income unit and provided support to this unit. It was perceived that

these employees may be resistant to adopting the new ways of achieving goals, those more suited to the needs of the low-income market as evidenced by the following quotes.

*Standard Bank (1): “You get the same mind-set of people running routine business and people running new business.”*

*Nestlé: “..but you also had to engage with other parts of the business which weren’t so interested or focused on this environment. And it was actually quite hard going trying to convince them and entice them into this space.”*

*Hollard (2): “..but you also had to engage with other parts of the business which weren’t so interested or focused on this environment. And it was actually quite hard going trying to convince them and entice them into this space.”*

Further analysis of the reasons for this absence of cohesion, revealed that managers outside the low-income segment, may still be motivated by short-term versus long-term goals, as this was what they were measured on. The quote below illustrates this.

*Hollard (2): “A completely different matter when you come down to the middle managers, when they are basically measured on profitability for their area. And if something is less profitable or is taking a long time to get there, they lose interest.”*

As a result, managers focused on the upper- and middle-income segments, which were easier to reach, at the expense of the low-income segment. The inference was that senior managers were not succeeding in aligning these employees through appropriate performance metrics and common vision as indicated by the respondent (2) from Nedbank who mentioned that one of the biggest challenges are “short term incentives.” London (2010) was clear that for business models to succeed, all elements of the internal structure and processes within a company needed to be aligned and mutually reinforcing.

This finding was consistent with the literature on the role of leaders to create vision, goals and organisational alignment. O’ Reilly & Tushman (2007, 2011) articulated that leadership is important to create a compelling strategic intent and to resolve the tensions that exploration and exploitation bring (Simsek, 2009; Cantarello et al., 2012). The quote below from 3M respondent indicates how employees’ mindsets are challenged, thus needing alignment.

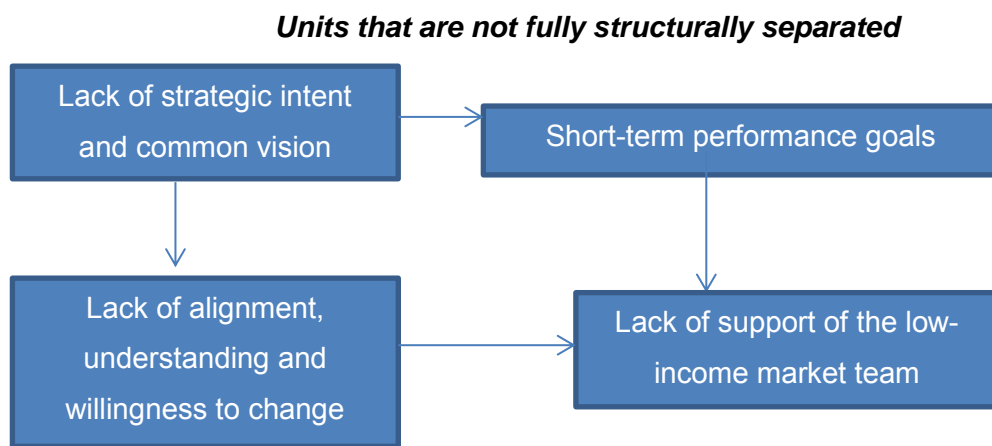
*3M (1): People who have been in 3M for a long time, are ones that really struggle with this concept, because we have been famous for supplying to the prestigious few, and we have been very fortunate in that we have made fantastic profits and so that has been the modus operandi for many, many*



*years and that..., so this mindset completely challenges people that you know have come through the ranks.”*

Additionally, leaders create a balance between explorative and exploitative activities (Smith & Tushman, 2005), allowing employees to understand their roles. This would be relevant in the case of employees both inside and outside the low-income market unit, who would then be able to understand their roles in the pursuit of both market segment.

*Figure 8: Lack of alignment – causes and effects in units that are not fully structurally separated*



However, there also appeared to be circumstances when alignment and integration may not be required, as in the case of firms like Airtel Malawi, Blue Label Telecoms and Massmart. These companies had low income units that were differentiated and separated from the core business units requiring integration only when it made business sense. As a result, the low income units were able to focus completely on their customer segment, as illustrated by these quotes from Massmart and Airtel Malawi:

*Massmart: “Where we can, wherever it is not customer interfaced, and it makes commercial sense, we will integrate.”*

*“This company would resist integration completely – even Wal-Mart coming in – they had a view of a one dimensional view of life – and this organisation will push back very fast.”*

*Airtel Malawi: “...usually it is when there is something that can benefit both.”*

In summary, with regards to alignment and integration, two key insights emerged. The first was that leaders need to empower managers with the appropriate performance metrics, together with creating a common vision and understanding across the entire firm, of the need to enter the low-income market. The next insight was that low-income

units that were fully separated from the rest of the business did not require the same levels of integration and alignment across the entire company, and only integrated functions and processes where it made sense for the different business units.

### 6.3.2 Legacy systems and processes

An important tension that emerged was the use of systems, processes and routines learned in the traditional (core) market, being employed in the low-income market. Even though this seemed more prevalent in financial institutions, companies like McCain also mentioned the same tension. As a result, there appeared to be a lack of flexibility to adapt to the new market and resistance to change from old ways of doing things possibly due to the “success trap” that is created through achieving market share in the core markets (Gupta, Smith & Shallay, 2006). This creates the tension of unlearning together with learning (London & Hart, 2004; Smith & Lewis, 2011) in order to adapt to meet the needs of both market segments. Some respondents believed that the firm’s approach was a “plug-and-play” from the traditional market, into the new market. Most agreed that these legacy approaches did not work in the new low-income market context and may partially be due to lack of understanding of the market and its dynamics. The quotes below reflect these findings.

*Hollard (2): “Now what happened is when we bought this business we started implementing our corporate rules into this business, which will totally kill it.”*

*Nedbank (2): “The problem is getting our internal processes aligned, and understanding.”*

*Standard Bank (1): “Almost plug and play and purely because they believed they had mastered the R13 billion profits for the organisation, they had to be doing something right but spending R120 million a year on your BOP business but making use of the very same processes – that is wasting your money.”*

There were two particular legacy systems that were notable. The first was a legacy cost-allocation model, evident in four of the financial institutions. The process of allocating costs across both the upper/middle and lower-income market units, as per traditional methods of the core units, created the perception that the low-income unit was unprofitable in the short term. As a result respondents felt that different cost allocation models would assist with the perception of the low-income market unit’s performance.

*Nedbank (2): “Therefore your cost models have to change and we have not managed to crack that yet.”*

*Hollard (2): “So as soon as you bring something into a bank or into a big organisation, when you start allocating costs and stuff to it, it starts killing it. Unless it is designed in a way that at a certain number it can absorb those costs.”*

*Standard Bank (2): “You get massive tension because on the one side you believe that on BOP business you need to reduce the cost of service whereas traditional channel banking is quite expensive because of the infrastructure that exists, so from a banking perspective you are trying to reduce the cost of service.”*

The second was a legacy mindset related to “time to profitability”. As an example, the following quote reflects this mindset.

*Standard Bank (2): “generating large, large profits across small segments and if you take the size of BOP which most probably happens to be the biggest segment in the country then you expect the same magnitude or if not bigger magnitudes of revenue from bigger markets without being cognisant of what is then required to make those markets work first.”*

This approach too, is incongruent to the market dynamics and reality of doing business in the low-income markets, since this market may not only take longer to yield returns but also may require different evaluation metrics (London, 2007).

A third legacy structure identified within the firms was the use of technology platforms, designed initially for the core markets, now also being used for the lower-income market segment. This seemed more of an issue in the financial institutions. The belief was that the older platforms were not customised to service the needs of the new lower-income segment.

*Standard Bank (3): “Well we had to go to separate platform, and that was a huge hurdle, because the existing banking platform is so outdated it is scary and that is why we had to build something totally separate, and we went to MTN and we created a mobile bank account. It is an amazing piece of work, I mean you could transfer funds to anybody anywhere in the world but is that what was required?”*

In summary, the findings regarding the tensions that resulted from legacy processes and systems were in agreement with the literature regarding organisational inertia. Gilbert (2005) defined routine rigidity as “repeated patterns of response involving interdependent activities that become reinforced through structural embeddedness and repeated use” (p.742). Managers therefore favour strategies, structures and processes that were mutually reinforcing and resisted change from this, especially if risk taking was required (Smith & Tushman, 2005). This was confirmed by respondent 2 from

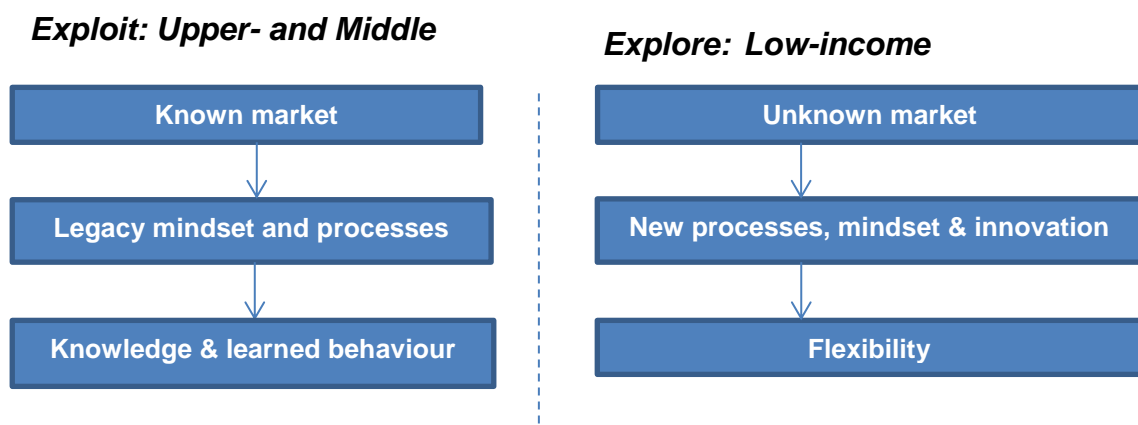
Hollard who explained that a seven page claim form was being used for a micro insurance product created for the low income market.

*Hollard (2): “So now our risk guys didn’t understand that and we said to them ‘how can you have a seven page claim form?’ I mean you are faxing these things, right, and they wanted signatures on every page to see if the signature on page 1 matched page 5 for fraud prevention. I understand that you have to prevent fraud, right, but not to the level where you are actually creating damage of your brand in the market.”who said that together with a preference for the short-term versus long-term gains (Smith & Tushman, 2005).*

In effect, the use of routines and efficiency designed for the upper/middle income markets created a paradox for the low-income market unit where dynamism, adaptability and innovation were required (Smith and Lewis, 2011) as in the case of financial institutions using traditional cost allocation models. Conventional wisdom (London & Hart, 2004) must be carefully reconsidered as knowledge and capabilities gained in traditional markets had limited transferability to the low-income market (Van den Waeyenberg & Hens, 2012) due to its unique dynamics.

The researcher concluded that the use of legacy processes and systems, learned for the traditional upper- and middle-income segments, created challenges for the company trying to adapt to the low-income market segment. The key tension that arose for the firm was balancing the knowledge gained in their core markets, with the flexibility required in the low-income market.

*Figure 9: Differences of knowledge, processes and mindsets required between the different business units*



### 6.3.3 Vision exists, but lack of execution is a challenge

Even though this tension had been mentioned as part of the performance measures in Section 6.2.3 above, the researcher considered it significant to reiterate the finding in relation to the *challenges* experienced as it was mentioned in this context during the interviews. This is illustrated by the quotes below.

*Nedbank (2): "I think the real issue is in the execution."*

*Hollard (2): "So the directors get it, but the problem is they don't have the power to influence the middle layer which is operations."*

*"Again, others where, I will give you one example, there was one particular channel where actually you had interest from the top management, the MD and GM, but then it was the underlying team who had very little interest or energy there; they just saw other priorities."*

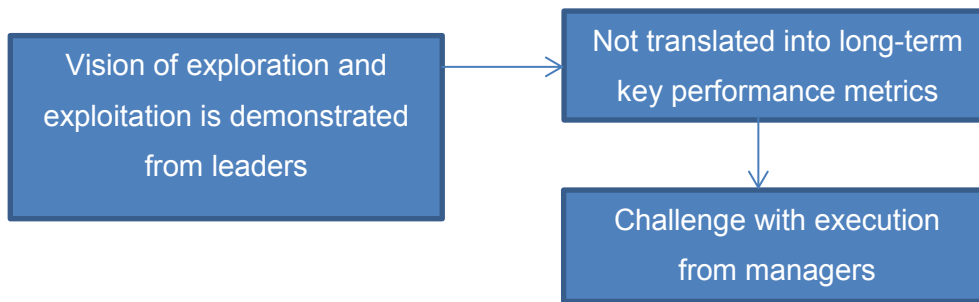
*Nestlé: "It's KPI and that is a challenge because PPP is a vision it's not a KPI, KPI is top line growth, bottom line growth and market share but I think nobody has understood yet enough."*

Short-term mindset and performance measures seemed to have an impact on how managers prioritised and executed on their mandates. Leaders mentioned a vision, but this was not translated into a measurable key performance indicator. As a result managers behaved in alignment to their short-term performance metrics, which were maladaptive to exploration.

The literature review did not reveal many direct associations between company vision, managers' execution of tasks and key performance metrics in the context of balancing exploration and exploitation. Even though the importance of a unifying vision had already been stated, how the vision was translated into performance metrics was lacking in the literature. This finding adds granularity to the theory of ambidexterity with respect incentivising managers appropriately. According to O' Reilly & Tushman, (2007) a senior manager was not only responsible for seizing exploratory opportunities, but also for creating an enabling environment execution. In the case of the low-income market unit, this would be enabling execution through appropriate performance metrics.

The researcher concluded that strategic intent should not only be articulated by leaders, as "lip service" but that, this commitment to explore the low-income market should also be translated into metrics appropriate for this segment. This would enable managers to execute on the intent.

Figure 10: Illustration showing relationships between vision, performance metrics and execution



### 6.3.4 Understanding the context of the low-income consumer

The traditional understanding of customers and how they behave in the upper- and middle-income segment created tensions for firms now exploring the low-income segment. Firms therefore needed to think differently about the customer and what their value proposition was. One manager mentioned that while firms strived to create needs in upper- and middle-income segments, the low-income market required filling real needs and thereby adding value to these customers who had little disposable income.

*Standard Bank (1): “A lot of banking instruments what they do is they solve invisible problems, so there is a product, we will push it into the market, people will adopt it if we market it well enough, whether that makes sense or not”*

*“...so whereas what we have done this way, is to go and see what the need is, build the functionality into the product we are now going to try and put the product back on the market to meet that need.”*

There appeared to be two reasons that the understanding of the low-income market and customer created tensions for the firm. The first may be that they lack true understanding of the needs of the low income market customer. The second reason was that they transferred knowledge about customers from the core markets to the low-income markets. The use of these assumptions created tensions in their future understanding of the low-income customer as articulated by the quote below. Martinez & Carbonell, (2007) had already elaborated that some of these assumptions were that the poor had no money, that spending by the poor was restricted to basic needs and that the poor only bought cheap goods.

*McCain: “That we had this perception that we had to put a low end product in this market: so we had to put something that was cheap, when I say cheap is it more value for money.”*

The literature was convincing of the requirement to create mutual value in low-income market segments (London, 2007). This should to start with a deep understanding of the customers’ needs and wants (Gollakota et al., 2010; Anderson, Kupp & Vandermerwe,

2010). Importantly, Martinez & Carbonell (2007) added that prior assumptions, as stated by the McCain respondent above, should be reconsidered.

This finding therefore confirmed the recent literature. It added granularity by emphasising that for firms who have worked mainly in the upper- and middle-income segments, the understanding of the low-income market and customer was an imperative, if the firm wished to avoid tensions that knowledge of prior markets caused.

### 6.3.5 Conclusion to Research Question 2

There were four key tensions that were observed as challenges for exploring the low-income market while exploiting the upper/middle segments. However, on closer inspection, these may be collapsed into two broad themes (*in italics below*).

- Integration of the low-income unit and alignment of the different levels of the organisation, however *this can be categorised as a leadership challenge*.
- The presence of legacy systems and processes.
- While vision exists, lack of execution is a challenge. *This can also be categorised as a leadership challenge*.
- The understanding the low-income market and customer poses tensions for the firm. *This can be categorised as a legacy mindset about customers*.

In summary, the two key tensions that the firm is faced with can be summarised as

- Leadership challenges and
- Legacy systems processes and mindsets (knowledge)

## 6.4 Research Question 3

### What mechanisms are firms using to resolve tensions?

For the sake of consistency and granularity, Research Question 3 was aligned to the results found in Chapter 5 (Section 5.6). The researcher believed that if only the conclusions arrived to in Research Question 2 were used for this section, much of the detail would be lost.

#### 6.4.1 Companies responses to lack of alignment

##### *Change Management*

The study found that integration of the low-income market unit and alignment of people is partly addressed by change management processes. As some firms focused predominantly on the upper/middle income segments, the new vision to explore the lower-income market required significant change in employees' mindsets, especially those who worked outside the low-income market unit, within the cross-functional matrix structures. Three out of four financial institutions interviewed mentioned that a change management approach needed to be adopted in order to create alignment, understanding and consensus amongst employees. Furthermore, the word "change" was used 41 times from 13 respondents, reflecting change that needed to happen in the organisation.

*ABSA: "And so I send every month, I have sessions, I haven't had one for a while, where I actually run a sort of master class, saying 'are you interested in this, this is the way it will apply'. I choose projects that are like high profile projects, I assign projects, steerco membership to people I want in – not necessarily because they should be there but because.... So you have to run it like a change campaign."*

*Hollard (1): "So, I think on the one hand we achieved a lot and it was only a few bruises that we could have done without but maybe the point was that was what we needed to do; we needed to be the change agents to drive that change."*

There were three major levers, centred on change management, that were used to transform mindsets and develop the alignment of people. The first was the use of steering committees that had the dual function of getting buy-in from leaders and convincing their subordinates as reflected in the quote below. Steering committees, with senior managers from all business units, were part of the integration mechanisms that demonstrated the value that the low income unit can bring, while creating the conditions for inconsistencies between exploring and exploiting to coexist (Smith &



Tushman, 2005). Additionally this committee could also serve to develop common understanding between senior managers of all business units, thereby enhancing the spirit of collaboration at a leadership level

*ABSA: “So you have to go with a joint approach, buy them in. They are sitting on the same steerco, they are part of that steerco – you buy them in and you make sure that there is an upside for them in participation.”*

Second, the quote from Hollard below is an illustration of how some managers built relationships and lobbied key stakeholders through the use of examples and demonstration of the business case for the low-income market.

*Hollard (1): “And then there was engagement with the various other GMs who were responsible for different channels or initiatives – both in terms of relationships but also through business cases, if you have something you want to do and it will work if you try and develop it back in a business case.”*

Thirdly, extensive communication mechanisms were applied with the aim of creating an awareness and appreciation of the reality of the low-income market context. These mechanisms ranged from the use of newsletters and messages from global leaders to taking people into the market and appointing brand ambassadors.

The existing literature was in agreement with the need for integration and the role that senior managers play in this. However, change management had not been mentioned as an integration mechanism. The researcher concluded that this finding may represent a new approach to achieve integration in companies that had traditionally focused on exploring one segment.

### ***Integration of the low-income market unit and alignment of people is in part being addressed through leaders creating a common vision***

The impact of leadership and common vision has already been discussed earlier in this chapter. The context of the discussions in these sections is centred on the impact of a lack of leadership and its effects with respect to performance and execution within some companies. This section now discusses how other companies have used effective leadership to create alignment and resolve tensions within the firm, further highlighting the significant role that leaders play.

O'Reilly & Tushman (2011) reinforced the importance of senior leadership through five prerequisites for successful exploration and exploitation. They emphasised that strategic intent and common vision were crucial; however, leaders must also own the overall strategy of exploring and exploiting through aligned, but separate units, and

further, take the responsibility for resolving tensions that arise. This study further validates the role that leaders play in creating a favourable environment for both the core and low income business units as illustrated by the quote below.

*3M(1): “But the leadership that is forward thinking and pioneering this initiative, they have got a lot of support; so it is a case of being able, for this leadership, and in fact our CEO by the way comes from the international markets business, so he is very, very aware about the challenges and the domain we are playing in. So he is an advocate for this grouping of people and so much so that when it comes from the CEO’s mouth it becomes like gospel and in fact it very quickly becomes part of the DNA of the culture.”*

Although current literature on both ambidexterity and low-income markets had little detail on the mechanisms that leaders could use, this study found various mechanisms that were employed to create the common vision of exploring the low-income market, while exploiting the upper/middle income segments.

Firstly, leaders were not only able to generate buy-in through articulation of the intention to enter the low-income markets, but could also enforce this should there be resistance from employees, showing conviction and commitment. This is required in many financial firms due to their historical focus on just the upper and middle income markets, in an effort to overcome the resistance to change.

*Nedbank(1): “And she enforces it, we will have entry level banking customers here and that is our core focus and the reaction would be no, I don’t care about the answer, that is where we are going, you make it work, make it economically feasible and that mindset changes people.”*

Secondly, financial goals or volume targets, like the quote from Pepsico below had been used to convey the imperative to enter the low-income market.

*Pepsico: “So we explain why we are doing it, so we always talk about our goals. So we normally show a map from Africa and we put like 200000 tons like 20/30 and everyone knows that is the goal, and then it is how you translate.”*

Lastly, some leaders like those in 3M, McCain and Nedbank were able to articulate a compelling argument that future growth and sustainability of their firms lay within the lower income segment as their core markets were saturated, providing little growth for the future.

*McCain: “So in this last phase, I mean we are all committed to this new vision of doubling the business and that is the global vision.”*

An important factor, however, even before alignment and integration of the low-income market unit was created, was the alignment of the leaders of the firms themselves so that they “spoke with one voice”. This was in agreement with current literature. Lubatkin (2006) found that senior managers needed to be aligned and integrated for companies to successfully pursue exploration and exploitation by “synchronising social and task processes, collaboration, information exchange and decision making” (p.647). The steering committee mentioned earlier is a tool that could be used to develop this alignment amongst leaders. Consequently, these leaders were also able to motivate their staff to support the low-income market units. Trust between leaders seemed essential to enhance a spirit of collaboration and commitment to the low-income market strategy as echoed by this manager from 3M:

*“Within the leadership team itself now, as opposed to what it was five years ago, there is a lot more collaboration, we can very candidly address one another, although not candidly enough yet – I think that needs to improve some more, but most certainly we are energised and excited about the vision and about the future of where this is going and we know that we can trust the guy next to you.”*

This too was validated by the literature. Lubatkin et al. (2011) emphasised the role that trust played in developing behavioural integration at the senior management level.

The researcher therefore concluded that the role that senior leaders played in articulating common vision to unite business units was in agreement with current literature on ambidexterity. This research had additionally provided a few mechanisms that leaders could use to create common vision in the context of low-income markets.

#### **6.4.2 Companies’ responses to lack of customer understanding**

Companies realised that they needed to resolve the challenges around the understanding of the low-income consumer through market research and by employing people that were representative of the low income market. Four companies mentioned that deeper market understanding could be achieved by employing people that “come from the market” as illustrated in the quote below.

*Cemex (Patrimonio Hoy): “Well maybe in the way we are looking for the people with that sense of pride that is the big difference. We operate inside, within the community. If I am looking for an architect, I will be there, trying to find the architect there. That is the main difference, because if you have this characteristic you won’t be afraid to go to the low income market and to speak with the market.”*

Nedbank (1): *“So they must look the same, like and like and like, we are dealing with historical distance, so it must be someone who is respected – a priest or an elder. So first of all my team I had to go and make sure they were representative of the market.”*

Whereas respondents expressed that they had initially approached the low-income market with assumptions based on prior experience in the upper/middle income segments, six firms mentioned that they were now conducting detailed market research within the low-income segment. While the requirement to conduct market research may seem to be common practice before approaching any new segment, this is particularly important in the context of the low income market due to the unique characteristics of the market.

Ten respondents mentioned the word “customer” in relation to “understanding”, with a frequency count of 116. It appeared that companies like Massmart, with structurally differentiated teams, may have a deeper obsession with understanding their customers in order to meet their needs, especially since they are in the retail sector. Massmart and Cambridge mentioned the word “customer” 34 and 26 times respectively. The quotes from Massmart below indicate the intense focus that the company has on the customer.

*Massmart: “And it is quite clear that you have got to get focused on who your customers are and how you serve them.”*

*“You see in retail you can only have one point of view about what your business is about; you can’t have multiple.”*

*“But you can only have one point of view at a retail level that is why you have to have dedicated teams.”*

In conclusion, this finding confirms and validates the literature that exists regarding the importance of knowing the low income market intimately. The result emphasises the need for companies to use research tools to understand the market, rather than assumptions from core markets. The analysis also adds to the theory around innovation teams, by contributing that “people that come from the market” play a role to help resolve firm challenges around the lack of understanding of the low income consumer.

### **6.4.3 Mechanisms to respond to the tensions of legacy systems, mindsets and processes.**

How should companies resolve the tensions that legacy systems and processes present? This study concludes that structurally separate and independent, low-income market units may address the challenges of legacy mindsets, processes and systems. Section 5.6.3 of Chapter 5 expanded on the level of evidence for this conclusion, based on the number of respondents across sectors and the conviction with which some respondents spoke.

Separating the low-income market unit had internal and external implications. Firstly, from an internal organisational perspective, independence of the low-income market unit allowed for a decentralised approach regarding cost allocation and profitability expectations. Furthermore, this also provided autonomy, and reducing bureaucracy while empowering the low-income market units to be flexible with quick decision making. The two respondents that were previously from Standard Bank spoke with conviction regarding this recommendation.

*Standard Bank (1): "...is to separate that business completely from the command and control structures of the parent company, now that is one thing to say it, but you still need the parent company to relinquish that command and control to allow you to do what you do, so essentially that was probably the biggest stumbling block at Standard Bank and it still is the biggest stumbling block. I speak to quite a lot of them quite regularly and they still face those very same problems."*

Secondly, from an external perspective, structural separation seemed to impart a closer obsession with the customer and meeting their needs as was noted in companies like Massmart. This was fundamental for the low-income market and customer because of the inherent lack of understanding of this complex market, its dynamics and the need to do business differently.

Some scholars within the ambidexterity literature pose that firms with structurally differentiated explore units do not attain ambidexterity as a capability for the firm in the true sense. Raisch and Birkinshaw (2008), conclude that there are two schools of thought regarding the degree of integration that is required. At its extreme, one school (Christensen, 1998; Benner & Tushman, 2003; Tushman & O' Reilly, 1996) advocate that exploratory units should be kept completely independent in order to deliver on disruptive innovations as they are decentralised and more flexible (Benner & Tushman, 2003; Tushman & O' Reilly, 1996). This is evident in companies like Massmart and Patrimonio Hoy. The second school however, motivates that without integration,

structural separation would result in differentiated capabilities in each of the units, preventing new combinations of capabilities being developed and leveraged (Jansen et al., 2009). This was also echoed by the respondent from ABSA who articulated:

*“But the counter argument is unless you do that inside a big organization you never get the learning in the organization! So you can do it outside, the learning never comes back.”*

The researcher has synthesised the following conclusion based on the findings that emerged regarding the structural separation of teams and the current debate between scholars on the subject. The first point of consideration is that the literature on ambidexterity is based on exploration and exploitation *within* the traditional upper and middle income segments. As a result, ambidexterity has not been investigated *across* economic segments. Second, this study, having examined exploration and exploitation *across* two economic segments, has observed that structural separation, in this market allows firms to deal with the unique tensions that arise from the pursuit of this market more effectively. Unlike exploring and exploiting *within* traditional markets, where the customer and market contexts are relatively similar, exploring and exploiting *across* economic segments especially the low income market requires a completely different mindset and approach. This builds the case for the structurally separated low income market team which allows this unit, and the company, to cope effectively with the unique competencies and capabilities required for both markets.

Additionally, however, the responsibility that leaders needed to take was evident and pervasive through the ambidexterity literature. Once again, the emphasis was on senior leaders' role in creating an enabling environment through creating the right structures and vision, for the two to coexist is established. This may validate the current thought among many scholars that leadership may be an independent determinant of ambidexterity (Cantarello, Martini & Nosella, 2012; O' Reilly & Tushman, 2011; Raisch & Birkinshaw, 2008; Simsek, 2009).

#### **6.4.4 Conclusion of Research Question 3**

The central determinant of how firms were resolving the tensions associated with the exploration of the lower-income market, having historically been focused on the upper/middle-income market as their core focus, was strongly related to how they were structured. Full structural separation was firstly associated with fewer tensions regarding alignment of the mindsets of people, and secondly, did not have the conflicts associated with legacy systems created for the upper/middle income segments. This then translated to a closer understanding of the customer in the low-income segment.

The disadvantage of this approach must however be noted. Firstly, learning did not occur within the firm, and secondly, future integration of this unit into the organisation may be challenging.

For firms that had partially separated the low-income unit from the rest of the firm, integration and alignment of the company became crucial. Companies were attempting to achieve integration and alignment through two mechanisms. The first was the use of change management approaches in an attempt to change mindsets and get commitment from people who previously focused only on the core (upper- and middle-income) markets. This integration mechanism had not been mentioned in the literature. The second mechanism to achieve alignment was through leaders communicating a common, unifying vision for both units in the firm in order to achieve financial goals and ensure commercial sustainability. Additionally, however, the senior leaders of the firm needed to be aligned as a team with a unity of purpose. This shared leadership vision ensured collaboration, the resolution of tensions and trade-offs that arose, and that synergies were leveraged between units. In essence, partially separated units, required committed leadership teams to effect change management and communicate common vision.

Figure 11: Full structural separation and its impact on organisational tensions

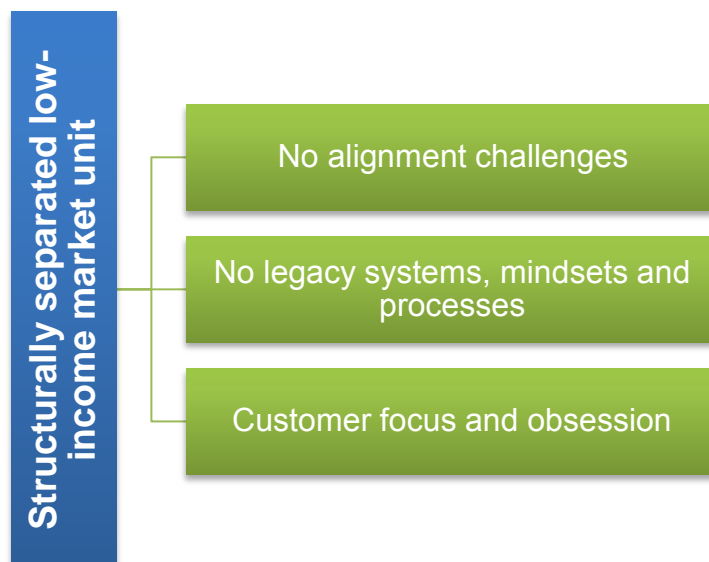
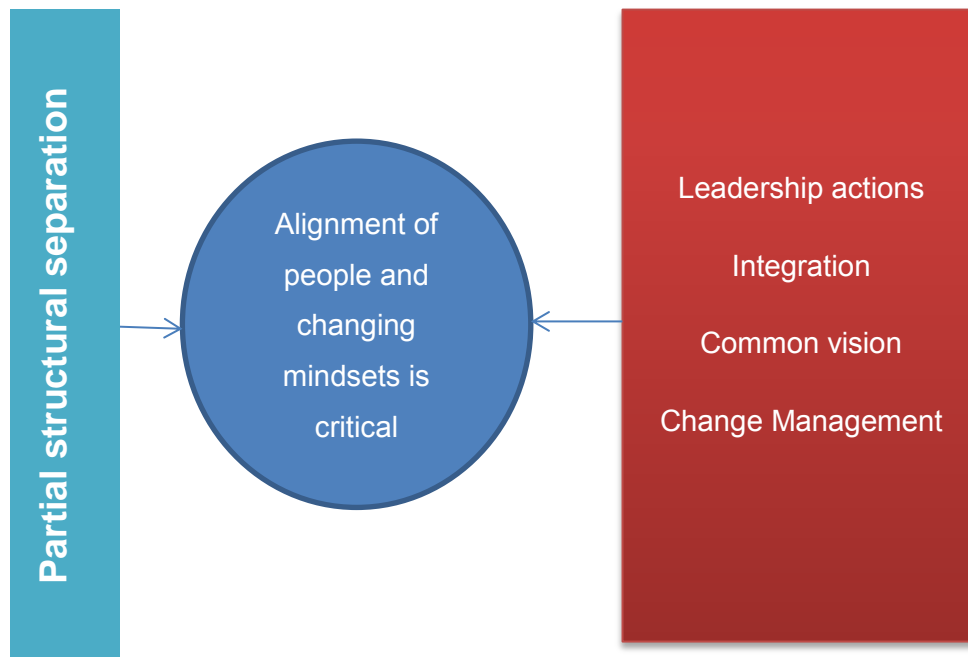


Figure 12: Partially separated units result in alignment tensions that require leadership actions



## 6.5 Conclusion to Chapter 6

This chapter reviewed each of the research questions in the light of the data collected for this study and the literature reviewed. Thereafter, conclusions were presented for each question. Many elements of how companies were adapting to low-income markets had been defined, creating insight into the requirements that companies needed in order to explore the low-income market.

The research objectives as defined by Chapter 3 have been met, and will add to the body of knowledge on ambidexterity in general. Specifically, though, this research contributes to the foundation of understanding ambidexterity in the context of low-income markets.



## Chapter 7: Conclusion

### 7.1 Introduction

This chapter revisits the research objectives and summarises the findings of the study. Managerial recommendations are suggested based on the findings. Finally study limitations and a conclusion for the research are presented.

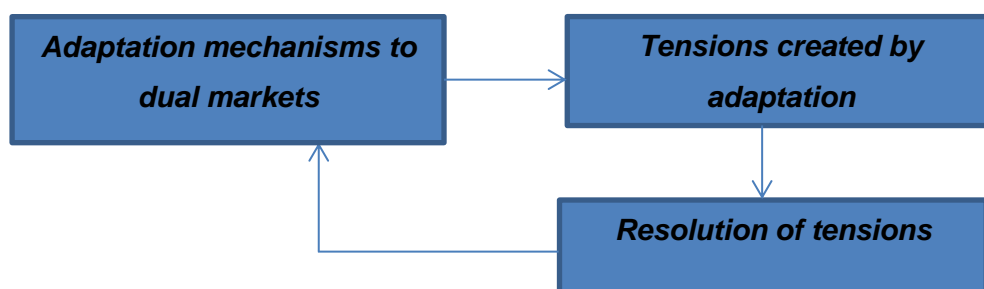
### 7.2 Research objectives

The objective of this study was to understand how companies were adapting to exploration of the low-income markets, specifically if they had previously focused on the upper- and middle-income segments as their core markets. Additionally, the research sought to look at the tensions that the company was presented with within the context of exploring this new market. Lastly, it investigated how these tensions were being resolved. These objectives were defined for two reasons. Firstly, in order to add to the body of knowledge around ambidexterity and more specifically, ambidexterity in light of low-income markets. Secondly, in order to create a meaningful and practical approach for companies to use in their pursuit of low-income market strategies.

### 7.3 Research findings and synthesis

This study investigated how companies, who had historically focused primarily on upper/middle-income market segments for their core business, were adapting to exploring the low-income market, the tensions that this adaptation to dual markets brought and how they were resolving these tensions. The research paradigm was deductive using content, thematic and narrative analysis tools for the data analysis process.

Figure 13: Relationship of research questions to each other



Research Question 1 evaluated the mechanisms that firms are using to adapt to the low-income market. These adaptations were reviewed through the lenses of the structure of the low-income market units, the degree of autonomy that they were given, how they were performance managed and how resources were allocated. It was found that most companies were choosing to structurally separate their low-income market units rather than having a single unit focus on all markets. However, some units were fully structurally separated and others were partially separated. Units with full separation, had more autonomy, deeper focus on the customer segment and no integration challenges. Partially separated units were partial because they were still technically within the company, with cross-functional matrix structures thus needing to be integrated into the broader firm. These units may have had less autonomy and empowerment to respond to the market needs; therefore they were subject to the bureaucracy within the company. An important finding regarding performance management was the lack of true strategic intent from some leaders to pursue the low-income market segment. This was reflected in the continued emphasis on short-term goals evidenced by rewarding managers on short-term results, which was incongruent to the long-term approach and perspective required by the low-income segment. As a result, managers had challenges executing on goals for the low-income market, preferring to deliver on short-term objectives, which required less effort and yielded quicker results.

The adaptation of the firm to the needs of the new market created tensions for the firm. Changing the market segment focus required that employees be aligned from what was previously single-minded attention to the upper/middle-income segment, to dual effort for dual market segments. This was especially true for employees that were part of the cross-functional units and who provided support to the low-income market unit. The literature and the results of this study were in agreement that this change required a shift in mindsets. This study concurred with the published literature on the important role that senior leaders played in articulating the unifying common vision to explore and exploit, thereby assisting with altering mindsets and aligning the firm to the new dual focus. However, this study adds to how leaders can integrate their business units, by introducing the impact that change management approaches can have to realign the organisation. Some of the tools under the change management philosophy used were steering committees to not only create buy-in of senior members, but also to persuade them to influence their units. Secondly, strong relationships with key stakeholders and influencers in the firm also served to achieve commitment to the low-income market strategy. Lastly, communication tactics were extensively used by many companies, who understood the need to take employees through a journey of understanding the

new market, its context, consumers and challenges in order to engender buy-in and commitment.

As mentioned earlier, leadership appeared as a significant factor in resolving tensions that the firm experienced in the pursuit of the low-income market and may be an independent determinant of the ability of the firm to explore and exploit simultaneously. The study confirmed the role that leaders play to convincingly articulate the imperative to enter the low-income market for sustainability in the long term. Long-term financial, and growth objectives were strong arguments used to enable a common purpose amongst both the “explore” and “exploit” units, and get commitment to work together. An additional finding was that the senior team must also be aligned to this vision, speak with one voice, collaborate and engender trust between one another as a unified force that embodies the strategic intent. However, a finding from Research Question 1 revealed that some senior leaders were not demonstrating their commitment to a long-term perspective by setting performance targets appropriately for the low-income market unit and its support members.

Legacy systems and mindsets created significant tensions in the firm. This tension resulted mainly from employees’ lack of understanding of the need to enter the low-income market. As a result, traditional cost allocation systems and profit expectations, learned in their core markets, were being used for the low-income market unit. Additionally, technology platforms used in the core market, were not suitable for the new market, creating barriers to strategy execution. The finding regarding legacy mindsets was in alignment with the literature regarding resistance to changing from older routines which created efficiency to newer methods that required flexibility and adaptability. However, firms were able to overcome this tension in two ways as suggested by the study findings.

The first way, was that leaders could create common vision and long-term perspective for all units, thereby allowing the core teams to understand the need to change, while being empowered with long-term measurements. The second method was the creation of fully structurally separate low-income market units, that had independent technology platforms, people with a view and mindset centred on the low-income consumer, and tailored cost allocation and profit expectations. The existing literature on this was inconclusive as there were two schools of thought with divergent views. The one school advocated that structural separation empowered a unit with decentralised, autonomous processes and its own support structures and cultures. The other school maintained that if a firm structurally isolated its low-income market unit, then true learning and ambidexterity could not be achieved as a dynamic capability. However, this study adds

to the theory of ambidexterity as most other studies done on this subject were looking at how firms explore and exploit *within* an economic segment. The findings therefore suggest that irrespective of the definition of ambidexterity, structurally differentiated teams, with integration at the senior management level may be appropriate due to the vast differences in consumer needs *across* the upper/middle and lower income markets.

## 7.5 Limitations of the research

The sampling method used was purposive inferring that sample was not fully representative and hence may limit the transferability of the results. The research sample also contained many financial institutions which could have biased the findings based on unique dynamics within this sector.

## 7.6 Recommendations for leaders

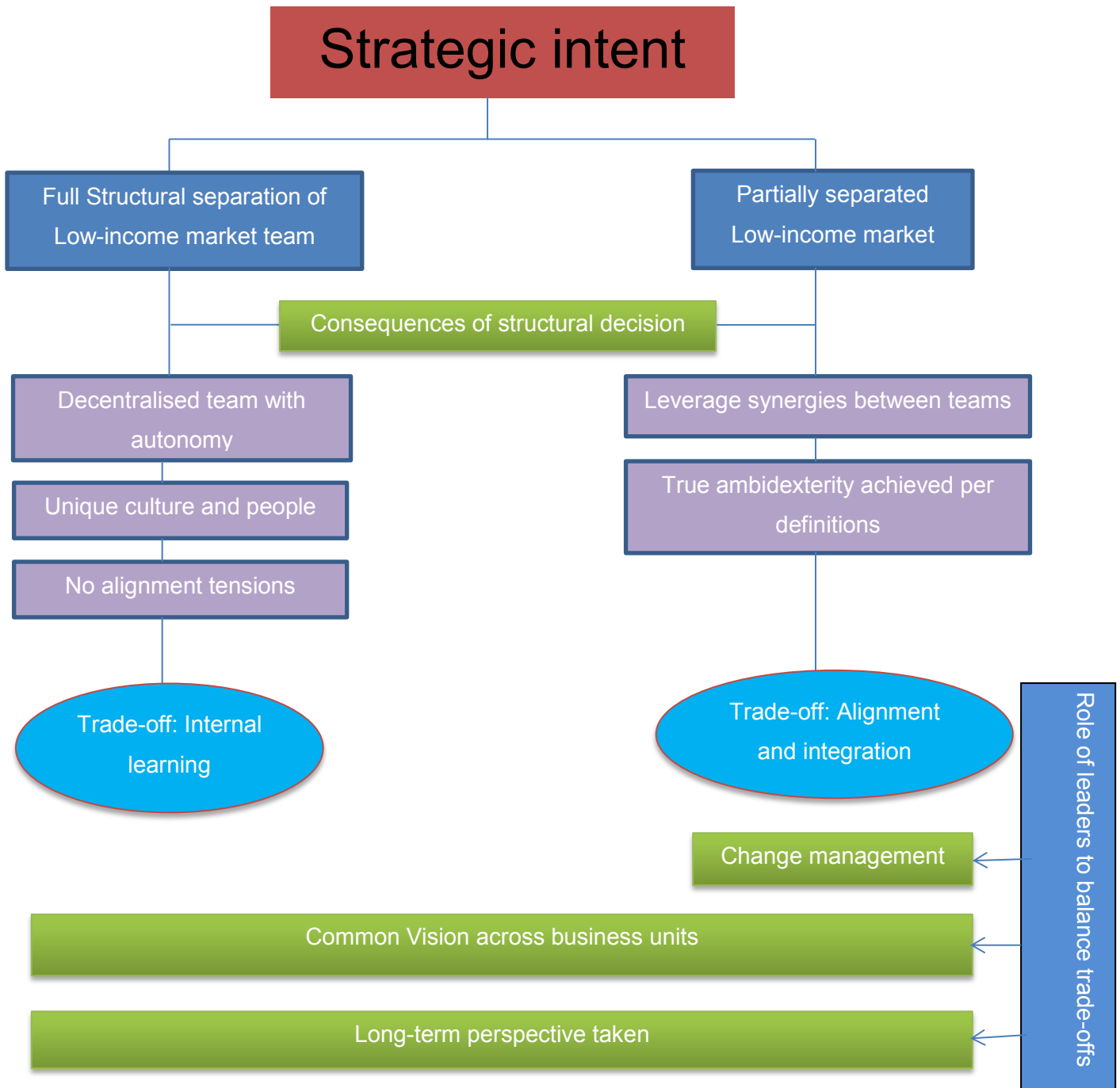
One of the overwhelming findings derived through content, thematic and narrative analysis was the importance of leadership. Leaders need to demonstrate commitment and true strategic intent to enable the adaptability of a company to successfully exploit their core markets while exploring the low-income market through a common uniting vision, long-term perspective and empowerment of managers by setting goals appropriate to the low-income market segment.

The **first step** is for leaders to definitively decide if the low-income market is appropriate for their firms and if they can pledge support for the market in measurable ways. **The following questions can be seen as a decision-making process for step one:**

1. Am I fully committed to this strategy?
2. Can I empower managers with goals that are appropriate for this segment as some of these may be long-term goals requiring “patient investment”?
3. Can I convince the entire organisation of the new dual focus of both market segments and motivate them to be committed to it?
4. Am I prepared to accept long-term profit realisation of the low-income segment?
5. Am I prepared to dedicate human, financial and possible technological resources to the low-income market units?

Once strategic intent has been identified, the **second step** is for leaders to decide on how to structure their business units. Figure 14 below provides a framework for this next step.

Figure 14: Framework for deciding on how to structure business units



## 7.7 Recommendations for future research

This was an exploratory study investigating the concept of ambidexterity in the context of low-income markets. As the literature on this is minimal, the findings of this study need to be validated by other similar or quantitative studies.

An important area of future research will be to investigate the impact of strategic intent and performance of companies in the low-income segments. This would either confirm or refute the findings on the importance of strategic intent. Related to this would be an investigation into how resources are allocated to the low-income market unit and the core teams, as a translation of intent.

There were various subgroups identified within the current study sample. Firstly, some companies start off their businesses in the low-income market, and then pursue exploration in the higher income market. A study that compares these companies with companies that explore the low-income market second would add valuable insight into adaptation strategies. Secondly, the organisational tensions appear different for companies that are in the early phase of exploring the low-income market. Further studies could investigate, in more detail, what these challenges are, thereby adding to the data and providing future companies with an awareness of what they may be confronted with in the entry phases of their strategies.

A key finding of this research was that fully structurally separated business units have different outcomes and challenges to partially separated units. A comparative study of these two groups with respect to financial performance may yield data on which approach yields better results.

Noting that there was only one business unit that was contextually organised, analysis of this type of adaptability was therefore challenging. Future studies may therefore look at only contextual business units in the sample, or a comparison between structural and contextual team architecture.

As this study focused across various sectors, some themes were identified that may be sector specific like those of the financial houses. Further research may explore sector specific analysis to provide greater depth of information for companies in that sector.

## 7.8 Conclusion

This study contributed to the understanding of how firms needed to adapt their business units and mindsets if they had a background of previously focusing on the

upper/middle income markets and were now looking for growth by exploring the lower-income markets. These findings contributed to the knowledge of what the internal requirements are with respect to leadership, how business units should be structured and what the advantages and tradeoffs are for the choices that are made. This study strongly validated the importance of leaders to creating strategic intent, to balance the trade-offs and consequences of exploration and exploitation. Further, it posed that strategic intent must be translated into meaningful performance metrics for managers as a means of empowering them to execute on their mandates. Additionally, the research added to the integration mechanisms that leaders can employ in order to change mindsets from a focus on core markets to the dual focus that includes the lower-income market, by introducing the concept of change management, as a new tool for leaders to use.

The output of the research provides a decision-making process and framework aimed at leaders of businesses wishing to explore markets in the lower-income segments of the economic pyramid. This provides a structured approach to understanding the implications of the approaches taken, together with tools to manage some of the tensions that arise when exploring and exploiting dual markets.

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# Appendices

## Appendix 1: Interview Guide

### Section One – Introduction and check

1. How long has your company been operating in both the traditional and the low-income market context?
2. What are your geographical areas of focus?
3. Is the low-income strategy run by a separate unit
4. Is the low-income market unit profitable?
5. What other units are present in the company?
6. Are they profitable?

### Section two: How are the differing groups organised

7. Structural
  - a. Are the units that focus on traditional and dual markets located together or separately?
  - b. Do different people (i.e. people that work in traditional markets are not the same as those in the low-income market) work in these units?
  - c. How do people in the low-income market unit feel about their strategies and work?
  - d. Are the units controlled through centralised or decentralised means ?
  - e. What are the linkage mechanisms between units for example cross-functional teams?
  - f. How are people's performance measured?
8. Contextual
  - a. How is work prioritised between the traditional (exploit) and low-income market (explore)?
  - b. How are people measured regarding their explorative (adapt) or exploitative strategies (align)?
  - c. What flexibility to decide which project to work on is given?
  - d. How are workers trained to be ambidextrous?
  - e. What is the supportive environment?
  - f. What is the business unit culture like?
  - g. How is the element of discipline attained?
  - h. How is the element of stretch attained?

- i. How is the element of support attained?
- j. How is the element of trust attained?
- k. How are people measured?

9. Leadership

- a. How do senior managers integrate the “explore” vs. “exploit” units?
- b. Is there understanding of the need to explore and exploit?
- c. Is there a common vision created for these teams?
- d. How are resources allocated across the units?
- e. How are the different units incentivised?
- f. Do you believe that there is behavioural integration at the level of senior managers (unity of effort)



## Appendix 2: List of interviewees

Company	Role	Study identity
<b>McCain</b>	Integrated supply chain manager	McCain
<b>Blue Label Telecoms</b>	CEO Blue Label Distribution	BLT (2)
<b>Blue Label Telecoms</b>	Group Chief Technology Officer at Blue Label Telecoms	BLT(1)
<b>Hollard</b>	Head of strategy and Innovation	Hollard (1)
<b>Hollard</b>	GM for retail	Hollard (2)
<b>Standard Bank</b>	Head: Inclusive Markets	Standard Bank (1)
<b>Standard Bank</b>	Business Support Manager: Inclusive Banking	Standard bank (2)
<b>Standard Bank</b>	Head: Alternative Bulk Acquisitions  Alternative Channels	Standard Bank (3)
<b>Nestlé</b>	Sales Director	Nestlé
<b>Massmart</b>	Head of New Development	Massmart
<b>Cambridge</b>	National marketing executive	Cambridge
<b>3M</b>	Business Development Director - Central East Europe	3M (1)
<b>3M</b>	Marketing Excellence & Strategic Planning Manager	3M (2)
<b>3M</b>	Country Technical Manager	3M (3)
<b>Airtel Malawi</b>	Data and Value Add services manager	Airtel Malawi
<b>RTT</b>	Project Manager for Warehouse in a box and Clinic in a box	RTT
<b>FNB</b>	COO	
<b>Cemex (Patrimonio Hoy)</b>	Head: Planning and Human Development	Cemex (Patrimonio Hoy)
<b>Pepsico</b>	Business Unit Marketing Director	Pepsico
<b>Nedbank</b>	Head: Massmarkets segment	Nedbank(1)
<b>Nedbank</b>	Head: Black Business Partners	Nedbank (2)

### Appendix 3: Informed consent letter

*I am conducting research on the organisational requirements that enable a company to explore and exploit (be ambidextrous) when approaching high and middle, as well as low income markets. Our interview is expected to last about an hour, and will help us understand how companies have organised their teams to achieve different goals in these different market segments. The information that you will be required to provide are around three themes. These are, how teams have been structured, team members behavioral contexts and the behavior of leaders in achieving goals within these different economic contexts.*

*There are no costs for participation except the cost of time to participate in the interview. The benefits of participation is that more insight will be gained regarding the requirements that companies should fulfill if they wish to explore and exploit in both upper and middle, and low income market contexts. **Your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential. Extracts from this research may be used as a contribution toward academic journal articles, books etc. If you have any concerns, please contact me or my supervisor. Our details are provided below.*

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*Signature of participant: \_\_\_\_\_*

*Date: \_\_\_\_\_*

*Signature of researcher: \_\_\_\_\_*

*Date: \_\_\_\_\_*