Multinational Corporations at the Base of the Economic Pyramid: A Strategic Analysis Framework

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Ph.D. defense

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Thesis supervised by Patricia Crifo & Jean-Pierre Ponssard
Research questions

- Why do firms get involved in Base of the Pyramid programs?
- What are the different strategies at work?
- What are the implications of each strategy on the organization of firms?
Positioning in the literature on business & poverty

- **Prahalad and Hart (1999):** MNCs can make good business by targeting low income consumers in emerging countries
  - This should contribute to reduce poverty (Prahalad & Hart 2002, Prahalad 2004)
  - However, no clear demonstration of the profitability of these initiatives and their impacts (Crabtree 2007, Karnani 2007)

This argument fits in a double context:

- **Changes in the understanding of the roots of poverty**
  - Poverty as a multidimensional phenomenon (Sen 1992)
  - Market roots of poverty: the issue of access to land titles (de Soto 2000)

- **Changes in the solutions to poverty:** new actors have gained legitimacy to address poverty (NGOs, corporations)
  - Market based mechanisms are getting popular: **microfinance** (Armendariz & Morduch 2005)
  - **Development aid** shows its limits (Easterly 2006), requiring a better measurement of effects (Duflo 2008)
  - Corporations practices are more scrutinized (Porter & Kramer 2011)
Research method: action-research and case studies

- Need to generate new cases that would be analyzed scientifically

- **Action-Research overarching method**
  - “Action-research aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of science by joint collaboration within a mutually acceptable framework” (Rapoport 1970)
  - 3-year collaboration with Lafarge (2007-2010), world leader in building materials
  - Work at the Head office level under the VP Strategy & Development
  - Work at the Business Unit level in Indonesia

- **Case studies** (Yin 1994): EDF, Essilor, Danone, Unilever
# Dissertation outline

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Chapter 2</th>
<th>Chapter 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Strategies and the Construction of Markets at the Base of the Pyramid</td>
<td>A long road to the BOP: Organizational Change and the Search for Success at the Base of the Pyramid. The case of Lafarge</td>
<td>Relational Capacity for Social Innovation: A new perspective on learning and innovation</td>
</tr>
</tbody>
</table>

- Published in a collective book and *Revue Française de Gestion*
- Forthcoming in *Journal of Business Research*
<table>
<thead>
<tr>
<th>STAGE 1</th>
<th>STAGE 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance approach</strong></td>
<td><strong>Business approach</strong></td>
</tr>
<tr>
<td><strong>Belief system</strong></td>
<td><strong>BOP as a potential business</strong></td>
</tr>
<tr>
<td>BOP as a philanthropic and public-relations issue</td>
<td>Inflexible boundary</td>
</tr>
<tr>
<td>Not part of the company’s core business (no support)</td>
<td>Flexible boundary</td>
</tr>
<tr>
<td>Management control</td>
<td>Dominant diagnostic system</td>
</tr>
<tr>
<td>Not aligned with control systems</td>
<td>Dominant interactive system</td>
</tr>
<tr>
<td>BOP strategy</td>
<td><strong>BOP strategy</strong></td>
</tr>
<tr>
<td>Isolated programs with no support</td>
<td>Market capture strategy</td>
</tr>
<tr>
<td></td>
<td>Market creation strategy</td>
</tr>
</tbody>
</table>

Based on Simons’s levers of control (1995)
Differentiating business strategies: *market capture vs. market creation*

- Programs developed with Lafarge confirm the typology of business strategies

<table>
<thead>
<tr>
<th>Market capture</th>
<th>Market creation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market situation</strong></td>
<td><strong>Business model</strong></td>
</tr>
<tr>
<td>Existing markets</td>
<td>Limited adaptation</td>
</tr>
</tbody>
</table>

- The capacity for firms to choose between the two strategies is strongly determined by local market contingencies (institutional and competition challenges)
BOP at Lafarge *before* and *after* action-research

**In 2007: Compliance approach**

- “Not a business opportunity”
- “Is it social or business?”

- Hesitation between philanthropy and business approach
- A few projects in a philanthropic approach, no real business success (South Africa, China, India)

**In 2010: Business approach**

- “Affordable Housing is a big business opportunity”

- Perceived as aligned with new strategic program
- BOP pilot programs running in different countries (Honduras, India, Indonesia)
- Dedicated organization and top management support

**Trigger factors**

- **Raising awareness** about the market and social opportunity
- **Experimenting** on a small scale
- **Building the business case** for a wider engagement
Field experiments in Indonesia (2007-2010)

- 9 periods of 1 month in the cement business unit

- **2007-2008**: Approx. 120 interviews conducted with all stakeholders in the housing value chain in Banda Aceh and Medan

- Method:
  1. Semi directed interviews based on a ‘rapid appraisal’ questionnaire
  2. Workshops
    - Facilitated by translator and an NGO in Banda Aceh
    - With the marketing team in Medan

- **2009**: programs launch

- **2010**: evaluation, handover and replication
Market capture strategy: Social housing, Medan

- **Situation:** Limited construction of low income houses because of limited incentives for real estate developers

- **Program:** partnership between Lafarge, an association of developers and the local Government
  - Cement supply guaranteed on 5,000 houses
  - Government’s subsidies
  - Managed by the local sales team

**Results:**
- 800 houses built of good quality, sold in 1 day, mostly to civil servants
- 600k€ of cement sales without discount

*Business as usual program with short term pay off, integrated in management control systems*
Social Housing Project in Medan
Social Housing Project in Medan
**Market creation strategy: Microcredit for Housing in Banda Aceh**

- **Situation:** Needs for house extension rather than new houses, unmet because of loan scarcity for low income people
  - Survey of 270 households

- **Program:** partnership between Lafarge, an NGO and its private arm, and Microfinance institutions
  - Managed from corporate level before handover in 2010

**Results**

- Low disbursement: 40 microcredits delivered in 1 year (now 110)
- Social impact: ¼ creating new jobs
- 15% of loan value generating cement sales

More innovative program, but complex for a business unit and long to pay off
Microcredit for Housing program in Aceh
Microcredit for Housing program in Aceh
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Microcredit for Housing program in Aceh
The way forward: BOP practices as experiments of a transition towards sustainability

Business opportunity

Sustainability through voluntary actions

Sustainability embedded in the business model

Environment as a performance lever

BOP as a new market opportunity

Sustainable Economy

Environment as a cost

BOP as a compliance issue

Licence to operate

François Perrot – Ph.D. defense – September 23, 2011
References (1/2)

- Easterly, W. 2006. The white man’s burden: Why the west’s efforts to aid the rest have done so much ill and so little good. New York: Penguin Press.
References (2/2)

- Sen Amartya, 1992 « Inequality, reexamined », Oxford University Press, 1992