

# **Can the base of the pyramid twin goals of profit and improved welfare be achieved?**

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## ABSTRACT

Do companies that are involved in ventures at the bottom of the pyramid (BOP) achieve both profit and an increase in the welfare of the poor as proposed by Prahalad and Hart (2002), or is there is a trade-off between profit and welfare as argued by critics of this proposition such as Karnani (2005). Research is lacking in the field, something that this investigation seeks to fill through qualitative research thereon.

A central finding of this research was that the paradigms that the companies followed, impacted their views on welfare, profit and the trade-off. The findings reflect that companies have poor indicators of welfare and that there is very little evidence of companies measuring welfare. The findings in respect of a trade-off between profit and welfare is inconclusive, indicating that for some companies there is a trade-off but for others not. The trade-off may be explained by the view that capital should be patient and that the required profit will be achieved in the future. An alternative model of social entrepreneurship is suggested as a bridge between profit and welfare.

## KEYWORDS

Bottom of the pyramid

Base of the pyramid

Welfare

Profit

Trade-off

## 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.

Marcel Mitchelson

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## **1. CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM**

This research undertaken was to explore whether profit and welfare can be achieved at the same time for companies involved in BOP ventures. The data collection took the form of interviews with companies involved in implementing BOP initiatives. The nature of the enquiry is qualitative, with narrative and content analysis used to explore the data.

### **1.1. INTRODUCTION**

The primary purpose of this research is to explore whether the twin BOP goals of profits for the business and improved welfare for the poor can be achieved as proposed by Prahalad and Hart (Prahalad & Hart, 2002). The aim of the research is to explore whether companies that are involved in ventures at the BOP are able to achieve both profits and an increase in welfare or whether there is a trade-off between the two.

### **1.2. RESEARCH MOTIVATION**

The United Nations estimates that the number of people living in poverty, defined as an income of less than \$2 per day, is 2.5 billion (UN works for people and the planet: End poverty, 2011). Most of the world's poor live in developing countries. Aid provided by developed countries and international institutions has been the focus of the world's attempts to deal with poverty.

Simanis and Hart (2008) posit that the institutions established as part of the Bretton Woods System (such as the International Monetary Fund, the World Bank and the World Trade Organisation), together with foreign aid, have generally failed the world's poor and that the private sector has increasingly been called upon to solve the problem of poverty. More often these institutions have systematically increased it (Perkins, 2004). However, there is inconclusive evidence to confirm that aid has failed. Rather, there is evidence to support the view that aid strategies are being used to further poverty. Perkins (2004) has recounted his own involvement in using multilateral and "aid" organisations to cheat many countries, particularly developing ones, out of substantial sums, thereby increasing their indebtedness and resulting in the exacerbation of poverty in such countries.

John and Storr (2009), in their review essay of books by William Easterly and Jeffrey Sacks, explore the contrasting views of these authors. It is worth noting that Sacks is a development economist and proposes a "big push" strategy to end poverty and suggests that the level of aid be increased significantly (John & Storr, 2009, p.128). Banerjee and Duflo (2011a), state the following in respect of the contrasting views of Easterly and Sacks: "Unfortunately, there is no evidence to give the kind of answers that will tell us who is right. This book will not tell you whether aid is good or bad, but will say whether particular instances of aid did some good or not." The authors further state that the key to effective aid is about selecting the right projects that deserve funding and running it well (Banerjee and Duflo, 2011b). The debate, therefore, on whether or not aid has failed, is far from closed.

Prahalad and Hart (2002) proposed an alternative solution to that of development economists, based on multinational corporations (MNCs) investing at the bottom of the pyramid (BOP). The BOP as a market is estimated by Prahalad and Hart (2002) to comprise some 4 billion people earning less than \$1500 per annum, and contrasts with the 2.5 billion estimated by the United Nations (UN works for people and the planet: End poverty, 2011) Prahalad and Hart (2002) contend that bottom of the pyramid (BOP) initiatives can generate profits for a business while simultaneously increasing the welfare of the poor. Prahalad (2005) claims that the potential BOP market is \$13 trillion at purchasing power parity.

Karnani summarises Prahalad's BOP ideas as follows:

The poor collectively have significant purchasing power and companies can make "a fortune" by selling to the poor. Such selling to the poor can increase the welfare of the poor. Multinational corporations (MNCs) should lead the way in selling to this untapped BOP market (Karnani, 2005, p.100).

Karnani is critical of the ideas regarding the BOP as espoused by Prahalad and Hart, referring to it as "the BOP proposition" and describing it as "...at best a harmless illusion and potentially a dangerous delusion ... riddled with fallacies ..." (Karnani, 2007b, p.1). Rather than the \$13 trillion estimated by Prahalad, Karnani's estimates the BOP market to be less than \$0.3 trillion (Karnani, 2007b). Jaiswal is also critical of the idea that significant profits can be made

and argues that if there is any “fortune” to be made, it is not at the bottom of the pyramid but in the middle. This is because of the very low per capita average income at the bottom of the pyramid, which Jaiswal estimates, using World Bank data, to be \$378.2 per annum (Jaiswal, 2007, p.5). There are thus substantial differences in estimates in the number of people who comprise the BOP and the monetary value of the BOP market. These two issues alone will impact on the relative attractiveness of the BOP market to MNCs.

McFalls (2007, p.85) is similarly sceptical of the BOP proposition and states “...that competing logics between business realities and development imperatives are not easily reconciled” and that the emphasis on the unlimited business opportunities and the eradication of poverty is unrealistic. Similarly, Yunus, Moingeon and Lehmann-Ortega (2007, p.85), when comparing a social business to that of a profit maximising one, state that “...shareholder value maximization (sic) remains the rule in the capitalist system, and - clearly - the reconciliation of this with social objectives is often problematic.”

Rather than focussing only on the market opportunity at the bottom of the pyramid, Luce (2009) focuses on the vulnerability of the poor; an issue that is not dealt with in the BOP proposition. Using a stakeholder framework analysis, Luce explains why the poor at the BOP are vulnerable and how the position of consumers as stakeholders can be strengthened, indicating that the poor are likely to be what Hart and Sharma (2004) describe as peripheral stakeholders, due to their low levels of income, the lack of development in the market in which they fall and the heterogeneity of the BOP market (Luce, 2009, pp.60-62). The

BOP proposition does not consider the vulnerability of the poor or the vast literature on business ethics and the related literature on marketing to vulnerable groups such as the poor.

### **1.3. RESEARCH RELEVANCE TO SOUTH AFRICA**

South Africa has high levels of poverty which the government has been seeking to address in recent years by extending the welfare system to include grants to the indigent, with a specific focus on young children (Child grants extended to 15-year olds, 2009). The BOP proposition promises a way to deal with poverty and, given the widespread level of poverty in South Africa, those who are interested in reducing poverty, such as government, aid agencies and non-governmental organisations (NGOs), are likely to be interested in supporting such an initiative. Similarly, companies that are concerned about both the people in the environment in which they operate as well as growing their markets, may consider implementing BOP. If successful, BOP could provide a means to alleviate poverty. Supporters of the BOP proposition have argued that government and aid agencies should direct their efforts to BOP initiatives (London & Hart, 2011). However, if not successful and, in particular, if there is a trade-off between profit and welfare, it would suggest that the money and time that aid agencies are being requested to spend on BOP initiatives should rather be spent on more effective programmes.

#### **1.4. RESEARCH SCOPE**

This research is limited to exploring how companies measure welfare and profit and whether there is any trade-off between the two. The research is exploratory in nature and takes the form of interviews with companies that are involved in the implementation of BOP, either directly or indirectly (through advising companies in respect of BOP implementation). The research aims to gain an understanding of the indicators and measurement of welfare and profit. The research will explore whether those involved in BOP implementation have concrete measurement tools in place for profit and welfare and whether there are any differences in the expected returns between BOP and non-BOP initiatives. The latter will assist the researcher in establishing whether there is a trade-off between profit and welfare, given that the BOP proposition indicates that there is none.

#### **1.5. CONTRIBUTION TO THE LITERATURE**

Prahalad and Hart's paper (2002), proposing that businesses can generate profits and increase welfare was not initially accepted for publication because it did not take into account the discipline of development economics (Prahalad, 2005). The latter is a discipline devoted primarily to the study of poverty and the manner in which countries can develop and increase the welfare of its citizens. Prahalad and Hart ignored this body of research in developing their proposition and have emphasised that the proposition should be action-oriented, aimed at solving poverty and making profits (Prahalad & Hart, 2002).



Since the publication of the BOP proposition, articles that both support and critique it have been published. In addition, books have been published (Prahalad, 2005; London & Hart, 2011), focus groups and institutes have been established (William Davidson Institute, GIBS BOP hub & the base of the pyramid learning lab at the University of Stellenbosch) and BOP conferences held (Ross School of Business at the University of Michigan in October 2009, Delft University of Technology, November 2009). However, there is limited evidence of detailed peer review, with particularly emphasis on the published books. In addition, the theoretical basis of the BOP remains weak. Potentially, this accounts for the limited literature on the BOP proposition. Besides the lack of grounding in any theoretical framework, the BOP proposition lacks focus on the detail in respect of the actual measurement of welfare. BOP proponents appear to have recognised this and Simanis and Hart (2008) developed the BOP Protocol, which has a bias toward welfare as opposed to profit. Notwithstanding this, the Protocol does not give details as to what the indicators of welfare should be and how they should be measured. The lack of both a solid theory and academic rigour poses some difficulty in conducting research on the proposition.

This research explores the measurement of welfare and profit in companies and whether there is any trade-off. Its contribution to the literature is largely in respect of these two topics and the integration thereof. Using three characteristics derived from the BOP Protocol, the researcher assesses how companies that are involved in the implementation of a BOP initiative align with the three characteristics. This analysis provides insight into whether and how

the theory in the form of the three characteristics derived from the BOP Protocol is being implemented. Prahalad and Hart have emphasised the practical orientation of the BOP proposition and this research tests such practical application against the BOP theory.

The research also explores the measurement of welfare and profit in companies that view themselves as implementing the BOP proposition. This provides insight into how welfare in particular is measured, both on the level of the indicators of welfare (what is measured) as well as the measurement itself (how welfare is measured).

## **1.6. STATEMENT OF THE RESEARCH PROBLEM**

This research aims to explore whether the BOP proposition of improving the welfare of the poor and concurrently increasing profits holds, or whether there is a trade-off between profits and the welfare of the poor. In investigating the potential trade-off, companies' measurements of profit and welfare are also explored.

## **1.7. STRUCTURE OF THE REPORT**

Chapter 1 has introduced the research problem, the research objectives and the rationale for the study. Chapter 2 consists of a literature review which examines the literature related to the BOP, including literature by critics of the BOP proposition and explores the views regarding the purpose of business, which in turn inform the context in which BOP ventures are undertaken. Chapter 3 sets

out the three research questions that deal with welfare, profit and the trade-off of the two. Chapter 4 details the research method employed which is qualitative in nature. Chapter 5 presents the findings and analysis thereof. Chapter 6 discusses the findings and integrates this with the literature whilst answering the research questions. Chapter 7 is the concluding chapter and discusses the main findings of the research, its limitations and recommendations for further research.

## **2. CHAPTER 2: LITERATURE REVIEW**

This chapter critically reviews the literature in respect of the BOP proposition. It explores the definition of the BOP proposition and the views of critics in respect of the definition. Following this, the role of business in society, the record of business among the poor, the measurement of welfare and the role of government and development institutions in poverty alleviation is explored. Thereafter, the main criticisms of BOP are discussed followed by an exploration of whether the BOP proposition only applies to business or whether it is more suited to business entrepreneurship.

### **2.1.A DEFINITION OF THE BOP PROPOSITION**

Prahalad was a professor in corporate strategy and international business at University of Michigan Business School (Prahalad, 2005) and is credited, together with Hart (Prahalad & Hart, 2002) with coining the term “the bottom of the pyramid,” or as other authors refer to it as, “the base of the pyramid.” This term is used to describe the poor majority in the world who earn less than \$1,500 a year (Prahalad, & Hart, 2002, p.4). Prahalad’s estimate of the number of people who fall into this category is four billion (Prahalad & Hart, 2002, p.2).

The BOP proposition as initially developed by Prahalad and Hart (2002), suggested an alternative path in solving the problem of poverty. The authors argue that multinational companies can generate significant returns by selling to the poorest of the world and, in so doing, increase the welfare of the poor by granting them choice in the goods and services available to them (Prahalad &

Hart, 2002) and that companies can “do well by doing good” (Karnani, 2007a, p.1351).

Simanis and Hart (2008, p.2) have developed “BOP 2.0”, a protocol for implementing BOP, acknowledging that the first attempts to penetrate BOP markets (“BOP1.0”) were failures, mainly as a result of not taking into account the perspective of the very market they intend to serve. In a table comparing the initial BOP initiatives (BOP 1) with the proposed new approach (BOP 2), the authors describe the former as “selling to the poor” and the latter as “business co-venturing”. One of Karnani’s criticisms of BOP was that it viewed the poor as consumers rather than as producers.

Simanis and Hart (2008) cite *Nike’s “World Shoe”* and *Hindustan Lever’s* sachet-packaged soaps, shampoos, and creams as some of these failures. These failures are explained as the result of companies focussing on increasing sales in new markets without embedding themselves in such communities. Interestingly, one of the creams produced by *Hindustan Lever* is “Fair and Lovely,” a skin-lightener which is a product that is banned in a number of countries. BOP sceptics such as Karnani (2007a) have argued that such products decrease the welfare of the poor rather than increase it. Initially, “Fair and Lovely” had been cited as a BOP success story (Prahalad, 2005). The lack of clear criteria regarding what constitutes BOP contributes to allowing a BOP intervention to be considered successful by some such as Prahalad, and a failure by others such as Karnani.

## 2.2. THE ROLE OF BUSINESS

There are contrasting views regarding the role of business in society. At the one end of the spectrum is the view by Friedman (1970) that a firm has one objective which is to increase its profits. This means that firms should maximise their revenues and minimise their costs. In this view, any costs not considered essential to producing goods or services, such as costs relating to social issues, should not be undertaken, as increasing profits is the sole goal of business (Friedman, 1970). He writes that those who argue for a “social conscience” for business are in effect supporting “...the intellectual forces that have been undermining the basis of a free society...” (Friedman, 1970, p.1). Prahalad also bases his BOP idea on freedom. This is described as the freedom of the consumer to choose, a point Prahalad makes in response to opposition to skin lighteners (Prahalad, 2011).

On the opposite end of the spectrum are the proponents of the view that firms should have broader societal objectives. These proponents argue that Friedman’s portrayal of business as “...the self-contained economic pursuit of profit” is simplistic and naïve (Grant, 1991, p.907). While Grant’s article deals with a number of “fallacies” in Friedman’s article, he also argues that Friedman did not deal with the matter of ethics (Grant, 1991, p.907). According to Grant, Friedman’s view regarding the sole pursuit of profit “...serves to reinforce the secondary and optional nature of this whole [ethics] area.” (Grant, 1991, p.909). Friedman’s view contrasts with that of Grant’s, which is that ethics is fundamental to all human activity, including business.

Similarly, Wilson argues that business is a “social institution,” which is distinct from a “social welfare institution” and therefore should serve a social purpose. (Wilson, 2004, p.22). Wilson adds that, while business has an economic function, it has a social purpose and like any institution exists at the discretion of society.

Wilson quotes George Merck, the founder of *Merck Pharmaceuticals*, as stating:

We try never to forget that medicine is for the people. It is not for profits. The profits follow, and if we have remembered that they have never failed to appear. The better we have remembered that, the larger they have been. (Wilson, 2004, p.26).

The sequencing in Merck’s statement is important. The objective of *Merck Pharmaceuticals* is to provide medicine, which is a social objective with profits following this. Thus, in Merck’s view, the pursuit of a social objective is the primary goal of the firm and profits are a consequence of the pursuit of the social objective. The greater the focus on the social objective, the greater the profits generated (Wilson, 2004). This contrasts with Friedman’s view that the pursuit of a social objective detracts from the achievement of profit (Friedman, 1970). Wilson also quotes David Packard, the co-founder of *Hewlett-Packard* as stating: “Profit is not the proper end and aim of management – it is what makes all of the proper ends and aims possible” (Wilson, 2004, p.26).

The BOP proposition does not spell out which of the two schools of thought it follows. The sequencing in the BOP proposition appears to be that profits can be pursued first and the impact of providing goods and services to the poor and achieving such profits could then result in improved welfare. That is, improved welfare can be a by-product of the pursuit of profit. While this issue is not explicitly dealt with in the BOP literature there are several reasons for reaching this conclusion including, *inter alia*:

- Proponents of the BOP proposition such as Simanis and Hart (2008) suggest that it is distinct from a social business (which prioritises welfare, not profit). They argue that the BOP proposition was first introduced by Prahalad and Hart (Simanis & Hart, 2008, p.1), whereas Yunus had introduced and implemented a social business in the form of *Grameen Bank* more than 25 years prior to Prahalad and Hart's idea. This suggests that the BOP proposition is not based on a social business. If it were, one would expect the proponents of BOP to have acknowledged and focussed on social businesses, credited Yunus and other pioneers of social businesses and expanded on the work of social business pioneers. Instead, the BOP proposition is presented as a new paradigm.
- The title of the article by Prahalad and Hart (2002) refers to the "fortune" which suggests profits.
- Prahalad and Hart specifically focus on the role of MNCs which are profit-oriented, and improved welfare may be a by-product of an MNC's objective of increased profit.



- An admission by Simanis and Hart of the failure of the “first generation” BOP initiatives, which were initially hailed as successes. Such failure was a result of companies aiming to “target” the poor which Simanis and Hart describe as inadvertently being “...the latest form of corporate imperialism” (Simanis & Hart, 2008, p.1). This description is a powerful admission of the failure of the “first generation” BOP initiatives. It suggests that profit-oriented corporations, which Prahalad and Hart (2002) argue should be the vehicles for poverty alleviation, have a history of imperialism and that BOP as initially envisaged was simply another form of such imperialism. The BOP literature generally ignores the poor record of (multinational) corporations in dealing with the poor. The “corporate imperialism” description by Simanis and Hart is a rare acknowledgement of this.

This is not to say that the BOP proposition falls squarely in the Friedman paradigm. Its appeal for many is that it is founded on the idea that both profits and improved welfare can be achieved (Prahalad & Hart, 2002). The BOP proposition thus has an ethical dimension in that the firm can be used to achieve a societal benefit, namely an increase in the welfare of the poor. Given that there is this ethical dimension to the objective of the firm, it follows that the goods and services provided by the firm should in turn also have an ethical dimension.

Whilst there have been several articles on the topic of the BOP proposition subsequent to the publication of the founding paper by Prahalad and Hart in

2002, it is not clear whether the BOP proposition has been re-framed. Kennedy and Novogratz, rather than focussing on MNCs as Prahalad, Hart, Simanis and others do (Prahalad & Hart, 2002, Simanis, 2008), refer to “...social entrepreneurs and patient capitalists” as the vehicles for providing for the basic needs of the poor (Kennedy & Novogratz, 2011, p.46). Simanis, in setting out BOP 2, still focuses on MNCs as the vehicle as part of the BOP proposition (Simanis, 2008, p.5). It is thus unclear whether there is broad agreement on what constitutes the basic elements of BOP, such as whether it is specific to MNCs or social entrepreneurs.

### **2.3. THE HISTORY OF BUSINESS (MULTINATIONALS) IN DEVELOPING COUNTRIES**

Multinationals have had a mixed history in dealing with the poor, particularly in developing countries. They have provided goods and services to people in developing countries which in many cases have contributed to improved living standards. However, the activities of some MNCs have been controversial and in fact create significant problems (Jaiswal, 2007). *Bechtel* and *Nestlé* are cases in point, the former being expelled from Bolivia by the government after it increased water prices in the privatised municipal water, which in turn led to riots in the city of Cochabamba because the price increased by 400% and the collection of rainwater by private citizens was made illegal so as to maximise corporate profits (Alter, 2008). Meanwhile, *Nestlé*'s marketing abuses in respect of promoting infant formula in developing countries resulted in undernourished children and led to a seven year boycott of that company (Post, 1985). In

response to such abuses, the World Health Organisation developed a code on infant formula marketing, but the US Administration objected to a mandatory code, influenced by United States multinationals that had vested interests in infant formula sales (Post, 1985). It is interesting to note that infant formula was promoted in South Africa as part of the government's nutritional support programme, including to HIV positive mothers with *Nestlé* being the sole provider of the infant formula (Department of Health, 2005). However, citing the rise of infant mortality in South Africa, the Minister of Health announced that South Africa will cease providing infant formula and move to a strategy of exclusive breastfeeding, suggesting that the net impact of infant formula on welfare is negative. (Department of Health, 2011). The South African government clearly does not see the BOP proposition in infant formula.

Prahalad and Hart mention *Coca-Cola* as an example of a company for which there is "...a vast untapped market for such products as water and nutritionals." (Prahalad & Hart, 2002, p.12). This suggests a consumer and product focus where the poor are simply viewed as a market to sell products to, rather than as a segment of society to uplift. Evidence of this is that *Coca-Cola* was accused of distributing sludge containing high levels of heavy metals as free fertilizer at its water bottling plant in Palachimanda in the state of Kerala, India, and the sludge had contaminated the food chain and groundwater (Jaiswal, 2007).

MNCs have a long history of activity in poor markets but are not by definition agents of pro-poor development. There is nothing inherent in the behaviour of

MNCs that their provision of goods and services to the poor will necessarily result in an increase in their welfare.

## 2.4. WELFARE AND THE WAY IT IS MEASURED

Supporters of the BOP proposition argue that the welfare of the poor will improve (Prahalad *et al.*, 2002; Prahalad, 2005; Simanis, Hart & Duke, 2008), however, none of these authors define the means by which such improvement in the lives of the poor will be measured. London, a BOP proponent, describes the twin goals of profits and increased welfare as “mutual wealth creation” (London, 2011, p.37), however this does not refer to involving the poor as producers, but rather as consumers. He states that many BOP ventures have metrics to measure economic performance but lack them for measuring improvements in welfare. London (2011, p.38) uses the term “poverty alleviation” instead of improvement in welfare, while Prahalad (2005, p.5) refers to the “opportunities” and “choices” that the BOP proposition will create, but none are specific on measurement of welfare.

Whilst Prahalad’s idea is appealing as a method with which to solve the world’s poverty problem, it is short on how such poverty alleviation takes place. Prahalad’s main argument is that by giving consumer’s choice, their welfare can increase, whereas Jackman (2011, p.19) draws a distinction between “having the freedom to choose” and “expressions of that freedom.” He argues that the poor often do not make consumption choices that increase their welfare. Banerjee and Duflo (2007) argue that the poor can consume some goods and

forgo basic needs, to their own detriment and that of their families. Thus, providing additional goods and services to the poor can result in important items such as food and education being displaced (Banerjee & Duflo, 2007).

Prahalad thus indicates neither how the wellbeing of the poor will improve nor how it will be measured, and after several years of focus on the BOP proposition, London admits that most ventures do not have metrics to determine the degree of poverty alleviation, which he describes as a “surprising lapse”. (London, 2011, p.38).

Prahalad (2011) states that providing goods and services increases income. Thus, while Prahalad does not provide a measure of welfare, he provides examples of goods and services which increase income. These include access to cheaper goods and services, products such as refrigeration which increase the life of perishable food, access to health services and products as well as additional employment and entrepreneurial opportunities. The weakness of this argument, however, is that providing choice does not by definition result in increased income or welfare. Some products may be legal but inherently harmful, such as tobacco, or decrease income, such as legalised gambling. Thus, while it is clear that some goods and services may improve welfare, others may not. Citing “Fair and Lovely”, the skin-lightener, Prahalad (2011) argues that the poor should have choice and states those that oppose the sale of such products to the poor are adopting an “ideological stance.” However, he does not recognise that his views regarding unbridled choice are also ideological and he pays no attention to the role of government in protecting

society, including protection from making poor choices that decrease individual and/or societal welfare.

Cui and Choudhury (2003) argue that companies should be cautious in marketing to vulnerable groups and the ethics involved in such activities should be carefully considered. There is a recognition that segments of society may be vulnerable due to their disadvantaged “social and economic conditions” (Cui & Choudhury, 2003, 368), a position in which many of the poor find themselves.

In contrast to the lack of measurement of welfare by BOP proponents, the United Nations measures development or welfare in areas such as health, education and poverty (United Nations, 2010). None of these are mentioned by those that argue in favour of the BOP proposition. This lack of use of standard measurements of welfare as confirmed by London or the creation of an alternative definition indicates that there is no clear instrument for measuring the effectiveness of a BOP intervention and therefore the twin goal or promised outcome of improved welfare of the poor cannot be systematically tested. Profits, on the other hand, can relatively easily be tested as there is a standard discipline of accounting that governs how it is recorded and measured.

The Human Development Index (HDI), as published in the Human Development Report, measures progress in respect of human development. The index was developed in response to the welfare of society being measured mainly on the basis of economic growth as reflected in gross domestic product (UN works for people and the planet: End poverty, 2011). The HDI uses three dimensions and

four indicators. The dimensions and corresponding indicators are health (life expectancy at birth), education (mean years of schooling and expected years of schooling) and living standards (gross national income per capita) (UN works for people and the planet: End poverty, 2011). These largely correspond to the sectors of "...housing, water, sanitation, agriculture and health care" which Kennedy and Novogratz (2011, p.46) argue are the sectors in which BOP interventions can be "transformative."

The HDI measures the degree to which the basic needs of the poor are met and contrasts with the BOP proposition which is simply about choice. The BOP proposition thus does not focus on meeting the basic needs of the poor and should this occur it is accidental. While it is not proposed that the HDI be used to measure changes in welfare, a tool should be developed or existing tools used to measure such changes as a result of a BOP intervention. Simply stating that choice increases welfare does not stand up to academic rigour. As Jaiswal argues, providing some products and thereby choice can reduce welfare by displacing the consumption of "socially good" products with "socially bad" or "socially dubious" products, decreasing welfare (Jaiswal, 2007). Banerjee and Duflo similarly argue that the purchase of essential products can be displaced by non-essential products, to the detriment of the consumer and/or his family (Banerjee & Duflo, 2007).

## **2.5. THE ROLE OF GOVERNMENT, MULTILATERAL ORGANISATIONS AND THE DEVELOPMENT COMMUNITY IN POVERTY ALLEVIATION**

In defining the scope of development economics, Hayami and Godo state that the main objective of development economics is to explore the manner in which developing countries can decrease the level of poverty in such countries. (Hayami & Godo, 2005, p.2). Similarly, the World Bank's stated aim is to reduce world poverty and it uses the Millennium Development Goals as the target to achieve this objective (World Bank, 2011a). The Millennium Development Goals are a set of eight goals which include the elimination of extreme poverty and hunger (World Bank, 2011b).

These goals coincide with the role of government, which is to act in the best interest of society and therefore include reducing the levels of poverty in society. Government has the role of protecting society. The BOP literature makes no distinction between products that harm the poor and those that help the poor. Particularly in the absence of such a distinction and safeguards by business, government has the role of protecting society. In some instances, government may be required to restrict marketing to protect the vulnerable in society (Cui & Choudhury, 2003).

## **2.6. THE INTERSECTION OF PROFIT AND WELFARE: BOP**

A number of factors lie at the intersection of profit and welfare, dealt with in this section. This is where the criticisms of BOP converge.



## 2.6.1. Criticisms of BOP

There are a number of criticisms of the BOP proposition. These include, the lack of a clear definition of the BOP market, the poor level of academic rigour in the literature, the lack of distinction between products that harm the poor and those that do not and not much attention paid to causality. These criticisms are discussed in the sections that follow.

### 2.6.1.1. *Lack of a clear definition*

It appears that the lack of rigour in the BOP literature starts with the definition of BOP. Prahalad and Hart (2002) describe the BOP as the 4 billion people who have a per capita income of less than \$1,500 per annum. Prahalad and Hammond (2002) use the same number of people but put them in the category of per capita income of less than \$2000 per annum (i.e. 33% higher). Prahalad (2005, p.4) defines the BOP as “...the world’s 4 billion poor people who live on far less than \$2 a day.” However, in his reproduction of “the economic pyramid” (Prahalad 2005, pp.3-4), which is taken from Prahalad and Hart (2002), he reflects the 4 billion as having an income of less than \$1,500 per annum. Prahalad (2011) acknowledges the wide differences in measuring BOP but states that “the complexity of the problem defies measurement” and that the quest for precision is “pseudo precision. (Prahalad, 2011, p.xxvii). The author argues that what matters is that there are a very large number of people who are poor and that this should be addressed.

### **2.6.1.2. Academic rigour**

Prahalad's ideas have been endorsed by Bill Gates, Madeline Albright and others (Prahalad 2005, introductory pages). As mentioned, number of papers have been published, various conferences held and institutes and departments have been established and expanded based on the idea of BOP. However, there is very limited evidence of academic rigour in the research published in respect of BOP in that they have not, in general, been published in leading journals such as the Journal of Macromarketing. A key word search on the terms "base of the pyramid" and "bottom of the pyramid," which are common terms in the title of articles dealing with the BOP proposition, was carried out in the Journal of Macromarketing over the period March 1981 to May 2012, but yielded only one article dealing with this topic. Interestingly, the article by Bonsu and Ponsa (2011) is critical of the BOP proposition.

A telling comment regarding the absence of publications on this topic is made by Prahalad: "Needless to say, not a single journal would accept the article for publication. Reviewers thought that it did not follow the work of development economists" (Prahalad, 2005, p.xiii). This is telling as development economics is a discipline that is devoted to providing solutions to the problem of poverty in developing countries (Hayami & Godo, 2005). Whilst one of the fundamental promises of BOP is development, there appears to be a dearth of BOP research published in development journals. Jackman (2011) reviewed all issues of the 18 most prominent journals over the period 2000 and 2010 and found only one article, that of Karnani titled "Romanticising the Poor Harms the Poor",

published in the Journal of International Development in 2009. This suggests that the initial reviewers referred to by Prahalad were correct in their assessment. Interestingly, Karnani is one of the most vocal critics of the BOP proposition.

### **2.6.1.3. Which products: Socially good or bad?**

Garette and Karnani (2010, p.29) distinguish between products that are “socially good”, “socially bad” and those of “dubious social value,” And state that while some products such as tobacco are clearly socially bad others such as the commercially successful “Fair and Lovely” cream are of dubious social value and could be considered socially bad. In general, proponents of the BOP proposition do not examine the nature of the products that could be provided to the poor and do not make the distinction between “socially good” or “socially bad” products. They also ignore the vulnerability of the poor, which Luce (2009) examines together with the power imbalance between the poor and marketers. Jaiswal argues that products that are unlikely to increase the welfare of the poor should not be marketed to them, whereas products that are likely to increase their welfare should. This paradigm contrasts with that of proponents of BOP who argue that choice increases welfare.

The BOP proposition does not distinguish between “priority” and “non-priority” areas. (Jaiswal, 2007, p.17). While Karnani argues for the focus on the BOP to shift away from the poor being consumers to producers, which will increase

their welfare. (Karnani, 2007b), Jaiswal argues that the poor should be assisted to become more selective consumers ( Jaiswal, 2007).

The BOP proposition does not acknowledge the presence of externalities, which exist when costs by one party are imposed on another without being reflected in the price of the product (Nicholson, Snyder, Luke & Wood, 2008). An example of this would be a firm that pollutes the air in its production process, without paying for the right to pollute. The firm thus externalises the cost of pollution to society (Nicholson *et al.*, 2008), as can occur with tobacco products that harm people's health. The poor tend to rely on the public health system and if the taxation on tobacco is insufficient to pay for that system, which poor tobacco consumers are likely to use, then the tobacco companies have externalised the costs to the rest of society. Such products also affect the consumers and their families directly, by affecting the consumer and his and/or her family's health through active and passive smoking, and also through the decrease in income for essential products (Banerjee & Duflo, 2007). Thus, even though a product such as tobacco may increase people's choice, an MNC selling tobacco in poor developing countries is able to impose costs on that society, particularly on the health system and the families of smokers. The latter can be in the form of diminished health of the family members caused by passive smoking and a poorer diet caused by the displacement of essential food (Banerjee & Duflo, 2007). The tobacco selling company thus causes a decrease in the general welfare in that country, whilst making profits.

Grant (1991), in arguing for a company being stakeholder-driven, states that private companies should be profit-orientated but that profit should not be an organisation's purpose. Similarly, Elkington (1997) argues that companies should focus on sustainable development, which has three pillars, namely people, the planet and profits, and not only profit. This is the so-called triple bottom line and was proposed prior to the publication of the BOP proposition, yet BOP proponents argue that the BOP proposition, which proposes a "double bottom line," is something new (Prahalad and Hart, 2002). The BOP literature does not acknowledge the existence of the literature on sustainable development which goes back to 1987 (Drexhage & Murphy, 2010). In addition, the basis for the triple bottom line is ethics (Fry & Slocum, 2008) whereas the BOP proposition does not focus on ethics as reflected in Prahalad's views on skin lighteners.

A social business is not conceptually very different from that which Grant proposes. Haugh describes social entrepreneurship as "...the simultaneous pursuit of economic, social and environmental goals..." (Haugh, 2007, p.743). Arvind similarly, in his review of Yunus' book "Social business and the Future of Capitalism", describes social business as being "...where the mission of the firm is not profit maximisation, but maximisation of social indicators to be specified" (Arvind, 2009, p.289). Dacin, Dacin and Matear (2010) reviewed 35 definitions of social entrepreneurship and entrepreneurs, and found they differed substantially. However, the definitions had several common features, particularly the objective of achieving a social objective, which can also be viewed as an increase in societal welfare.

The BOP literature does not engage with the fundamental point of the purpose of business. Friedman argues that people and not companies have responsibilities and that people “...can do good – but only at their own expense” (Friedman, 1970, p.4), whereas the BOP literature states that companies can “do well by doing good” (Karnani, 2007a, p.1351). The BOP literature thus contradicts Friedman’s view, without engaging with it.

Kennedy and Novogratz (2011) in their chapter titled “Innovation for the BOP: The Patient Capital Perspective” argue that development assistance has resulted in only little poverty alleviation and that “philanthrocapitalists” and “social entrepreneurs” can do much to alleviate it. The former use “business tools and techniques” to deal with poverty and this has resulted in the emergence of a “patient capital” sector (Kennedy and Novogratz, 2011, p.46).

In explaining the patient capital sector, Kennedy and Novogratz (2011, p.48) argue that “BOP firms often require non-traditional financing” because it takes time to develop and grow BOP initiatives. They further argue that patient capital is an investment, not a grant and is expected to provide a return. This is then qualified by the statement that “...it does not seek to maximise financial returns to investors; rather, it seeks to maximise social impact and to catalyze the creation of markets to combat poverty” (Kennedy & Novogratz, 2011, p.48). This approach appears consistent with the concept of a social business as described by Yunus *et al.* (2010), however, while the intention of “patient

capital” appears noble, it is not consistent with a profit oriented MNC as Kennedy and Novogratz (2011) themselves point out.

It is worth reiterating Karnani’s summary of Prahalad’s BOP proposition as follows:

The poor collectively have significant purchasing power and companies can make “a fortune” by selling to the poor.

Such selling to the poor can increase the welfare of the poor.

Multinational corporations should lead the way in selling to this untapped BOP market.

(Karnani, 2005, p.100).

However, Kennedy and Novogratz, in what appears to be a marked departure from the BOP proposition, state that social entrepreneurs and patient capitalists can transform BOP markets by providing for people’s basic needs (London & Hart, 2011). This is distinct from the original BOP proposition in two key respects, namely:

- It is no longer MNCs that should be the vehicles for delivering the BOP, but rather social entrepreneurs and patient capitalists.

- While the BOP proposition does not distinguish between “socially good” or “socially bad” products, Kennedy and Novogratz specifically mention “... housing, water, sanitation, agriculture and health care” (London & Hart, 2011, p.46) as sectors which can transform the lives of the poor.

However, it is difficult to see the difference between what Kennedy and Novogratz are proposing as part of the BOP proposition and a social business such as *Grameen Bank*, which existed long before Prahalad and Hart’s proposition was published in 2002.

Kennedy and Novogratz (2011) list four differences between a patient capital organization and a traditional provider of capital. These are having a longer time horizon, being willing to forego maximum financial returns, having a greater risk tolerance and providing support to social entrepreneurs. All these differences are substantial and it is difficult to reconcile them with a profit-oriented MNC. While these may be worthy positive attributes of an MNC, if its goal was to pursue increased societal welfare, it is questionable whether MNCs on a normative basis have such attributes.

The BOP proposition as summarised by Karnani does not argue for a change in the objective of an MNC, which is profit maximisation. However, Kennedy and Novogratz do. It is therefore debatable whether Kennedy and Novogratz’s ideas, although potentially useful in respect of dealing with poverty, are the same as that argued for by Prahalad and Hart, namely existing (profit-oriented)



MNCs to provide goods and services to the world's poor and in so doing make a "fortune" (Prahalad & Hart, 2002).

#### **2.6.1.4. Causality**

The only evidence presented to support the view that BOP improves welfare are case studies. While Karnani (2007b) disputes the benefits to BOP of some of the case studies such as "Fair and lovely" and Annapurna salt, Walsh (2005) argues that such an approach has a sampling bias. That is, the successful BOP initiatives are lauded but unsuccessful BOP initiatives are not even examined. Walker, in his review of the book "Good to Great: Why Some Companies Make the Leap-And Others Don't" is highly critical of this approach, which he describes as "sampling on the dependant variable" (Walker, 2006, p.120). He describes six steps followed by successful companies, however, his criticism is that in arriving at these the author's method of "...sampling on the dependent variable makes it impossible to know whether there were other companies that did the same things as the great firms but didn't succeed" (Walker, 2006, p.120-121). This methodological weakness also applies to the approach adopted in the BOP literature in which only the apparently successful BOP initiatives are examined. London, a BOP proponent, acknowledges this lack of rigour and describes the approach followed in the BOP literature as a reliance on selected anecdotes (London & Hart, 2011, p.38).

Thus, based on the BOP literature, it is not clear as to the degree to which BOP is successful or, similarly, whether its success is greater or less than that which the BOP literature states has failed, namely aid. In order to militate against the

survivor bias inherent in the approach adopted in the BOP literature, one should track from initiation the impact of initiatives that are claimed to be BOP, and assess their success or failure by determining their impact on welfare and the profits of the firm.

## **2.7. IS BOP ONLY BUSINESS?**

In Friedman's (1970) view, firms exist to return value to its shareholders, however this cannot be at the expense of the firm's stakeholders if it wants to be sustainable (Griseri & Seppala, 2010), that is, to make profits over the medium to long term. Shareholders have the last claim on the revenues that a firm makes, from the revenues generated, and the firm must pay its employees, suppliers, taxes and lenders. Any residual amount is the firm's net profit, which may be either re-invested in the firm or distributed to shareholders as dividends and is a standard concept (Drury, 2000, Graham, 2007 & Weygandt, 1998). Investors provide equity to a firm to finance its activities in the hope that the net profit will be maximised. The orientation of the shareholders is thus to maximise their returns (Graham, 2007).

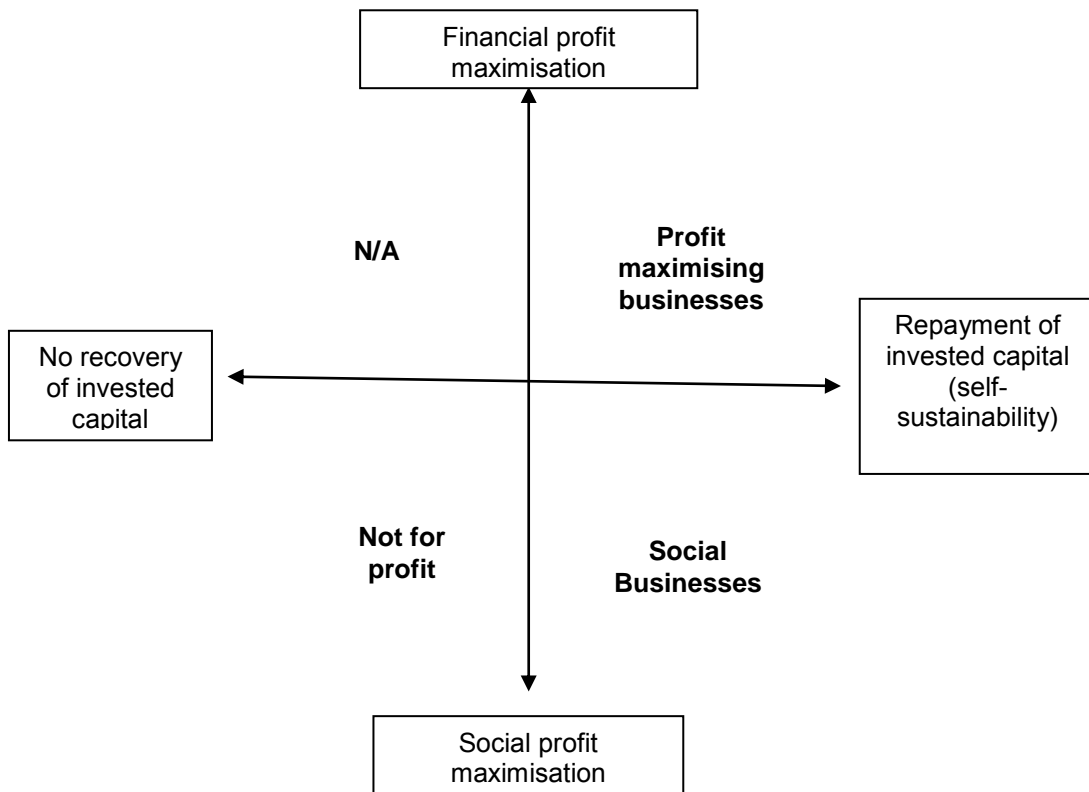
London (2011, p.3) emphasises that business should be conducted with the poor and argues that business and donors should come together to do business with the poor. However, he effectively argues for the donor communities to subsidise business, through the donor community funding awareness campaigns and voucher programmes, and providing low-cost capital. This can be viewed as an attempt to get governments and aid agencies to subsidise the

profits of companies in markets wherein there is little or no profit (fortune). Such an attempt however is consistent with a profit-maximising firm whose objective is to provide shareholders with the greatest return, even if such a return is subsidised.

### 2.7.1. Social businesses and profit maximising businesses

A social business recovers all its costs, excluding the returns to shareholders, which is the business’s cost of equity. It is the non-recovery of this cost that distinguishes a social business from a “standard” profit-maximising one. Yunus *et al.* (2010) compare a not-for-profit organisation, a social business and a profit-maximising business as follows:

**Figure 1:** Comparison of not-for-profit, social and profit-maximising businesses



The model of Yunus *et al.* does not clearly indicate how a “social business” works and what distinguishes it from a profit-maximising business. While both recover their costs it is not clear whether the “residual cost” of equity returns is recovered. Referring to a social business, Yunus *et al.* state:

Their owners never intend to make profits for themselves (there are no dividends), but they are entitled to get their money back if they wish. Rather than being passed on to investors, surpluses generated by the social business are reinvested in the business, and thus, ultimately, passed on to the target group of beneficiaries in such forms as lower prices, better service or greater accessibility. Thus, a social business is designed and operated just like a ‘regular’ business enterprise, with products, services, customers, markets, expenses and revenues (Yunus *et al.*, 2010, pp.310-311).

This does not clarify how a social business prices its goods and services. Yunus *et al.* (2010, p.310) refer to “surpluses” which should be the same as the net profit in a profit-maximising business. A firm’s net profit (or part thereof) is distributed to shareholders as dividends or re-invested in the firm. Regardless of the ratio of retained earnings to dividends, this is still the return to equity. However, Yunus *et al.* fail to provide clarity on what margins are targeted to achieve a particular surplus. It is unlikely that a zero surplus (and consequently a zero return to equity) is targeted since the business will not be able to expand, unless there is further injection of capital into the business. Therefore, it

appears that what distinguishes a social business from a profit-maximising one is the *level* of returns to equity. Some of the returns to equity that a profit maximising-business expects are foregone in the form of social returns. Kennedy and Novogratz (2011, p.49) confirm this as a feature of “patient capital,” which makes the point that there is a trade-off between “doing good” and “doing well.”

Yunus *et al.* (2010, p.323) distinguish a social business from a profit maximising business, including those that are BOP-focussed, as follows: “Social businesses also differ from ‘bottom-of-the-pyramid’ strategies, where multinational companies merely seek financial profits, and social profits are only a by-product of economic profit.” However, in respect of Grameen Danone, the authors indicate the business model is still being refined (Yunus *et al.*, 2010, p.322).

#### **2.7.1.1. Is there a fortune?**

Karnani has estimated that the BOP market is approximately \$0.3 trillion, which equates to less than 3% of Prahalad’s estimate of \$13 trillion (Karnani, 2007b). There is a dearth of literature specifying what BOP returns have been or what is expected. Chu has published an article titled “Commercial returns at the base of the pyramid” (Chu, 2007, p.115), a title that is potentially misleading as it may suggest that Chu presents evidence of commercial returns being achieved at the BOP. The article, however, focuses on microfinance.

Karnani reviews nine examples of BOP initiatives which Prahalad presents as BOP successes, concluding that “Virtually none of the examples cited by BOP proponents support the recommendation that companies can make a fortune by selling to the poor...” (Karnani, 2007b, p.92). Whilst this admission is not clearly spelt out, Simanis and Hart, who are BOP proponents, state that “...“first generation” corporate BOP strategies ... failed to hit the mark” (Simanis & Hart, 2008, p.1).

## **2.8. JAISWAL’S FOUR CRITERIA AND THE BOP PROTOCOL**

Jaiswal proposes four criteria for evaluating whether it is appropriate for an MNC to enter a BOP market namely:

Can the company’s products respond to basic needs such as health, nutrition, education, housing, etc.?

Is the company’s marketing communication educational and informative or does it create and strengthen people’s aspirations to consume goods they do not need?

As the products are developed, does the company bear in mind the special needs of BOP consumers, or does it import products already developed for non-BOP markets?

Do the products enhance customer well-being?

(Jaiswal, 2007)

In order for Jaiswal's criteria to be consistent with the BOP proposition, an additional element is required, namely whether the product is expected to be profitable. The first three criteria are related to the wellbeing of the customer and therefore can be considered sub-questions of criteria four. Jaiswal's four criteria can be condensed into one criterion, namely "Do the products enhance customer well-being/welfare?" This brings one back to the twin promises of BOP, namely, profits for the firm and increased welfare for the consumer. However, Jaiswal appears to be consumption, rather than production-focussed. In contrast, the BOP Protocol has a bias towards the poor as producers and contains the following elements:

It is aimed at the poor who are at the bottom of the pyramid not the middle;

It involves the poor as producers, not consumers; and

It seeks partnerships with the poor.

(adapted from Simanis & Hart, 2008).

Interestingly, the BOP Protocol does not appear to pay much attention to the issue of profit and has as its focus "...the fundamental problems of poverty and sustainable development" (Simanis & Hart, 2008 p.2). That is, it has a strong welfare orientation, which is a substantial shift away from the initial BOP proposition.

### 3. CHAPTER 3: RESEARCH QUESTIONS

The BOP proposition is based on improved welfare of the poor and profits for a business in the BOP market. This study will attempt to gain an understanding of whether BOP initiatives for profit-seeking companies do result in both increased profits for those companies alongside improved welfare for the poor.

**Research question 1:** What measures and criteria are used to monitor and assess the change in the welfare of the poor as a result of a BOP intervention?

**Research question 2:** What profitability measures and criteria are used for BOP interventions and how do these compare with those used for the rest of the business?

**Research question 3:** Are there trade-offs between profitability goals and improvements in welfare, and how are these managed?



## 4. CHAPTER 4: RESEARCH METHODOLOGY

This chapter presents the research methods employed to gather data in order to answer the research questions. The objective of this study was to explore whether the twin goals of profits for the business and improved welfare for the poor can be sustainably achieved as argued by Prahalad and Hart (2002).

### 4.1. RESEARCH METHOD AND RATIONALE

The research method was qualitative in nature as the study sought to explore in detail the views of companies regarding welfare, profit and the existence of a trade-off between these two within the context of BOP interventions. Qualitative research is used to explore and also when there is not much prior knowledge available in a subject (Denzin and Lincoln, 2003). The research shows that there is a dearth of information on the BOP model and there appear to be evolving and differing views on the BOP proposition. While Prahalad and Hart (2002) argue that a fortune can be made by MNCs, Simanis and Hart (2008) argue that organisations should work *with* the poor. Kennedy and Novogratz (2011) argue that companies may have to forego direct financial returns and accept social returns. These evolving views suggest that an iterative research process would be a powerful tool for examining these concepts (Denzin & Lincoln, 2003).

Blumberg *et al.* (2008) describe a qualitative study as being based on qualitative information such as words and accounts of events. Thus, although the research may cover quantitative information, such as the measurement of

welfare and the rate of return used to evaluate projects, the research is not interested in the absolute values of such but rather whether and how these are set and used.

The BOP literature has generally cited cases of “successful” BOP (Prahalad & Hart, 2002, Prahalad & Hammond, 2002, Simanis & Hart, 2008; and Jackman, 2011), and literature is thus survivor-biased. By focussing on BOP initiatives that survive, this approach does not present an opportunity to learn from BOP “failures” and therefore does not lend itself to learning about the factors impacting both success and failure of BOP initiatives. In conducting the research, however, there were limited references to failed BOP ventures and this limited the ability to learn from the failures. Further, this reference was not detailed but did provide some insight into understanding the trade-off between profit and welfare. A number of the interviewees referred to BOP initiatives that have recently commenced and this limited the ability to gain insight into the experiences of the companies, particularly with regard to their failures.

## **4.2. RESEARCH DESIGN**

The research took the form of semi-structured expert interviews. BOP has become a niche that companies are exploring and companies who are members of the GIBS BOP hub were approached for interviews.

The interviews were semi-structured so as to allow the interviewee to share his/her points of view while the instrument was an interview guide (Blumberg *et*

*al.*, 2008). The format of the interview was flexible and the researcher followed the course of the conversation and raised questions, guided by the interview guide. The researcher also summarised the interviewee responses to clarify and probe them. This action of reflecting back to the interviewee the interviewer's understanding allowed the interviewer to clarify what the interviewee had said. In this approach, the aim was to learn from the interviewee and therefore open-ended questions were asked (Blumberg *et al.*, 2008). This design was intended to enable thick and rich descriptions of the actions of the companies to emerge and also allowed the interviewer to probe further the comments of the interviewee (Welman, Kruger & Mitchel, 2005).

#### **4.3. UNIVERSE, SAMPLING PROPOSED UNIT OF ANALYSIS**

The universe for this study was all businesses that are operating at the base of the pyramid in South Africa. The unit of analysis is the BOP unit of the business as the objective is to understand if there is a BOP-specific strategy and if the twin goals of BOP, which are to achieve profits and increased welfare, are achieved. The BOP proposition focuses on the bottom of the pyramid, (Prahalad & Hart, 2002) which in South Africa are LSMs one to three. The interviews explored which LSM groups the companies targeted and compared these to the BOP proposition.

The Gordon Institute of Business Science (GIBS) has a number of BOP partners who are members of the GIBS' BOP hub (K. Chipp, personal communication, May 23, 2011). These members were approached for

interviews and therefore the sampling was a judgement sample, which is a type of purposive sample (Blumberg *et al.*, 2008) in which the researcher selects members of a sample according to some criterion (Blumberg *et al.*, 2008). In the case of this research, the initial criterion was that members of the sample were currently undertaking BOP initiatives.

There are six members of the BOP hub and all are profit-oriented companies. The secondary sampling unit was the interviewees of the companies in the sample. The aim of the qualitative research was to obtain breadth in information and interviewing more than one person from each company allows for this (Cohen, Manion & Morrison, 2000). However, it was only possible for the interviewer to do this with two companies resulting in a total of 12 interviews across ten companies owing to the unavailability of potential interviewees. However, this still enabled a level of breadth of information to be obtained with the interviewees emphasising different themes in the interview and, in some circumstances, offering contrasting views and thus adding to the depth of the interviews.

The initial responses from the potential interviewees resulted in eight interviews being arranged, across six companies. The industries covered were chemicals, fast-moving consumer goods (FMCG), banking (a commercial bank), packaging and a pharmaceutical company. After the initial interviews were conducted, the interviewer recognised that there was potentially a lack of diversity in the sample and therefore wished to add both diversity and critical voices. As a result, a further four additional interviews were arranged, including one with a

government-owned and mandated institution whose services include financial services, a non-deposit taking bank, an FMCG company and a consultant knowledgeable about BOP.

The venue for the interviews was at the business premises of the interviewees. This was to limit the intrusion to the interviewee and was intended to allow the interviewer some insight into the environment in which the business operates (Blumberg *et al.*, 2008). However, given that the venues were the corporate offices of the interviewees and that the BOP interventions are located in places such as informal settlements and markets, this insight was not possible.

#### **4.4. DATA COLLECTION AND MANAGEMENT**

The data is in the form of recorded interviews, which have been transcribed. Blumberg *et al.* (2008) state that unstructured interviews provide a significant amount of information that is difficult to make note of during the interview and therefore the interviews are usually recorded. This also applies to semi-structured interviews. The interviews were transcribed independently and the interviewer checked the transcriptions against the recording for accuracy and completeness (Cohen *et al.* 2000).

#### 4.5. ETHICAL CONSIDERATIONS

Informed consent was obtained from all the interviewees. It was expected that the participants would raise concerns regarding the commercial sensitivity of the information shared in the interview, particularly if the information shared relates to a company's competitive advantage. In general, however, this concern was not expressed. The confidentiality of each company will be maintained and companies and interviewees are not named. However, the researcher did point out the possible risk of a reader of the report guessing the identity of the company. In order to reduce this risk, the interviewees were granted an opportunity to check a draft of the research report, particularly with regards to the description of the companies.

#### 4.6. DATA ANALYSIS

The data was analysed using a blend of content and narrative analysis. Content analysis is described by Welman, Kruger and Mitchell as "...a *quantitative* analysis of *qualitative data*." (Welman, Kruger & Mitchell, 2005). The frequency of key words phrases and themes was determined (Blumberg *et al.*, 2008; Welman *et al.*, 2005). In this study, the frequency and sequencing of concepts such as 'consumer', 'customer', 'producer' and 'partnership' were determined, which suggests the importance the interviewee gave to each of these (Riley, Wood, Clark, Wilkie & Szivas, 2000). Given that the objective of this research was to obtain depth in the understanding of whether the twin goals of BOP can be achieved, narrative analysis was also used. This method allows for in-depth

analysis in qualitative research (Blumberg *et al.*, 2008). The interviewees related their experiences of implementing BOP and their plans regarding its future implementation. The limited anecdotal information and their plans for the future allowed the interviewer to gain some insight into the respondents' perspective (Blumberg *et al.*, 2008). This analysis allowed the researcher to gain understanding of the narrative of the interviewees, such as the motivation for the company to undertake BOP initiatives and its context (Blumberg *et al.*, 2008).

The tool used for the data analysis was *Atlas.ti*, a computer-based qualitative data analysis software package. This programme allows the user to code themes electronically. Outputs were generated in the form of a list of themes and their corresponding quotations. This aided the analysis of the interviews and assisted the researcher to structure the findings.

#### **4.7. INTERVIEW GUIDE**

The interview guide in Appendix 1 was designed so that the three research questions were dealt with in an appropriate manner. It is exploratory and thus consistent with the semi-structured interview method, and therefore explores the definition and meaning of welfare, examines how profitability in the BOP ventures is measured and how such returns compare to non-BOP/"mainstream" business as well as how the two (welfare and profitability) are integrated.

The first series of questions explored how welfare is measured and examined how the product itself (as opposed to simply increasing choice) increases the wellbeing of the consumer. The second group of questions focused on the measurement of profit. The third set of questions explored whether there are any trade-offs between profitability and welfare and if there are such trade-offs, how they were made.



## 5. CHAPTER 5: RESULTS

The interviews highlighted a diversity of views and practices in respect of the BOP proposition. The research questions rewritten below for ease of reference are as follows:

**Research question 1:** What measures and criteria are used to monitor and assess the change in the welfare of the poor as a result of a BOP intervention?

**Research question 2:** What profitability measures and criteria are used for BOP interventions and how do these compare to those used for the rest of the business?

**Research question 3:** Are there trade-offs between profitability goals and improvements in welfare and how are these managed?

Twelve interviews were conducted with people who were involved in the implementation of the BOP proposition. The twelve interviews were held with ten companies, whose details are summarised in Table 1.

**Table 1: Summary description of companies**

Sector	Number of Interviews	Description of companies	Company reference
Banking	3	Company 2 is a large commercial bank. Company 7 is a government owned and mandated institution whose services include financial services. The interview was in respect of the financial services business. Company 8 is a non-deposit taking bank.	Company 2 (SA profit oriented bank), Company 7 (SA government, non-profit bank) and Company 8 (SA profit-oriented bank).
Pharmaceuticals	1	The pharmaceutical company was a large South African company, focussing on the generic and over the counter (OTC) markets.	Company 1 (SA pharmaceutical company).
Chemicals	2	Two interviews were held with this multinational chemical company, which has a very large range of chemical products.	Company 10 (multinational chemical company).
Fast-Moving Consumer Goods (FMCG)	4	Three FMCG companies were interviewed. Of the three companies, two people availed themselves for interviews at one company. The products that the companies sell are one or more of mainly snacks, coffee, tea and infant formula.	Company 4 (multinational FMCG Company 1), Company 5 (SA FMCG company) and Company 9 (multinational FMCG company).
Packaging	1	Although a packaging company, this Company focussed on a sanitary product.	Company 3 (SA packaging company).
Consulting	1	This company consults to other companies in respect of product design and has experience in the BOP.	Company 6 (SA consulting company).

Of the companies interviewed, only one (Company 7) was government-owned, and has a developmental mandate as its main goal, which is financial inclusion. Company 6 consults on product design and has experience in advising companies on BOP implementation. The remainder of the companies were large commercial entities.

In order to explore the research questions fully, the researcher began with an exploration of how companies defined BOP. Included in the definition is the matter of what the companies define as BOP using the three characteristics derived from the BOP Protocol.

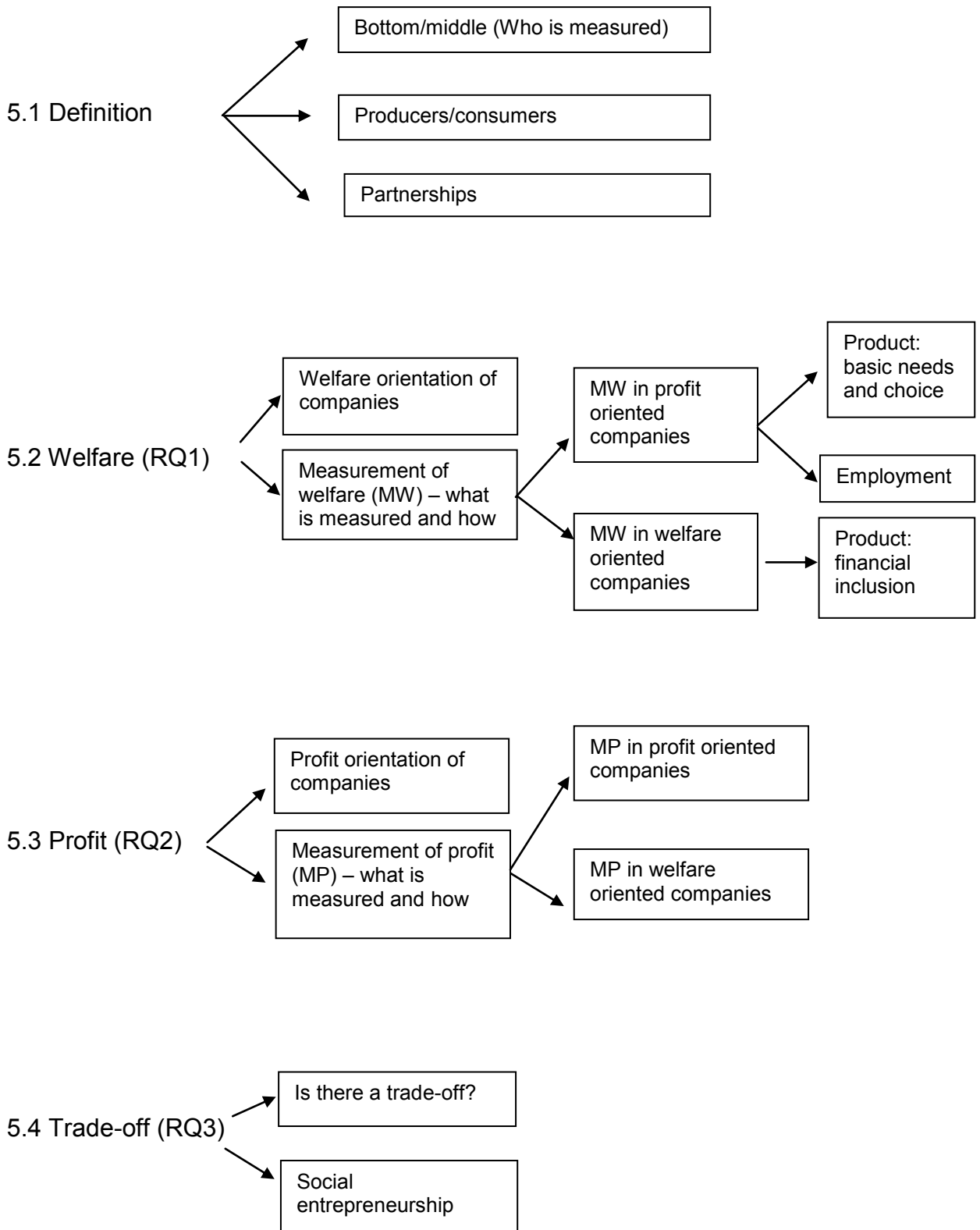
Section 5.2 focuses on welfare as a theme and explores the evidence that supports the welfare orientation of the companies interviewed. This welfare orientation is dealt with in section 5.2.1. Within the theme of welfare, which is the focus of research question one, the means by which the companies (profit oriented as well as welfare oriented) measure welfare is explored in section 5.2.1.2.

Following an approach similar to that followed in section 5.2, companies in the profit paradigm were examined in section 5.3. The measurement of profit is the focus of research question three. Firstly, evidence of a profit paradigm (section 5.3.2) is interrogated and, secondly, the measurement of profit (section 5.3.2) is explored in both profit oriented and welfare oriented companies.

The final part of this chapter (section 5.4) explores the views of the companies in respect of the trade-off (or lack thereof) between profit and welfare. Social entrepreneurship is discussed within this context.

The structure of this chapter is presented diagrammatically in Figure 2. This structure was followed for ease of reading and analysis and follows the order of the research questions.

**Figure 2: Structure of Findings**



## 5.1. DEFINITION OF BOP PROPOSITION

Research question one deals with exploring the measures and criteria for monitoring the changes in welfare of the poor as a result of a BOP intervention. However, such measures and criteria depend on the definition of the BOP proposition, which may differ between companies implementing BOP. It is therefore necessary to determine the main characteristics of the BOP proposition and compare these to how the interviewees view the BOP proposition to see if they align, before examining the measurement of welfare.

The following are the main characteristics of the BOP proposition, as reflected in the BOP Protocol (BOP 2):

- It is aimed at the poor who are at the bottom of the pyramid, not the middle (characteristic 1)
- It involves the poor as producers, not consumers (characteristic 2)
- It seeks partnerships with the poor (characteristic 3).

(adapted from Simanis & Hart, 2008)

The researcher has examined the companies' approaches to BOP using the three identified characteristics of BOP. Whilst the three characteristics are not an exhaustive list, they are, in the view of the researcher, the main elements of BOP as reflected in BOP 2.

Part of the BOP proposition is that the welfare of the poor can be improved. For a BOP initiative to be consistent with the BOP proposition it should be targeted

at the poor. It is therefore important to determine whether initiatives which are described as BOP initiatives are aimed at the poorest in society and not some other income segment. The BOP Protocol suggests that the poor are treated as producers, not consumers, and that partnerships with the poor are pursued. This view was tested against the findings to determine whether the companies interviewed regard the poor as producers or consumers and whether partnerships with the poor are pursued. Consequently, the degree of consistency with the BOP Protocol, which can be regarded as an extension of the BOP proposition, can be established.

#### **5.1.1. Characteristic 1: The Bottom of the Pyramid**

Research question one is concerned with the measurement of welfare of the poor. It is therefore important to determine whether the companies that were interviewed are dealing with the poor or with another segment of society.

The Lifestyle Standard Measure (LSM) is a standard South African measure that categorises people into 10 categories, with the poorest in category one and the wealthiest in category 10 (Haupt, 2006). Whilst LSM does not measure income but rather living standards (Haupt, 2006), for the purposes of this research it can be used as an indicator of wealth or poverty. Using the analogy of the pyramid that is used in the BOP literature, LSM one to four are the poorest in society and can be described as the bottom of the pyramid, LSM four to seven can be described as the middle of the pyramid and LSM eight to ten as the top of the pyramid. Some companies did not use LSMs as an indicator of

which income segment they target but referred to individuals receiving government grants or the estimated income. The identification of which LSMs a company targets can thus give an indication of whether an initiative is indeed targeted at the bottom of the pyramid, namely the poorest in society. Some companies have indicated that they target the lower LSMs, people receiving state grants or people who earn less than 1000 rand per month, all of whom can be categorised as being at the bottom of the pyramid. On the other hand, other companies have indicated that they target the middle LSMs. There are thus clearly two groups of companies, namely, those that define the BOP as the poorest in society (the bottom of the pyramid) and those who target the middle of the pyramid.

<i>Bottom of the Pyramid</i>	<i>Middle of the Pyramid</i>
<p><i>“We can say that Mzansi account is <b>LSM one to four</b> [emphasis added]” [Company 7]</i></p> <p><i>“Base of pyramid that is for us ... <b>LSM zero to four or one to four</b> [emphasis added].” [Company 3]</i></p> <p><i>“Yes, it is the guys you know we say if they are on a <b>grant system</b> [emphasis added] it starts at that level” [Company 1]</i></p> <p><i>“... they have one form of one income coming in, whether it is a <b>social grant</b> [emphasis added] or maybe handouts from family members or it is just ad hoc payments, income, that come from various sources so it is not absolute zero but they do have some form of irregular income coming in to them.” [Company 2]</i></p>	<p><i>“The theory behind it or the thinking behind it rather is that <b>LSM one to three the disposable income is so minimal</b> [emphasis added] that for us to actually develop products for that market would be quite a challenge so <b>we would rather focus on four to five</b> [emphasis added] who make up a much larger percentage of the South African population, sorry four to six would make up a much larger percentage but also <b>have a bit more disposable income</b> [emphasis added]” [Company 5]</i></p> <p><i>“So when I talk MPESA I do not necessarily target the bottom of the pyramid but I target <b>the middle market</b> [emphasis added]...” [Company 2]</i></p> <p><i>“It is middle to lower, ...I would say that <b>our focus is more middle to lower but not one to three, definitely not</b></i></p>



<p><i>I don't know if I can mark this back to LSM per se but income bands that I do know. We are looking at zero to a thousand...</i>[Company 2]</p> <p><i>"It's obviously maybe your <b>LSM one I would say up to your fives</b>, so it is from mid downwards."</i> [Company 5, interview 1?]</p>	<p>[emphasis added]." [Company 5, interview?]</p> <p><i>"For Company 8 in itself it is probably a guesstimate, probably <b>LSM five to seven</b>. [emphasis added]"</i> [Company 8]</p>
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The targeting of the middle of the pyramid reflects a lack of consistency with the BOP proposition. Companies two and five are reflected in both categories in the table above. In the case of Company two, two different products are being referred to. In the case of Company five, two interviews were held and the respondents expressed differing views on whether BOP should target the middle or the bottom of the pyramid. The contrasting views across and even within companies regarding whether BOP initiatives should be targeted at the middle or the bottom of the pyramid reflects the lack of a clear definition regarding who should be targeted in respect of a BOP intervention.

An indication of why companies target the middle of the pyramid is provided by a comment made by Company 2 that *"...**LSM one to three the disposable income is so minimal** [emphasis added] that for us to actually develop products for that market would be quite a challenge so we would rather focus on four to five..."* [Company 2]. Similarly Company 10 stated *"...**I do not see anybody at the moment sensibly only targeting that really lower LSM groups** [emphasis added] because the **critical mass would not be there to***

***make it viable to run your production just based on them.***” [emphasis added] [Company 10].

***“I do not see anybody at the moment sensibly only targeting that really lower LSM groups [emphasis added] because the critical mass would not be there to make it viable to run your production just based on them.”*** [Company 10]

***“LSM’s one to three, if you look at the South African concept; their disposable income is very, very small... it just does not pay [emphasis added] ...So you target four to six [emphasis added] because then you have a strategy and you know that by doing that you are going to have a spillage [emphasis added] over the one to three.”*** [Company 9]

Company 9 appears to recognise that the poor (LSM 1 to 3) should be targeted but indicates that from a commercial perspective, it is not profitable to target the poor as the level of income at the bottom of the pyramid is very low. Instead, it justifies its approach of targeting the middle of the pyramid by stating that “spillage” from the middle of the pyramid to the bottom of the pyramid will occur, thereby increasing their welfare.

***“LSM’s one to three, if you look at the South African concept; their disposable income is very, very small... it just does not pay [emphasis added] ...So you target four to six [emphasis added] because then you have a strategy and you know that by doing that you are going to have a spillage [emphasis added] over the one to three”.*** [Company 9]

These views suggest that some companies do not have an interest in increasing the income and hence the welfare of the poor. It appears the definition of who to target (middle or bottom of the pyramid) may be determined by commercial considerations, rather than considerations of welfare.

### 5.1.2. Characteristic 2: The poor as producers

Interviewees were asked about their understanding of the BOP (proposition), which can be summarised as increasing both welfare and making profits. Most interviewees focussed on the BOP as consumers; a market to be reached. Most companies did not focus their BOP initiative on the poor being direct producers, that is, producing inputs *for* the company. Rather, they viewed the poor as customers to be reached. This is reflected in the language used such as “customer” , “products” “winning”, market(s)”, “sales”, “penetration”, “volume”, “consumer experiences”, “brands”, “channel” and the like.

*“...those propositions are speaking to **customers** [emphasis added] who we can say pretty much are the base of the pyramid from an income point of view, an asset holding point of view.” [Company 2 ]*

*“BOP is making sure that **consumers have access to our products** [emphasis added] in the right pack size at an accessible price point.” [Company 4]*

*“To me it’s a **consumer**.”[emphasis added] [Company 5]*

*“...there is a good understanding in the company, so let’s talk about **the consumer**.” [emphasis added] [Company 1]*

*“...we have designed a lot of our products to service the base of the pyramid **markets**.” [emphasis added] [Company 1]*

*“...as Company 4 we believe we have good quality superior **products that we offer to consumers** [emphasis added] and for the longest time, for over one hundred years on Tea product 1 for example consumers have enjoyed this product, and what we would like to do is **extend that to the balance of the South African population** [emphasis added] and staying true to what our business is about; **growing great brands and great consumer experiences**.” [emphasis added] [Company 4]*

*“ I am involved with GIBS, it’s really just to see how we can structure it with Nestle with the other big guys that are also going down this channel because*

only a few guys have **cracked this channel.**” [emphasis added] [Company 1]

“...the discussion was around **creating opportunities for the business to essentially grow its penetration and volume** [emphasis added] in what we are terming the bottom end.” [Company 4]

“...the next generation of South Africa who are upwardly mobile individuals and PPP is trying to cater to those people who have this **aspiration** [emphasis added] to... or a **better lifestyle** [emphasis added] and a lot of companies just don’t **meet their needs.**” [emphasis added] [Company 5]

“We as the **sales team** [emphasis added] that’s dedicated to it as an emerging market team....” [Company 5]

“Company 2 at the moment is very focused on **winning** [emphasis added] in certain markets and one of them is the youth market, the other one is what we are calling entry level banking. **Tapping into** [emphasis added] the base of the pyramid so to speak, there is quite a lot of research that has been done in terms of trying to understand that space and trying a **solution** [emphasis added] around that space which has resulted in some propositions being put together and those propositions are **speaking to customers** [emphasis added] who we can say pretty much are the base of the pyramid from an income point of view, an asset holding point of view so we are looking at a transactional product coming into play, we are looking at the availability of personal loans and we are looking at funeral plans and probably also MPESA so there are four solutions that we are looking at in terms of **targeting that market.**” [emphasis added] [Company 2]

A word count on consumer(s) and customer(s) showed the following:

**Table 2:** Word count related to consumer

Word	Count
Consumer	93
Consumers	30
Total	123

**Table 3:** Word count related to customer

Word	Count
Customer	38
Customers	42
Total	80

The total word count for consumer(s) is 123 while that for customer(s) is 80, with a combined total of 203. This contrasts with a word count for produce, producer and produces, which resulted in a total of 17, the detail of which is as follows:

**Table 4:** Word count related to producer

Word	Count
Produce	10
Producer	2
Produces	5
Total	17

The significant difference between the word count on consumer(s) and customer(s) on the one hand and producer/producer/produces on the other, confirms the finding that the companies focus their BOP intervention on consumers or customers, which involves selling to the BOP rather than treating the BOP as producers.

The view of Company 7 was distinct from the rest of the companies regarding the treatment of the poor as consumers. Company 7 argued that if companies were seriously interested in improving welfare they would purchase goods *produced* by the poor, such as agricultural products produced by women.

*It is difficult because if you design a product and you say this one is for you, everybody aspire to get something nice then they might not necessarily go and use that product so I think for me or I can say the Shoprite or Woolworths, when they advertise they say **they will go to the farms maybe that are owned by women only and they will buy tomatoes from there** [emphasis added]. So I think that for me will be a way of helping. You go to that lady who is farming tomatoes, you buy from her and then you come and sell in your shop but not in a way that you buy at a very cheap price and you come and sell it at a huge price that you make more of a profit and she is not seeing anything so if maybe they can buy more from those people to bring them in instead of saying I will design this product or I will sell it in smaller packages for you to go and use.”*  
[Company 7]

Rural women are among the most disadvantaged in most societies and the income that they derive from their produce would substantially increase their welfare. Similarly, Company 7 suggested that the poor should be treated as producers, with furniture retailers and wholesalers purchasing the output of the poor.

*“If let’s say there’s a company which manufactures furniture and then they **find somebody who is doing woodwork at home or wherever and they say maybe I will buy ten of your chairs** [emphasis added] if you do them nicely and then I will sell them, something like that..” [Company 7]*

These views are consistent with the mandate and paradigm of Company 7, which is to increase the welfare of the poor.

### 5.1.3. Characteristic 3: Partnership with the Poor

Partnership is the third characteristic of the BOP proposition. Very few companies had a strong partnership orientation, as reflected in the relatively low word count on partnership and related words, compared to that of customer(s) and/or consumer(s). A word count on partner / partners / partnership / partnerships resulted in a count of 31, across all the interviews. The number of mentions of partner, partners, partnership or partnerships are summarised as follows:

**Table 5: Word count related to partnership**

Number of companies	Mentions
six companies	Zero
one company	One
one company	Two
one company	Four
one (Company 10)	Twenty four

The total word count for partnership-related words was 31 with six companies not mentioning such words at all. Company 10's relatively high mention of partnership or related words was not 'partnership with the poor' but rather 'partnership between agencies,' including donor agencies and NGOs. This is distinct from partnership with the poor.

*"...in most cases **we are working with external partners** [emphasis added] that also bring in expertise." [Company 10]*

*"The distribution people cannot do it for you, at some level their technical knowledge useably is not there, so while we are at the very beginning, we still need to touch those people and **NGOs are one way of reaching at least parts of that community** [emphasis added]." [Company 10]*

Company 7, the government-owned entity, also proposed partnerships, but stated that these should be between government and (profit-oriented) companies, as they are targeting the same market.

*"I will say for companies to be successful with this, I think I do not know if they **work with Government** [emphasis added] if it will work, if they can have a partnership because as much as the private companies are calling it bottom of the pyramid it **is the same target market that the Government is trying to cover.**" [emphasis added] [Company 7]*

Regarding the profit that companies who partner with government will make, Company 7 suggested that they should be content with lower profits ("*they will make some money*"), given the poverty that exists. In addition, the text "*...helping somebody that has nothing...*" confirms the non-profit/welfare orientation of Company 7. Company 7 thus appears to suggest that companies should partner with government and, in so doing, lower their expectations regarding profit in order to increase the welfare of the poor.



*“...**they will make some money** [emphasis added] but they should be content with that and feel satisfied because they will be knowing it is something that is **helping somebody that has nothing** [emphasis added] so I think in the back of their minds they should always know that the person that they are helping does not have much, **they can’t expect to squeeze more out of this person.**” [emphasis added] [Company 7]*

A partnership with government is distinct from a partnership with the poor. Thus, although Company 7 defines the BOP as those at the bottom of the pyramid and proposes that the poor be treated as consumers, it did not propose partnership with the poor. Consequently, Company 7’s views are consistent with two of the three characteristics of the BOP proposition, namely defining the BOP as the bottom of the pyramid and treating the poor as producers. In contrast, the remainder of the companies views are either consistent with one of the three BOP characteristics, namely defining the BOP as the bottom of the pyramid, or none.

It is therefore difficult to expect to see a large focus on improving the welfare of the poor when they are defined as the middle income segment of society, not the bottom; are seen as a market, not potential co-producers; and the pursuit of partnerships with the poor is absent. Rather, these collectively suggest a focus on profit potentially at the expense of welfare.

## **5.2. WELFARE (RESEARCH QUESTION ONE)**

Regarding research question one, companies were requested to discuss the criteria and measures that they used to monitor and assess the changes in welfare as a result of a BOP intervention. An inductive approach resulted in the



emergence of the welfare and profit paradigms. The former is explored within the welfare theme (section 5.2) and the latter, within the profit theme (section 5.3).

### 5.2.1. The welfare paradigm

Welfare orientation, as opposed to being profit-orientated was not a general theme, but was the main focus of only one company, namely Company 7. This company is government-owned and clearly stated that profit is not their main focus.

*“...with Company 7 their vision or their mission that is what they are looking at to say, we look at the people and then profit won’t really be our main focus.” [emphasis added] [Company 7].”*

*“So in terms of profitability I do not think that is one of the things which we can say we really look to make a profit because the people that we are looking at especially if we look at the bottom of the pyramid, **some of them have nothing, they don’t have much, so we cannot expect to really make a profit out of those people.**” [emphasis added] [Company 7]*

*“...you need to go even to a place like a spaza shop and be able to do the banking service, the guy who is fixing the shoes by the street corner, we want that guy to be banked and we want him to bank with us, we know he cannot walk into Standard Bank, he will feel intimidated, we want him to come and feel comfortable with us and people will say no, **we will go out of business** [emphasis added], why are we doing that, we will go out of business and we said that **we are not here to be a profit making bank.**” [emphasis added] [Company 7]*

*“**It definitely won’t be profit** [emphasis added] because the model that they want to use is to say that we want financial inclusion and that is why at the moment even with Mzansi we have got the highest market share... I think between forty and forty-four percent.” [Company 7]*

The number of quotes and the definitive nature of some of them such as “It definitely won’t be profit” reflect the clear view by Company 7 that welfare, as opposed to profit is their main goal.

### **5.2.1.1. Measurement of welfare**

Given that the measurement is a fundamental aspect of research question one, the approach to the measurement of welfare of these two types of companies were explored in order to determine any similarities or differences in their approach. The “who” of measurement was dealt with in section 5.1, which dealt with the definition of the BOP. Regarding the measurement of welfare, the researcher explored “what” provides welfare (reflected in the indicators of welfare the companies used) as well as “how” this welfare is measured (how changes in the level of the indicators were measured).

### **5.2.1.2. Measurement of welfare in profit oriented companies**

Profit-oriented companies suggested a limited range of welfare indicators, reflecting the “what” of measurement of welfare. This was mainly that the product itself improves welfare and so does the employment that is created through the sale of the product.

#### **5.2.1.2.1. Welfare is in the product**

Most of the profit-oriented companies were of the view that welfare is increased through access to the product. This is consistent with the view that the focus of a BOP intervention is to sell to the poor and treat them as consumers or customers, not producers. The themes that emerged within the view that welfare is increased through the product were that welfare is increased through

meeting basic needs and providing choice. These two product-related themes are discussed in the sections that follow.

#### 5.2.1.2.1.1. *Welfare is created by meeting basic needs*

One of the companies identified its BOP intervention by examining the basic needs of the poor, based on the United Nations Millennium Development Goals (MDGs).

*“We had to make choices here where we want to focus on spending habits on food and precursors like agro was certainly one thing, housing is also something we felt that is important, health and water, they are also linked to the **UN Millennium Goals** [emphasis added] so we said look these two points, the UN Millennium Goals as well as the spending habits give us some direction on where to focus on...” [Company 10]*

There are eight MDGs, which are broken down into 21 quantifiable targets and these are measured by six indicators (UN works for people and the planet: End poverty, 2011). The MDGs include areas such as eradicating hunger, education, gender equality, reduced child mortality, improved maternal health, combating disease, ensuring environmental sustainability and developing a global partnership for development (UN works for people and the planet: End poverty, 2011) . The indicators for some of these goals can be used as a proxy for the measurement of welfare. Company 10’s projects are in the areas of agriculture and housing.

*“I am coming more and more to the realisation that for Company 10 as a chemical company, actually **the core heart of BOP is in agro** (agriculture) [emphasis added] in general. Why is that because **most of the poor people are being employed in agro** (agriculture) [emphasis added], the vast majority in Sub-Sahara and most of them are very poor. So **agro** (agriculture) **provides for income** [emphasis added], out of Africa’s own resources and is not dependant on external aid, **it creates employment** [emphasis added] and therefore stability which is also important for us.” [Company 10]*

*“...**housing** [emphasis added] is also something we felt that is important...,*

*they are also linked to the **UN Millennium Goals.*** [emphasis added]  
[Company 10]

The above quotes relate to the “what” of measurement. Housing and agriculture can contribute to the MDGs but the impact of Company 10’s interventions would need to be measured to determine if it impacted on the goals and the extent of that impact. That is, the “how” of measuring welfare is not dealt with. It follows that if companies are only starting to determine what the indicator is (*“I am coming more and more to the realisation”*), it is unlikely that the specifics on how to measure such welfare have been developed.

The starting point for Company 10 are the MDGs, which is distinct from the remainder of the profit oriented companies who typically have started with the products they sell and look at the BOP as consumers as discussed in section 5.1.2. Company 10’s process commences with developmental goals, assisting it in narrowing down the number of products on which to focus on in order to sell to the poor. Such products can be sold either in its current form or via new formulations to meet the needs of the poor.

*“...the **UN Millennium Goals** [emphasis added] as well as the spending habits give us some direction on where to focus on...”* [Company 10]

*“...six thousand key products and there is multiples more of them ...”* [Company 10]

*“So we are looking at new formulations. Formulations is just various products combined together to increase effectiveness. And the last level for us in the innovation step would be a new product.”* [Company 10]

Thus, Company 10’s BOP interventions are intended to contribute to welfare but this is not measured. Further, Company 10’s orientation is to sell its products to

the poor. Thus, although it has identified the sectors that deal with the basic needs of the poor and sectors such as agriculture are sectors in which the poor are active as producers, Company 10 is still focussed on selling its products to the poor, as opposed to purchasing their output.

Financial inclusion could be considered a basic need. The profit-oriented banks indicated that having a transaction product allows people to keep their cash safe and could allow people to be more productive and start and sustain businesses. This links to the argument that welfare is increased through employment discussed in section 5.2.1.2.2.

*“Therefore when we speak of offering a transactional product to a customer who never had it before, we are providing him something which a customer never had before whether it is to be able to make a payment, ...or to withdraw cash, or it is to **keep cash in a safe place** [emphasis added] and withdraw it, whether it is to buy airtime or other offering that comes through those mechanisms, those are **value adding things, those are things that change lives of customers** [emphasis added]. Access to credit facilities where there were none before, particularly if a customer can pay back also would make a difference in the life of a customer particularly if those lending products are used for whatever purpose be it to **generate income from small trade** [emphasis added], of course to be able to address pressing financial needs, if they need some bridging finance. Those products will potentially make or add value to a customer’s life just because they finally can be able to access that at an affordable rate, and that’s the point, at an affordable rate, yes.” [Company 2 ]*

*“Banks can do so much, their activities ...banks fuel essentially, economic activities to a huge extent, it **being able to provide loans to companies for them to generate jobs and all these things** [emphasis added], so those are things that banks generally do directly to support, grow an economy.” [Company 2 ]*

#### 5.2.1.2.1.2. Welfare is created by providing choice

One company, Company 10 was of the view that choice increases welfare. This choice is in respect of the number of products consumers can choose to purchase. Consequently this is still in a profit paradigm in which the poor are viewed as consumers and links to the definition of the BOP as consumers, not producers. The goal of Company 10 is to obtain a share of the consumer's wallet, not to increase it:

*"But also I think a little bit more on a, let me say, a psychological side is also seeing that the BOP consumer have a bit more choice, because I think that is something that is often overlooked that although a person only has a meagre income, it is still a person and **he would still like to have a choice** [emphasis added] as to **what he spends his small disposable income on.**" [emphasis added] [Company 10]*

*"I see it almost as an empowerment of the individual, the fact that although you have not a lot of money to spend, **you have choices on what to do with your money** [emphasis added] and I mean that we know closely linked to earning money is also the ability to spend that and the feel good factor from when you spend your money on something that was your choice. So as I say that is more on the social side and physiological (sic) side, it is not a concrete something that you can measure as you can measure the improvement in people in their health and well-being from a pure nutritional or disease-free criteria." [Company 10]*

Company 10 does not deal with the fact that choice, in the context of very limited income, can decrease welfare. Such choice can lead to the purchase of socially undesirable or dubious products. There is an ethical dimension to products and the poor can be vulnerable in this regard. Several companies such as those in the FMCG sector mentioned socially undesirable products such as alcohol and cigarettes, which in their view should not be marketed to the BOP.

*"...that is why **SAB in the BOP is kind of like a swear word** [emphasis added] because you see the guys falling over, the rape cases the fighting on Saturday nights, whatever it is, you hear the cases... it is unbelievable man." [Company 1]*

*“creating demand sounds like encouraging people to smoke cigarettes, **take any rubbish and give them** [emphasis added] so I was just qualifying that... around the whole world in the BOP sifted through various products and realised some are good and some are bad and started to pick up patterns.”*  
[Company 6]

*“guys that sell cigarettes or alcohol, to say, you make so much profit in the BOP by **getting as many people as possible addicted and destroying people’s lives** [emphasis added], so fortunately for us we are not in that industry.”* [Company 5]

This contrasts with the view of Company 4, which also operates in the FMCG sector, that consumer demand drives whether a product should be made available to consumers. Thus, the sale of alcohol and cigarettes is, in the view of Company 4, consistent with the BOP proposition. In this regard, Company 4 stated:

*“... In no way am I the moral compass according to which all companies must be measured and it is the imperative of every company to measure its initiatives with **its own conscience**, so if cigarette companies and alcoholic beverage companies and whatever else you may perceive as not necessarily, for a lack of a better word, to the benefit of those communities.... I suppose government intervention can come there, but unfortunately none of it has come through. .. **I do not see us challenging a cigarette or alcoholic beverage manufacturer and say you cannot go into this space, consumer demand really drives that** [emphasis added].”* [Company 4]

The “what” in terms of measurement of welfare therefore is access to products, that is, consumers having choice. Consideration of the ethical dimensions of a product is completely lacking since there is no recognition of the power and information imbalance in the relationship between the company and the poor. Compounding this non-concrete indicator of welfare is the lack of any measurement of choice so as to determine whether the BOP intervention is impacting the level of welfare. The absence of the “how” and the intangible



“what” of measurement suggests that there is a lack of conviction by the companies that welfare can be improved.

#### 5.2.1.2.2. *Welfare is created through employment*

Four of the ten companies interviewed (Companies two, five, nine and ten) indicated that employment or growth of a business is an indicator of welfare.

*“There is one factor that appears to be the dominant driver for us and that is **job creation** [emphasis added]. How do our projects **translate into new jobs** [emphasis added] generated or new income streams being started for people?” [Company 10]*

*“What we are starting to measure is the **number of jobs** [emphasis added] created and we will ask our partners, look guys if you think into retail, how many jobs do you create in production or retail.” [Company 10]*

*“...you are finding businesses that are family run, right so to them it is a form of **employment** [emphasis added] or the only economic activity that they are engaged in and our role as a supplier of course is that when we engage with those people it is not only just about selling our product it is also about also ensuring the way in which they sell our product, is in a way that helps them grow the business...” [Company 5]*

*“At Food Company A project we had a very interesting by-project which was the increasing of the welfare which was the **distribution ladies** [emphasis added], that was very interesting so, so by trial and error I eventually came to the process of a micro franchise.” [Company 9]*

*“...banks fuel essentially, economic activities to a huge extent, it being able to **provide loans to companies for them to generate jobs** [emphasis added] and all these things...” [Company 2]*

A word count on the words employment, job and jobs across these four companies totalled 27. This total is substantially lower than the word count on customer(s) and consumer(s), which totalled 203, suggesting a focus not on welfare and its measurement but rather on the commercial aspects of the BOP proposition. Notably absent from the responses was any indication of causality



between the BOP intervention and the maintenance or increase in employment, which the companies claimed could be used as an indicator of welfare.

Company 1's BOP model is founded on finding a good distribution model, which it regards as "fundamental" [Company 1]. A word count on "distribution" in the interview with Company 1 yielded a count of 19, out of a total count across the interviews of 58. This relatively high proportion of the total usage of the word "distribution" of approximately one third, reflects the importance that Company 1 placed on finding a distribution model to reach the poor, confirming the profit and consumer focus of Company 1.

*"...we need to start getting a **distribution** system quick slick in terms of getting products everywhere..."* [Company 1]

*"...it is about **distribution** and critical mass..."* [Company 1]

Company 1 indicated its desire is to eliminate the middle man in order to reach the BOP. Following this view, Company 1's BOP initiative could decrease welfare, not increase it through by-passing intermediaries, resulting in lower employment in these intermediaries.

*"...so our focus on the BOP is simply to say that we make medicines, they are getting to these channels, we need to now find a way to get them there in a cost efficient manner to **cut out all these middle men.**"* [emphasis added] [Company 1]

While many of the companies indicated that the employment is an indicator of welfare, i.e. the "what" of measuring welfare, none provided data on the number of jobs created or saved as a result of a BOP intervention.

The profit oriented companies indicated that welfare is improved through the product and through employment. In respect of the product, these companies indicated that by making the product available the company increases the choice for consumers and this increases their welfare. Also, it was claimed that the product itself, if focussed on the basic needs of the poor, increases their welfare.

### 5.2.1.3. *Measurement of welfare in welfare oriented companies*

Company 7 is the only welfare-oriented company as discussed in section 5.2.1, and like profit-oriented companies, it was of the view that welfare is created or increased through the product, which in its case is financial inclusion.

#### 5.2.1.3.1. *Welfare is in the product*

Financial inclusion results in a person having access to a bank account, enabling them, *inter alia*, to safely store their money and to receive and make payments.

*“Financial inclusion is, **there are a lot of people out there who are unbanked so we are trying to get those people to be banked** [emphasis added] ... we want you to come and bank with us.” [Company 7]*

*“For Company 7 it is really to **bank the unbanked.**” [emphasis added] [Company 7]*

*“Yes and it is an opportunity for us and again it’s attractive, it is our **obligation [emphasis added]** we need to get those people, a lot of people use the Mzansi account, they get their grant paid into the Mzansi account.” [Company 7]*

*“I would say we would want to be seen as the bank that cares, yes, so we want to be seen as the bank of choice but we use that word internally. To be seen as the bank of choice for the unbanked and what we also try to do, we try to focus on those areas **where other banks are shying away from** [emphasis added], so that is what we try to do.” [Company 7]*

Although Company 7, which is welfare-oriented, focuses on the product as the means of increasing welfare, it also focuses on its obligation to increase welfare. This contrasts with profit-oriented companies who view their obligation as increasing profits, as reflected in section 5.3.1.

An indicator of the degree to which Company 7 is welfare-focussed is the percentage of the market that Company 7 holds in Mzansi accounts, which it estimates to be between 40 and 44 percent.

*“we have got the **highest market share** [emphasis added]...I think between forty and forty-four percent.” [Company 7]*

This suggests that the remainder of the banks which dominate the banking market collectively account for between 56 and 60 percent. Company 7 is by no means dominant in retail or investment banking and thus its market share of Mzansi accounts is disproportionate to its size. The Mzansi account, which according to Company 7, “...was started by the Government...,” is designed to assist the poor in obtaining bank accounts and being able to transact, referred to as “*financial inclusion*” in the interview. Company 7’s main goal is thus to increase the welfare of the poor and this contrasts with the profit-oriented paradigm of the rest of the companies interviewed. However, besides measuring the percentage of Mzansi accounts held by Company 7, there is no measurement of the welfare of the poor. Without measurement, there is a lack of understanding of the degree to which financial inclusion impacts welfare.

According to Company 7, the other banks do not encourage the opening of Mzansi accounts. The effect of such discouragement is that the poor's access to a product, specifically designed to improve their welfare through financial inclusion is limited.

*"...and what I know is that with other banks when you walk in and you want to open a Mzansi account they **do not even encourage you** [emphasis added], they tell you of their other products which are slightly more than Mzansi but with us we cannot do that, **we do not have a choice** [emphasis added], we need to open more Mzansi accounts." [Company 7]*

Company 7 appears to be in touch with the poverty the poor face, as reflected in their comment "*...some of them have **nothing** [emphasis added], they don't have much, so **we cannot expect to really make a profit out of those people** [emphasis added]."* [Company 7]. This understanding of poverty is generally absent from the profit-oriented companies. In the face of such poverty, the government, through Company 7, implicitly recognises that to attempt to extract profit from the poor is likely to decrease their welfare, not increase it.

Notwithstanding, Company 7 was the only company that was welfare-focussed, it did not have an instrument to measure the level of welfare. Although it did monitor the number of Mzansi accounts, this metric is a metric for Company 7 but does not measure how the lives of the poor actually improve.

*"Okay, in terms of, we **do not do a lot of research to actually measure** [emphasis added] that but we look at the number of accounts like we will have like a dashboard slide which we look at every week to see the increase in the number of accounts and to see if people are opening those accounts so that's how we see that there is a growth or an increase in these accounts." [Company 7]*

Like, the profit-oriented banks, the welfare-oriented bank indicated that welfare is improved through financial inclusion. However, there are several significant differences:

- the profit-oriented banks' primary objective is profit, not improved welfare.
- the profit-oriented banks did not have metrics to measure the welfare that they create with financial inclusion, whereas the welfare-oriented bank at least tracks the number of Mzansi accounts it has and its market share with this type of account.
- the Mzansi account provides for basic transacting and is unlikely to lead to over-indebtedness, whereas providing loans that people are unable to repay can result in a poor credit record and consequently financial exclusion.

#### 5.2.1.3.2. *Welfare is created through employment*

In section 5.1.2, which deals with the poor as producers, Company 7 argues that the welfare of the poor can be increased by treating them as producers and purchasing their output. While Company 7 makes a suggestion regarding treating the poor as producers, it does not measure any changes in employment. Company 7's suggestion contrasts with the approach of profit-oriented companies of treating the poor as consumers, where their income is fixed and the aim is generally to obtain a share of the income of the poor.

Research question one explores what measures and criteria are used to monitor and assess the change in the welfare of the poor as a result of a BOP

intervention. The conclusion is that the orientation of a company has an impact on the measurement of welfare in a company. The welfare oriented-company measured welfare (in the form of financial inclusion) by monitoring the number of accounts and its market share of the product designed to include the poor in the financial system. It, together with some profit-oriented companies, regarded employment as an indicator of welfare, but none of the companies measured changes in employment. The focus on choice, particularly by profit-oriented companies, reflects that such companies were more inclined to have non-tangible indicators and no measurement systems in place. In general, however, the measurement of welfare by both profit and welfare-oriented companies is poor, particularly in the case of the profit-oriented companies.

### **5.3. PROFIT (RESEARCH QUESTION 2)**

Research question 2 explores the profitability measures and criteria that are used for BOP interventions and how this compares to that used for the rest of the business.

#### **5.3.1. The profit paradigm**

The responses of most of the interviewees reflected that they were in a profit-oriented paradigm. The emphasis of the companies that were in this paradigm was on the shareholders. The primacy of the financial interests of the shareholders of the company as the *raison d'être* of a business was reflected in the responses of the interviewees.

*“However **at the end of the day we are here to earn money for the shareholders**[emphasis added], that is essentially what all of us are tasked to do so that for me we can still achieve that by being responsible and by making a difference to people’s lives.” [Company 5]*

*“...we have made commitments to the shareholders of the bank to give **certain returns for the money that they put in**[emphasis added], and that will always continue, has been and will always continue, **the principal driver or reason for existence**, [emphasis added], if that goes away then we can shut down these doors.” [Company 2] “I strongly doubt that anyone can say BOP has different objectives as opposed to **growing your penetration and growing volume and ensuring the long term sustainability of your brands**.” [emphasis added] [Company 4]*

*“On the BOP space we are saying fine I am willing to let go of maybe or soften what my OP percentage, is but **the volume uptake must still deliver in line with a healthy OP in rands**.” [emphasis added] [Company 4]*

*“But the true **objectives of those initiatives is to deliver on the bottom line**.” [emphasis added] [Company 4]*

*“Yes to do it themselves and they can actually take out all the multinationals [sic] because they have critical mass and they do it effectively like in SAB has done who lock everyone out, you get your product there the cheapest even if they want to play the price game you still doing it the cheapest and that is what it is at the end of the day...” [company 1]*

*“Company 2 at the moment is very focused on **winning** [emphasis added] in certain markets...” [Company 2]*

*“...it is not an easy thing to explain to shareholders because shareholders invest not particularly for the public good, **they invest for their pocket**.” [emphasis added] [Company 6]*

Some companies indicated that equity should be patient. That is, companies should not expect immediate returns on equity. However, none of the companies demonstrated that the returns are eventually realised.

*“It is long term investment [emphasis added], the profit will not come overnight but we need to go there.” [Company 3]*

*“So profits will have to come, the question is when and can you argue strategically **that you can allow it to be a bit more patient.**” [emphasis added] [Company 10]*

*“...there is obviously an acknowledgement that **you have to have patience and the rate of return might be slower** [emphasis added] or we are on a road and this is going to change...” [Company 6]*

Several companies have demonstrated both a strong profit orientation and have argued that equity should be patient. However, they did not provide evidence of the patient equity returns materialising, which appears surprising for companies that have a strong focus on profits.

### 5.3.2. Measurement of profit

The companies interviewed indicated that they use the same measures in BOP and in the “mainstream” business to measure profit. In responding to whether companies use the same metrics for the measurement of profit in BOP as in the rest of the business, they indicated the following:

*“No, it is pretty much **the same** [emphasis added] principles.” [Company 2]*

*“It is pretty much **the same.**” [emphasis added] [Company 5]*

*“Absolutely.” [Company 5]*

*“Yes.” [Company 6]*

*“To be clichéd, everything is measured on the bottom line or how you contribute to the bottom line and the bottom line...” [Company 4]*



Therefore, to conclude in terms of research question two, companies use the same profitability measures for BOP and non-BOP initiatives. However, the level of profit for BOP interventions is expected to be lower for BOP initiatives at least over the short term, but that over a longer period it was expected that the profit levels would increase. However, this was based on expectations of the future and not the experience of the companies.

Table 6 reflects a summary of the findings and contrasts this with the three characteristics derived from the BOP Protocol. As reflected in Table 6, the views/practice of the profit-oriented companies align at best with only one of the BOP Protocol characteristics, namely focussing on the bottom of the pyramid and that of the welfare-oriented company with two of them, namely focussing on the bottom of the pyramid and treating the poor as producers. Neither the profit nor welfare-oriented companies focussed on partnership with the poor.

**Table 6: Comparison of findings and BOP Protocol**

Category	Bottom or Middle of the Pyramid		The poor as producers or consumers		Partnership	
	Bottom	Middle	Producers	Consumers	With the poor	Between organisations
profit-oriented companies	$\alpha, \beta$	A		$\alpha, \beta$		B
welfare-oriented, government owned	$\Omega$		$\Omega$			$\Omega$
BOP Protocol	$\mu$		$\mu$		$\mu$	

$\alpha$  = most profit-oriented companies, some of whom focussed on the bottom of the pyramid. However, all regarded the poor as consumers but partnership did not feature as part of the implementation of the BOP initiative.

$\beta$  = similar to  $\alpha$  above but this company focussed on the bottom of the pyramid and regarded partnership as part of its implementation of its BOP initiative. However, its view on partnership was partnership between organisations, not partnership with the poor.

$\Omega$  = Although the welfare-oriented government-owned company did have some, albeit limited focus on partnership, this suggested partnership was between government and profit-oriented companies.

$\mu$  = This reflects “good practice BOP” to the extent that the three characteristics are reflective of such practice.

## 5.4. TRADE-OFF BETWEEN PROFIT AND WELFARE (RESEARCH QUESTION 3)

This section reflects the findings regarding whether companies were of the view that there is a trade-off between profit and welfare. The researcher also reflects the finding that social entrepreneurship may be the vehicle through which the BOP proposition could be more successfully implemented.

Figure 3 (below) reflects the BOP proposition, which is premised on the absence of a trade-off between welfare (blue) and profit (red), with the intersection or co-existence of these reflected in the central intermingled area.

**Figure 3 :** Diagrammatic representation of the lack of trade-off between profit and welfare

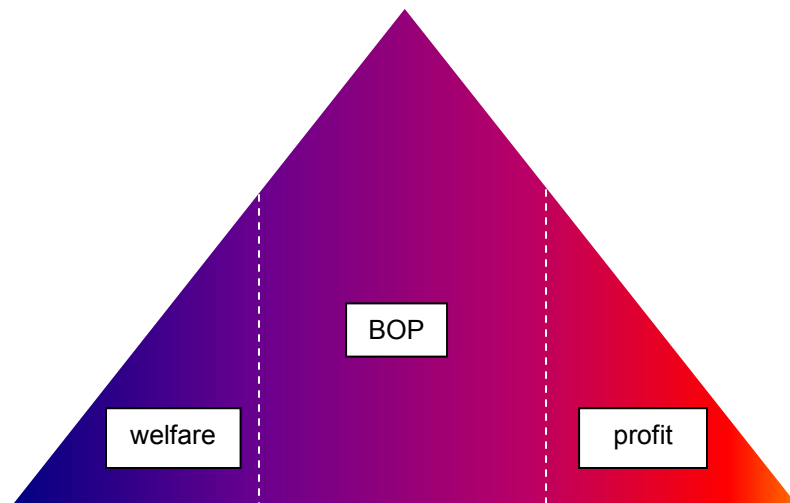
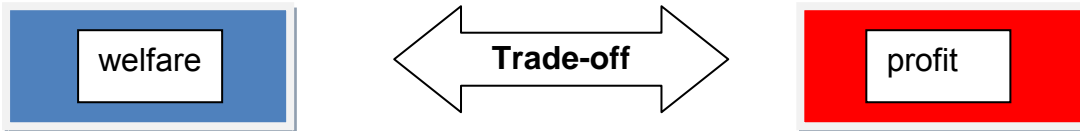


Figure 4 reflects the trade-off between profit and welfare. In this representation, welfare and profit are separate and are competing interests.

**Figure 4 : Diagrammatic representation of the trade-off between profit and welfare**



Section 5.4.1 reflects the findings in respect of whether there is a trade-off between profit and welfare and consequently which of the preceding diagrams apply.

#### **5.4.1. Is there a trade-off between profit and welfare?**

Most companies did not seem to understand the issue of the potential trade-off between profit and welfare and gave responses that did not (directly) deal with the question or were vague. For example, in response to whether there are trade-offs, the following responses were given:

*“Yes. In some product categories we are already there, so we saying let’s just take the value out the market, let’s just drop the price, it makes no difference, let’s just go for volume for our factory, so we already take those commercial decisions, so there is a trade-off but it is a very fine trade-off because sometimes you drop your price and you do not get the volume and the next thing you have to discontinue the whole product because you have taken wrong commercial course so it is very structured the way we do it.” [company 1]*

*“What banks can do and it is generally accepted now, in fact it is my view that no business project can operate in isolation of the society or context that it finds itself for very obvious reasons that is the context that allows you to generate value. So the welfare of the society as a whole and the improvement thereof serves the banks’ interests directly and it is important that whatever we do within our power to make sure we do not jeopardise the cash cow at the very worst or at the very best to actually do things to make sure that we are able do business with the society in the future.” [Company 2]*

*It has to be there, it has to be there. [Company 3]*

*No, it has to be different, how I see it if you take this narrow product category like incontinence care where we have to teach end-user, we have to show them physically, practically what they will gain while spending this three rand or five rand buying this product, we need to teach medical professionals, we need to teach community social workers or community health care workers so that they, it's basic thing. They will not come automatically and look for the product, the awareness is very, very little and low in South Africa. Maybe, they even have money, they have desire to buy the products but they just do not know that product exists. They do not watch television, they do not listen to radio and they do not read articles so there must be somebody who is physically teaching, this is solution. If you want to take your granny to the city to see the doctor and she is not able to even travel without wetting clothes, so how to do that. So that is solution while contributing or buying these products, you can take your granny to the city to see the doctor for example.” [Company 3]*

The above responses do not bear much relation to the question of whether or not there is a trade-off between profit and welfare.

In attempting to clarify Company 2's position, the interviewer attempted to paraphrase the response from the company and re-phrase the question and received the following responses:

*“So I think you are asking a broader **philosophical question** (emphasis added) as to, **should businesses get involved in improving the social welfare of citizens** (emphasis added) in the country that would be operating in. In principle I do believe, yes, we do in ways within our power, we need to do that, but indirectly we do in so many ways, in fact that is where the biggest impact is when the taxes are paid, when we employ thousands of people and they feed their brothers and sisters and children, that is where the biggest impact is, being seen to being involved in peripheral projects which costs twenty million rand without material effect in the broader society as opposed to paying the Exchequer four billion rand in terms of tax revenues, that is where it happens. **Business exists to make money** [emphasis added], that is my view, maybe it is conservative but that is pretty much my view. Whether a society, we have roles to play, I do believe there are certain spaces that we can allow ourselves and a classic example is what has been going on with the pharmaceutical industry and the massive cost of anti-retrovirals to the customer when production costs are peanuts if nothing at all. Therein, a certain role can be*

*played, you say okay fine, we know that the development of this is too expensive, yes but it is costing us nothing right now, what can we do to make a difference. So it is not black and white but broadly speaking **businesses are there to make profit.*** [emphasis added] [Company 2]

*“I would like to look at the business case around BOP, I do not think that when we model, we ask ourselves about those **trade-offs that a customer has to make** [emphasis added] when it comes to the way they spend their income, but one of the things that we definitely do ask ourselves is **are we competitive enough** [emphasis added]. This is a **market space** [emphasis added] that everyone wants to get into, is getting into and we have to ask ourselves that question. Are we **competitive**, [emphasis added] are we pricing ourselves out of this business and that in itself does regulate the pricing that we then kick into gear.”* [Company 2]

Company 2 considered the issue of the trade-off a *philosophical* question, not a business question. This contrasts with Company 2’s view that business exists to make profit. This profit paradigm appears to override the consideration of welfare and Company 2 seems to have lost sight of the fact that the BOP proposition is about both increasing welfare and profit. In respect of the trade-off, Company 2 discusses the trade-off that customers will have to make rather than the trade-off between profit and welfare that the company could be facing.

The remarks *“It’s an interesting question”, “...I guess...”* and *“...I am a little cautious on how we would implement such a thing...”* suggests that Company 5 has not seriously considered the issue of trade-off.

*“**It’s an interesting question** [emphasis added]. Yeah I mean, **I guess** [emphasis added] the point comes in how do you manage something if you decide as a business I want to have a product that I am going to make minimal margin [emphasis added], I’m gonna make two percent up literally just to cover my running costs and I am going to push this product out into the bottom market, you cannot control people in the bottom market from setting their prices as I said just now so you could produce the product for two rand, sell it out and the guys says okay well, I am going to sell it for four rand, guy x says I am going to sell it for three rand so in a sense there is no one to police that discount that gets passed on to the consumer so that is a bit tricky from that perspective, I*

***am a little cautious on how we would implement such a thing*** [emphasis added] *because there is no way to manage that kind of a **welfare transfer*** [emphasis added] *if you like, if you gonna assist a certain sector, I am not sure if that is sort of what you were asking?* [Company 5]

Company 5 and 10 are two of the few companies whose responses approached something concrete regarding whether there is a trade-off between welfare and profit. The statement by Company 5 “...*I am going to make minimal margin*” suggests a recognition that margins will need to be reduced in order for the welfare of the poor to increase, which Company 5 refers to as “*welfare transfer*”. Similarly, Company 10 also recognises this trade-off between profit and welfare. In response to the question on whether the company saw a trade-off between welfare and profits, Company 10 stated: “Yes, *I suppose you have to...*” and also referred to the “*lower limit of what is acceptable profitability.*”

*“It’s an interesting question. Yeah I mean, I guess the point comes in how do you manage something if you decide as a business I want to have a product that **I am going to make minimal margin.**”* [emphasis added] [Company 5]

*“**Yes I suppose you have to** [emphasis added]... I mean it is under the assumption that you will be making a difference in somebody’s welfare that you enter this market in the first place and by entering it you realise that you are working bottom of the pyramid that equals something at a lower cost and therefore you might have to accept, I think it is almost a given that initially you would have to be aiming for your **lower limit of what is acceptable profitability in your organisation.**”* [emphasis added] [Company 10]

**Figure 5:** Funnel of responses regarding whether there is a trade-off between welfare and profit

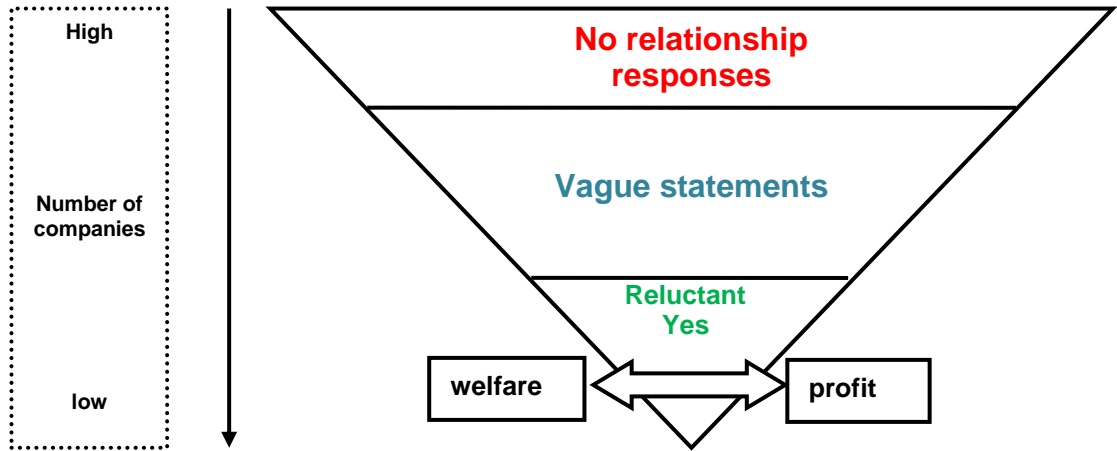






Figure 5 reflects the movement from vague responses to the eventual acknowledgement of the existence of a trade-off. The responses therefore started off with very little relationship to the question, then were followed by vague statements and finally what appears to be rather reluctant views that there was a trade-off. The general vagueness and reluctance to acknowledge the trade-off may stem from the fact that many of the companies are attempting to implement BOP and such an acknowledgement is inconsistent with the BOP proposition. Some companies, however, were more direct in acknowledging a trade-off:

*“...it would be the idea of **offering something at a slightly lower price that you would in the other markets to offer a welfare component** [emphasis added]... And that runs hand in hand with **not making as much profit necessarily on the product per kilo that you would in your main stream market.**” [emphasis added] [Company 10]*

*“We piloted a project which was facilitated through the Women’s Development Bank.... Because I am sure you would appreciate, from an investment point of view it would not make sense for us to continue to pay for their admin because those costs obviously filter down into the P and L [profit and loss statement] and the objective in this instance is not CSI [corporate social investment]. And therefore when we came to a situation where we observed that **what we were putting into the project, versus what it was pushing out was not going to be sustainable.**” [emphasis added] [Company 4]*

*“... I mean you might notice our chocolates for instance, things like sweet product 1 which we do not add colorants in etcetera and our competitors tend to do the same and it costs the business quite a bit because since we have made the move the **product has decreased in sales** [emphasis added] but that is irrelevant...” [Company 5]*

It is worth noting that there are very specific circumstances in each of the three profit-oriented companies quoted that referred to there being no trade-off. Company 10 was referring to a notional BOP venture, company 4 referred to a venture that they abandoned and company 5 was referring to one product

where the loss in sales in this product did not have a fundamental effect on the company's overall financial performance.

Contrary to the hesitancy in acknowledging the trade-off by profit-oriented companies, Company 7 was of the view that there is a trade-off and stated so explicitly.

***"I think somewhere something has to give.*** [emphasis added] *You cannot expect to make a profit when at the same time you are trying to give the people an opportunity whom you know do not have anything so I think you have to compromise.*" [emphasis added] [Company 7]

Further, after describing the negative effects of alcohol, Company 1 stated that it was willing to co-operate with South African Breweries (SAB) if it offered its distribution system. This suggests that the profit paradigm overrides that of welfare.

***"...but at the core if I was sitting with my business hat on, it is a commercial decision*** [emphasis added] *at the end of the day, if SAB wants to offer their service then we will use it but they are not at the moment.*" [company 1]

While some companies were vague regarding whether there was a trade-off, others indicated that there was no trade-off.

***"...they can be sustainably married up in the medium term*** [emphasis added] *I would say..."* [Company 10]

***"I think for them it is very much that it must be in line, it must be a win-win situation.***" [emphasis added] [Company 8]

***"So I absolutely believe that companies that go into BOP now, generally believe that they should take care of social welfare as well as offering their product.*** [emphasis added] *In fact they see their product as a means of doing that..."* [Company 6]

A possible explanation for the vagueness, hesitation and reluctance of the companies in their responses regarding the trade-off is that the companies interviewed believed in the BOP proposition and therefore would be reluctant to admit that there is a trade-off. Such an admission could mean that the very initiatives that the BOP practitioners are implementing may need to be reconsidered. It could also mean that management may consider replacing the people involved by others who believe that there is no trade-off.

They may be also driven by the belief in the BOP without examining in sufficient detail the welfare component of the BOP proposition. As reflected in the earlier findings, most of the companies are in a profit and product-oriented paradigm and welfare has not received much attention. Thus, given that companies use non-concrete welfare indicators, such as “choice” or similar non-concrete indicators, without a specific metric that measures the change in welfare, as well as the vested interests of the respondents, it is not surprising that most companies did not indicate that there was a trade-off.

#### **5.4.2. Social entrepreneurship: the potential bridge**

Two categories of companies have been discussed, namely the profit-oriented and the welfare-oriented. However, there is a third category of company that emerged from the sample which can be described as that of *the observer*. This is Company 6, which is involved, *inter alia*, in consulting for the BOP. The views of Company 6 can be considered as that of a disinterested party, as it is not actively involved in implementing BOP but consults for companies involved in BOP.

Only Company 6 referred to the role of social entrepreneurs in the implementation of the BOP. In this regard it stated:

**“...so what you really want is the ability of social entrepreneurs to pull these pieces together to get capital, to identify the need, and apply themselves to solving the problem with innovation and then involve Government or whoever they have to, you want that sort of ability...”** [Company 6]

**Figure 6:** Social entrepreneurship as the potential bridge

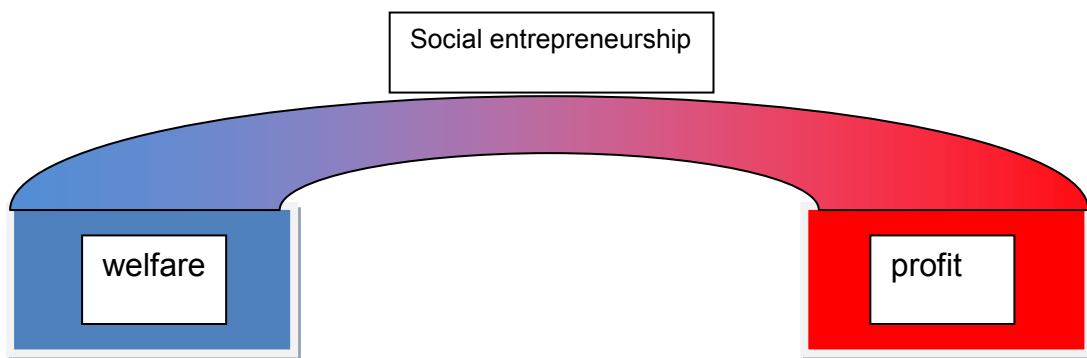


Figure 6 (above) illustrates that social entrepreneurship could be the bridge between the welfare and profit paradigms and objectives. Whilst Company 6 did not specify what was unique about social entrepreneurs, it appears that the company was referring to the ability to balance the social and profit paradigms. Company 6 did not mention whether there was a trade-off between profit and welfare, however it did identify the pursuit of partnerships as a skill that a social entrepreneur has, that enables them to “...pull these pieces together...” [company 6]. This approach includes partnership with government as suggested by Company 7.

To conclude, regarding research question three, the findings regarding the existence of a trade-off is mixed. A number of companies were of the view that there is a trade-off between profit and welfare. Indications of this are the initial

vague responses but a final acknowledgement that there is. Further, a small number of the profit-oriented companies explicitly acknowledged the existence of a trade-off. This low number may be due to the vested interest that such companies have in the BOP proposition holding true. Expressing the view that there is a trade-off could raise questions regarding their role in their companies and could potential impact their careers. However, a few companies did indicate that there is a trade-off, including the welfare-oriented company. This company has no vested interest in the BOP proposition. It consciously relegates profit to a secondary, but not irrelevant role. In addition, there were very specific circumstances in the companies that indicated that there is a trade-off including the reference to the concept of the BOP (as an idea, not something already implemented), to a project that ceased to exist, as well as the trade-off being permitted in a small part of the business. These suggest that the proposition does not hold.

## 6. CHAPTER 6: DISCUSSION OF RESULTS

As reflected in chapter five, the definition and understanding of the BOP is central to the research questions. Therefore this chapter (in section 6.1) commences with a discussion of the findings related to it.

The research topic explores the relationship between profit and welfare at the BOP and whether an increase or decrease in one leads to a decrease or increase in the other, or whether they can be mutually achieved. Prahalad and Hart (2002) and supporters of the BOP proposition, such as Simanis, Hart and Duke (2008), have argued that there is no trade-off, while BOP sceptics such as Karnani (2005, 2007a, 2007b, 2009) argue that there is. The proposition has not been made from within a theoretical framework (Prahalad, 2005) but rather reflects an aspiration to achieve both profit and an increase in the welfare of the poor. Karnani however, describes the proposition as an “illusion”, “delusion” and “riddled with fallacies” (Karnani, 2007b, p.1).

In order to analyse this topic, it was broken down into three research questions, but given the findings on the interrelatedness of profit and welfare, this chapter is not structured to separate research question one (concerned with welfare) and two (related to profit). The central issue in both research questions is the issue of measurement, which concerns the indicators (what) of welfare and the metrics (how) thereof. Further, it was found that paradigms play a fundamental role in how a company approaches a BOP intervention. Therefore, the issue of measurement regarding welfare and profit, which is the focus of the two

research questions respectively, as well as the issue of paradigms, whether profit- or welfare-oriented, are covered together in section 6.2.

Research question three deals with the issue of trade-off and can be considered as the apex of the first two. The issues that are discussed in section 6.3 therefore are whether profit and welfare are competing objectives and whether an increase or decrease in one leads to the decrease or increase in the other, or whether they can co-exist without any trade-off or even be mutually reinforcing.

## **6.1. DEFINITION AND CHARACTERISTICS OF BOP INITIATIVES**

Prahalad and others have argued that the selling of goods and services to the BOP can be an effective tool in the fight against poverty (Prahalad & Hart, 2002). The BOP Protocol provides a guideline on how a BOP initiative should be implemented. The three BOP characteristics discussed in chapter five are interrelated and collectively contain the elements of a strategy to deal with poverty, in that they:

- deal with the targeted segment namely the poor.
- treat the poor as producers and consequently increases their income and welfare.
- involve partnership, which is a necessary tool for obtaining support for an initiative that seeks to address the needs of the poor.



Using the three characteristics, an examination of how companies define the BOP therefore assists the researcher to determine whether a BOP initiative contains the necessary elements to deal with the problem of poverty.

#### **6.1.1. Many companies targeted the middle of the pyramid, not the bottom**

Arguments and practice that focus on the middle of the pyramid fundamentally weaken the argument that the BOP proposition can be an effective tool in fighting poverty, since the poor are at the bottom of the pyramid (LSM one to three) not in the middle (LSM four to seven). This definitional confusion impacts the context of the responses given, since companies that focus on the middle of the pyramid are not targeting the poor, but the middle income segment of society. This view is consistent with Jaiswal's argument that there is no fortune at the base of the pyramid as the income of the poor is too limited for significant profits to be made, and that rather, the potential for profit may lie in the middle of the pyramid (Jaiswal, 2007).

The findings in chapter five reflect that a number of companies do not target the bottom of the pyramid (typically LSM 1 to 3) but rather the middle (LSM 4 to 7), perhaps as a result of the profit paradigm into which most of the companies sampled fall. Given that the profit potential at the bottom of the pyramid is low, companies then define the BOP as the middle of the pyramid, not the bottom, so that they may realise profits from this segment, given the primacy of profit in such companies. In such a paradigm, the lens through which all activities are seen is one of profit and consequently that which is seen as detracting from this

objective is secondary at best. It appears that welfare is one such distracting activity.

However, if there is little or no profit potential at the bottom of the pyramid, why do did some companies in the sample target it? The explanation may be that most companies sampled referred to their intended BOP intervention rather than quoting actual experience. This echoes Prahalad and Hart's BOP proposition (Prahalad & Hart, 2002, Karnani, 2005) in being aspirational in nature, but contrasts with disciplines such as development economics which, although focussed on solving the problem of poverty, is based on detailed research (Banerjee and Duflo, 2011).

A proposition, particularly in the context of Prahalad and Hart's (2002) idea, is generally forward-looking as opposed to being based on observed events. Therefore, both the views of these companies and those of Prahalad and Hart can be considered as something to be solved, and not based on actual experience. This contrasts with the finding of Karnani (2007b), that none of the nine examples of BOP initiatives which Prahalad presents as BOP successes were in fact successful.

On the other hand, the welfare-oriented company indicated that it focussed on the bottom of the pyramid as its primary business and that it has a history of doing so. Rather than BOP being a separate project of the company, the welfare-oriented company viewed increasing the welfare of its customers as its primary objective and core business. There is thus a clear distinction between

companies that focus on welfare and companies that have BOP interventions but whose core business is achieving profit. Proponents of the BOP, such as Simanis (2008), have argued that aid has failed and consequently that NGOs are a poor vehicle for dealing with the problem of poverty. However, the same author admits that many BOP initiatives, even those following the BOP Protocol, including one in which he was involved, eventually become non-profit ventures that the project sponsor “continues in its efforts to transform CCS into a profitable business model.” (Simanis, 2011, p.110). This type of organisation (non-profit ventures and NGOs) is not substantially different in its objective from that of a welfare-oriented government company, but is dismissed by BOP proponents as a “failure.” This once again reflects the contradiction in the views held by proponents of BOP.

#### **6.1.2. Most companies viewed the poor as consumers, not producers**

Karnani, a critic of the BOP proposition, argues that the welfare of the poor can be increased if they are regarded as producers, not consumers (Karnani, 2007b). Potentially, in acknowledgement of Karnani’s criticism, the BOP Protocol (BOP 2) recommends that the poor should be treated as producers (Simanis & Hart, 2008). In contrast to the BOP Protocol, the findings in chapter five reflect that the profit-oriented companies regard the poor as consumers, not producers. The exception to this is the government-owned welfare-oriented company, which proposed that the profit-oriented companies purchase goods produced by the poor, that is, to treat the poor as producers.

A likely reason for the treatment of the poor as consumers is the profit motive and paradigm, which is not dissimilar to that of Friedman (1970), in which the sole objective of a company is to make profits for its shareholders, and which contrasts with the view that a business exists to serve the needs of society as argued by Grant (1991). This issue is dealt with in more detail in section 6.2 and a similar explanation is provided in section 6.1.1, dealing with the targeting of the middle of the pyramid. In a business, a company should maximise its revenues and minimise its costs so as to maximise the difference, namely profit (Graham, 2007). Given the primacy of profit reflected in section 5.3.1, it is reasonable to expect that a company in a profit paradigm will seek to maximise its sales and therefore have a strong sales orientation, which suggests having a strong customer focus. In addition, in minimising its costs, one would expect the company to purchase from the lowest cost producers. This contrasts with purchasing from the poor, who are unlikely to meet the requirements of a company, particularly an MNC in areas such as cost, quality and reliability of the product. However, such an arrangement is likely to substantially increase the welfare of the poor (Karnani, 2007b).

### **6.1.3. Most companies did not pursue partnership with the poor**

The findings in chapter five reflect that, in general, companies, including the welfare-oriented and government-owned, did not pursue partnerships with the poor. The word count related to partnership across all interviews reflected that one company had a relatively high focus on partnership but that this partnership was focussed on partnering between institutions, such as NGOs and the

company. This is a somewhat limited scope of partnership as it does not extend to partnering with the poor.

Although the welfare-oriented government-owned company did have some, albeit limited, focus on partnership, this suggested partnership was between government and profit-oriented companies. Most of the BOP literature does not focus on partnership between government and profit-oriented companies, but rather the rationale for the BOP proposition is the failure of governments in part to address the needs of the poor (Simanis & Hart, 2008). In a sense, therefore, that which the government-owned company proposes, namely partnership with government, runs counter to the premise of the BOP proposition that governments, together with other stakeholders, have failed to address the problem of poverty.

Recently, however, the BOP literature has proposed that businesses and donors collaborate (London, 2011) and thus government should also be involved in subsidising BOP ventures (London & Hart, 2011). Part of the motivation for government support proposed by London and Hart (2011) is that incumbent industries have received government support, and that the same should be applied to BOP ventures. This is very different from the original BOP proposition of there being a fortune at the BOP for multinationals. However, perhaps the answer to this is the evolved definition of “fortune,” which initially appeared to be ‘profit’ for the MNC (Prahalad & Hart, 2002, Prahalad, 2005). London and Hart (2011, p.224) now refer to “applying a “fortune-creation” perspective to government and donor support”, which suggests that rather than

referring to profits as originally intended they are now extending the description of “fortune” to include the increase in welfare of the poor, which is the goal of governments and aid agencies. This further confuses the definitional debate but is consistent with the objective of obtaining funding from government and aid agencies. It can be seen as a form of privatisation of development activities, with government and aid agencies providing funding while the profits go to the private sector.

It appears unlikely that the government-owned welfare-oriented company had London and Hart’s (2011) view in mind as it was of the view that companies should be content with lower profits in pursuing development goals. Rather, the government-owned welfare-oriented company’s suggestion is more consistent with the one suggested by Kennedy and Novogratz (2011, p.49), namely “seeking to maximize social returns with some lower bound on acceptable returns.” Banerjee and Duflo (2011b), who as development economists are interested in the maximisation of social returns, argue that there are substantial ones generated by providing fortified food to pregnant women and to the parents of young children at no cost.

#### **6.1.4. Consistency of BOP Protocol**

A comparison of the findings with the three characteristics of the BOP Protocol provides an indication of whether the BOP interventions discussed by the companies interviewed achieve their objectives. The findings summarised in

Figure 5 suggest that BOP is not being implemented, using the three characteristics as a standard (Simanis, 2008), with the government-owned welfare-oriented company most aligned to the three characteristics. Given the relatively low level of alignment of the rest of the companies, and using the three characteristics as an indicator, it appears that the stated goals of BOP, namely the achievement of profit and welfare, are unlikely to be achieved. The measurement of such goals and consequently their achievement or lack thereof is discussed in section 6.2.

## **6.2. WELFARE AND PROFITS: PARADIGMS AND MEASUREMENT**

The paradigm in which companies operate is related to the purpose of business, which Friedman has argued is to maximise the returns to shareholders, without incurring unnecessary costs such as corporate social investment (Friedman, 1970). On the other hand, Griseri and Seppala (2010) argue that business has moral obligations, while Grant (1991) believes that business exists to serve the needs of society. There is thus a spectrum of views regarding the degree to which a company is oriented towards profit or the welfare of society. The findings also reflect a spectrum, although many of the companies' views appear more closely aligned to that of Friedman (the absolute profit paradigm) than to that of Grant (the welfare paradigm).

Wilson (2004) argues that the prime goal of business is a social one and quotes George Merck, the founder of *Merck Pharmaceuticals* in this regard. The sequencing in George Merck view is that the primary objective of business is a

social one, followed by profit (Wilson, 2004). Wilson's view is not dissimilar to that of the government-owned welfare-oriented company which prioritises welfare but is still largely profitable. The findings reflect that Company 7's Mzansi accounts are not profitable, but that the profits from its other products are greater than the loss on Mzansi accounts, enabling it to be profitable overall. Further, the extent to which companies focussed on welfare varied in the findings, with some starting their BOP intervention based on the MDGs whilst others were directly focussed on selling their products to the poor and were consequently strongly product and consumer-driven.

The findings suggest that the differences in the philosophical approaches regarding the primacy of profit or welfare have a fundamental bearing on the approach to the importance and measurement of these (welfare and profit). This contrasts with the BOP literature which rejects "ideology" (Prahalad, 2011, p.xxx) yet is argued in the context of a particular ideology based on capitalism while arguing for subsidies (London & Hart, 2011, p.8). The findings therefore indicate that orientation, which can be viewed as ideology, matters fundamentally and impacts substantially on whether welfare or not is prioritised.

### **6.2.1. Welfare indicators and measurement**

A key aspect of research question one was the measurement of welfare, the findings being that companies may have some indicator(s) of welfare but do not measure them. The literature on BOP also does not focus on the measurement of welfare (Prahalad & Hart, 2002; Prahalad, 2005; Simanis & Hart, 2008). Only



in recent publications, such as that of London and Hart (2011, p.42), is the development of “impact assessment metrics” proposed, which shows a lack of existing metrics for measuring welfare by BOP proponents, in part due to the intangible nature of some of the indicators of welfare. These indicators are whether welfare meets the basic needs of consumers and provides choice to consumers. Prahalad (2005, 2011) and others argue that intangibles such as choice are a sufficient measurement of welfare.

The lack of measurement of welfare in BOP contrasts with how welfare-oriented organisations measure welfare. The United Nations measures development and welfare in areas such as health, education and poverty (United Nations Development Report, 2010), whilst progress on achieving the MDGs is tracked over time through concrete indicators and measures that have been specified. This MDG Report gives a clear indication of whether the welfare of the poor is improving over time for most countries in the world.

The main argument against the view that choice increases welfare is that choice can lead to the consumption of socially undesirable or dubious products, such as alcohol and cigarettes, which will decrease welfare (Banerjee & Duflo, 2007; Garette & Karnani, 2010; Jackman, 2011; Jaiswal, 2007). Interestingly, the findings reflect that the sale of socially dubious products can generate and increase employment. However, this can be offset by the decrease in welfare that such socially dubious products create. Whether there is a net increase or decrease to society and the extent of such changes is unknown, although the strongly worded comments in the findings regarding the adverse impact of

alcohol suggests a net negative impact. However, the findings in chapter five also reflect a minority view that any product, including products such as alcohol, can be classified as a BOP product since companies should satisfy consumer demand, subject to “its own conscience.” This view, however, ignores the vulnerability of the poor and the importance of ethics in marketing (Cui & Choudhury, 2003). There is thus a contradiction in the BOP literature which is amoral in respect of products but argues that it has a social purpose of increasing the welfare of the poor. The literature does not explain this inconsistency and it unfortunately remains unqualified by the current research.

Another indicator of welfare was employment. While this is a concrete indicator, not one of the companies was actively measuring it, which is inconsistent, particularly with profit-oriented companies in which performance is regularly measured. Such measurements take the form of management accounts as well as the financial statements that are typically independently audited (Graham, 2007). This lack of rigour suggests that the profit paradigm has a fundamental bearing on the perspective of the business and it is unable to recognise welfare as a co-primary consideration in its operations. In addition, this study indicates that the BOP’s intuitive appeal is not supported in its implementation, confirming the need for more research on the basic premise of the BOP, which should include the context and paradigm in which the BOP proposition is located.

What is lacking in both the welfare and profit-oriented views is the *measurement* (i.e., ‘the how’) of welfare. London (2011, p.38) acknowledges the lack of measurement as “a surprising lapse,” however even after this has been pointed

out in the BOP literature, the companies interviewed did not demonstrate any meaningful attempts to measure welfare. The description of a “lapse” is thus no longer appropriate as it has been pointed out and one would expect that companies would rectify the situation. However, based on the findings, such “rectification” in the form of measurement of welfare is absent. Thus, not only is the theoretical underpinning of the BOP weak but its implementation reflects a very poor measurement of welfare, substantially weakening the plausibility of the paradigm and justifying Karnani’s (2007b) scepticism.

### **6.2.2. Profit indicators and measurement**

The strongest narrative reflected in the findings is one in which profits dominate. This section presents a discussion of how companies measure profit and whether profit, measured by the returns achieved, differs between BOP and non-BOP business.

The findings reflect that the respondents use standard profitability measures (Graham, 2007) in BOP interventions and that these are the same as those used in non-BOP interventions. The BOP literature is silent on what measures should be used in respect of profitability, perhaps because accounting is a standard discipline whose rules are applicable for all types of organisations and ventures.

Respondents did not provide information that directly compared the levels of return between BOP and non-BOP business. Some indirect information was

provided in that many companies did not expect the rates of return over the short term to be at the desired level, but that this would increase over time. This was described as the patient equity approach. The findings also reflect that many companies were of the view that the returns would be achieved over a longer period in BOP interventions relative to non-BOP business. This appears similar to the patient equity approach that Kennedy and Novogratz (2011) advance. However, they go further and argue that companies should accept lower financial returns in exchange for social returns. This view regarding patient equity was not based on the experience of the interviewees but rather on expectations of the future.

### **6.3. THERE ARE TRADE-OFFS, BUT ARE THERE SOLUTIONS?**

A view of profit and welfare is that they are competing goals and that an increase or decrease in one leads to a decrease or increase in the other. The BOP proposition challenges this view, but sceptics of the BOP proposition argue that profit and welfare do compete (Karnani, 2007b; McFalls, 2007) with McFalls (2007, p.85) referring to this tension between profit and welfare as “competing logics.”

In respect of the profit-oriented companies, the findings reflect an initial vagueness of response and lack of a direct relationship between the responses and the issue of trade-offs. Further, the findings also reflect that the researcher had to probe and paraphrase the responses and that there was a lack of detailed consideration of the issue of trade-off by some interviewees. This

confirms the view by McFalls (2007, p.75) on trade-off, that welfare and profit are not easily reconciled. In addition, there was lack of specificity on the measurement of welfare and profit. With regard to the former, although there were some indicators, these were not monitored and therefore any change could not be determined. Regarding the latter, although profit is regularly measured, none of the companies volunteered information regarding its relative or absolute levels. This lack of specificity is also found in the literature, with Kennedy and Novogratz (2011, p. 50) discussing five companies but only mentioning the returns of one, namely “E+Co” with a return of 8.4 percent. Further, simply giving this number does not give an indication of the company’s performance relative to its peers and it is therefore difficult to determine whether such performance is good, bad or average.

The difficulty reflected above is consistent with the view of Yunus, Moingeon and Lehmann-Ortega (2007, p.85), when comparing a social business to that of a profit maximising one: “...shareholder value maximization remains the rule in the capitalist system, and - clearly - the reconciliation of this with social objectives is often problematic.” Collectively, this together with the final acknowledgement by some that there is a trade-off, suggests a reluctance among companies to acknowledge that the intuitive appeal of the BOP proposition is inconsistent with its implementation. Further confirmation of this is the finding that many of the companies plan to implement BOP and therefore their views are not informed by their actual experience.

Consistent with the literature on patient capital (Kennedy and Novogratz, 2011), the findings reflect that several companies expected lower returns at least in the short term. However, they were of the view that over time such returns would approach “normal” levels. This latter expectation is inconsistent with the literature on patient capital which expects lower returns indefinitely. The profit-oriented companies that were of the view that there was no trade-off did not accept that their returns over the life of the project would be lower than one would ordinarily expect. Therefore, the definition of patient capital by the companies differs from that of Kennedy and Novogratz (2011, p.46), who also suggest that “social entrepreneurs and patient capitalists” should provide for the needs of the poor. They also argue that the sectors that should be focussed on are those relating to the basic needs of the poor, and that the sectors that should be focussed on are “...housing, water, sanitation, agriculture and health care” (Kennedy & Novogratz, 2011, p.46). Clearly Kennedy and Novogratz see a trade-off between profit and welfare.

Grant (1990) proposes that profit should not be an organisation’s purpose. In general terms, social business is not conceptually very different from that which Grant proposes. Although there is no consensus on a standard definition on social entrepreneurship (Dacin *et al.* 2010), Haugh (2007, p.743) describes it as “...the simultaneous pursuit of economic, social and environmental goals...”, whilst for Arvind (2009, p.289), social business is “...where the mission of the firm is not profit maximisation, but maximisation of social indicators to be specified.” The findings in chapter five confirm the view in the literature that

there is tension between the prioritisation of welfare and profit and that in a profit-oriented business focussing on the BOP, profit is prioritised over welfare.

Reviewing the definitions provided in Dacin *et al.* (2010) in general terms, a social business, in respect of welfare and profits, prioritises welfare but ensures that it makes sufficient surplus to enable it to be sustainable. This is similar to the manner in which the government-owned welfare-oriented company operates, but is distinctly not the way in which the profit-oriented companies operate.

Notwithstanding the lack of definitional clarity in respect of what a social business is, it appears that such a business may be one of the vehicles that can be used to solve the problem of poverty. Such a model inevitably involves trade-offs with the social objective or welfare being prioritised, and profits as a secondary objective being pursued, to the extent that it does not impact on the social objective and ensures the financial sustainability of the initiative. This is similar to what Kennedy and Novogratz (2011) propose.

## **7. CHAPTER 7: CONCLUSION**

This chapter revisits the research objectives and compares these against the research findings. It further points out the limitations of this study and makes recommendations for management and further research that could be undertaken to increase the understanding of the BOP proposition, particularly regarding the trade-off between profit and welfare.

### **7.1. REVIEW OF RESEARCH OBJECTIVES**

The primary purpose of this research was to explore whether companies that are involved in ventures at the BOP achieve both profit and an increase in the welfare of the poor as proposed by Prahalad and Hart (2002), or whether there is a trade-off between profit and welfare as argued by critics of this proposition such as Karnani (2005). In order to reach this objective, the research explored companies' understanding of BOP principles and their means of measuring welfare and profit.

### **7.2. RESEARCH FINDINGS**

The research compared how the respondents viewed a BOP initiative against the three characteristics derived from the BOP Protocol which are that the poor are at the bottom of the pyramid, that they should be treated as producers not consumers and that partnerships with the poor should be pursued. Following an inductive approach to the data, a central theme regarding paradigms emerged. That is, although there was diversity in the responses, those responses



reflected two main paradigms, namely that of being either welfare or profit-oriented. These paradigms had a significant impact on the views of the companies in respect of the prioritisation of welfare and profit.

The profit-oriented companies prioritised profit and regarded welfare as a secondary objective, while the welfare-oriented company, which is government-owned, focussed primarily on the achievement of improving the welfare of the poor. The indicators of welfare for profit-oriented companies included the least tangible indicator, namely choice. Other indicators of welfare for the profit-oriented companies were the product itself and employment. The profit-oriented companies had diverse views regarding whether socially dubious products should be marketed to the poor. Regarding the second category of companies, namely those with a welfare-orientation, like the profit-oriented companies it also viewed the product as increasing welfare but focussed on it as being of good social value. Employment was also a welfare indicator for the welfare-oriented company.

The findings for both profit and welfare-oriented companies reflected very limited measurement of the indicators of welfare. Thus, although choice, the product itself and employment were claimed as indicators of welfare, there was very little evidence of either category of companies measuring welfare. This contrasts with the relatively concrete welfare measurements that development agencies such as the United Nations have created as reflected in the Human Development Index and progress reports in achieving the MDGs.

Regarding profit, none of the companies focussed on the measurement of profit as this is a well understood concept and the rules regarding the measurement of it are found in the discipline of accounting. However, a number of companies indicated that profits for BOP ventures are deferred, referring to this as patient equity. The finding that some companies experience a deferment of profit suggests that there is a trade-off between profit and welfare, at least in the short term. However, the findings reflect that the period over which profit is deferred has not been reflected, suggesting that the view that returns will materialise over time is a hopeful one, rather than one based on the actual experience of the companies. This future orientation is not dissimilar to the BOP proposition which is an idealistic view of how business could make profit and simultaneously increase welfare.

The view that there is a trade-off was not consistent across the respondents, with some indicating that there is a trade-off and that profit is foregone in order to increase the welfare of the poor. This approach is not dissimilar to that of a social business whose main objective is one of increasing welfare while not losing sight of its secondary objective of achieving profit in order to ensure that the organisation is sustainable. It is on this basis that the researcher suggests that the BOP proposition may be more suited to being explored within the context of a social business. However, the findings reflect that some respondents were of the view that there are trade-offs while others indicated that there are none. The finding that there are no trade-offs should be interpreted with caution. This is because, the respondents were involved in BOP implementation and their livelihoods are based on the BOP proposition being

true. Further, the absence of concrete indicators of welfare and quantitative measurement of these welfare indicators and of profit, suggest that the basis for indicating whether or not there is a trade-off is weak. In addition, many of the BOP ventures are recent and the views of the respondents tended to be aspirational, rather than based on actual experience in implementing BOP. Some of the specific circumstances of the companies who indicated that there are trade-offs, re-inforce the view that in practice there will be trade-offs. These circumstances include that companies ended their BOP initiatives when making losses (suggesting that the trade-off could not be sustained) and that the loss in sales in another company due to the removal of food colorants was tolerated because it was a small component of the company's overall sales.

### **7.3. LIMITATIONS**

The sampling method employed was judgement sampling. This method limits the ability to transfer the results. The use of only one method of data collection, namely semi-structured interviews, did not allow for the data to be triangulated.

Further, there is limited research regarding the trade-off between welfare and profit, which constrained the understanding thereof. The researcher recognises his personal views regarding the poor and their vulnerability and a limitation is that these could have impacted the research.

While a lack of standard definitions and research on the BOP enabled thick and rich descriptions, it limited the research in the attempt to obtain specificity regarding the measurement of welfare and profit.

#### **7.4. MANAGERIAL RECOMMENDATIONS**

The findings reflect that companies involved in BOP ventures do not have clear indicators of welfare and therefore cannot monitor the changes in such indicators to determine whether the welfare of the poor is indeed increasing. It is therefore recommended that management specify the indicators that are to be tracked and set up a monitoring system that measures welfare, in a similar fashion to the regular and detailed measurement of profit undertaken by companies. A more radical recommendation is that companies reconsider whether the BOP proposition holds true for profit-oriented businesses or whether it is only applicable to a paradigm found in organisations such as social businesses. Implementation of the first recommendation will assist management in their consideration of recommendation two.

#### **7.5. RECOMMENDATIONS FOR FUTURE RESEARCH**

Very little research has been conducted on the trade-off between profit and welfare and thus the understanding is limited. This research has attempted to explore the relationship but further research is required. Consideration should be given to using a questionnaire as an instrument. This will allow for quantitative data, such as the extent to which returns from BOP is measured. It

will also allow for greater specificity in respect of the qualitative data such as whether there is or is not a trade-off.

An alternative is to change the method to that of case studies. Given the level of diversity in the companies interviewed, case studies will enable the richness in each company to be more fully explored. A longitudinal study will enable the researcher to test the claim regarding patient equity by tracking annual returns over a period.

To conclude, the matter of a trade-off between profit and welfare requires further investigation. However, this research suggests that there is a trade-off and that an alternative model or paradigm such as social entrepreneurship may be required to achieve both welfare and profit.

## **APPENDIX 1: INTERVIEW GUIDE**

### **Research question 1:**

Are there criteria to monitor and assess the change in the welfare of the poor as a result of a BOP intervention?

How were these measures identified and how are they monitored?

How do you establish causality between the BOP interventions and the change in welfare?

### **Research question 2:**

What profitability measures and criteria are used for BOP interventions?

How does this compare to that used for the rest of the business?

### **Research question 3:**

Are there trade-offs between profitability goals and improvements in welfare?

How are these trade-offs managed?

## APPENDIX 2: LETTER OF CONSENT

I am conducting research on what whether the base of the pyramid (BOP) twin goals of profits and improved welfare can be sustainably achieved. Our interview is expected to last two hours, and will help us understand how companies that have BOP interventions evaluate and measure BOP performance in terms of welfare and profits. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential and companies will not be identified. Although all reasonable steps will be taken to protect the identity and commercial interests of the company in the research, there is a risk that the reader may guess the company's identity. In order to mitigate this risk, you will be provided with an opportunity to review the content of the report, prior to its finalisation. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Marcel Mitchelson	Research Supervisor Name: Kerry Chipp
Email: marcel.mitchelson@transnet.net	Email: chippk@gibs.co.za
Phone: 011 308 2332	Phone:011 771 4175

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

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

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

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

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