

---

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

---

**François Perrot**

**Ph.D. defense**

**September 23, 2011**

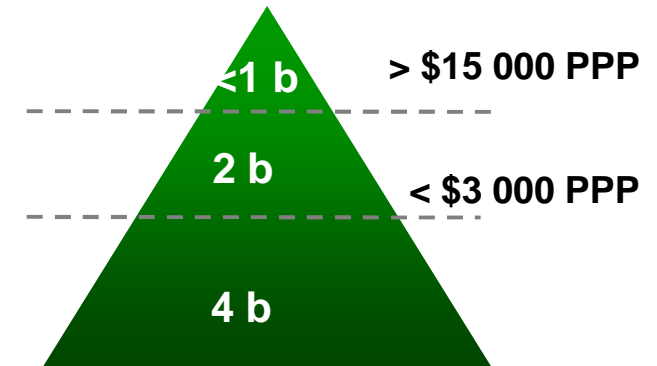
**Thesis supervised by Patricia Crifo & Jean-Pierre Ponsard**

## 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

Chapter 1	Chapter 2	Chapter 3
<p data-bbox="241 568 772 695"><b>Corporate Strategies and the Construction of Markets at the Base of the Pyramid</b></p> <p data-bbox="235 884 779 963">Published in a collective book and <i>Revue Française de Gestion</i></p>	<p data-bbox="842 568 1373 783"><b>A long road to the BOP: Organizational Change and the Search for Success at the Base of the Pyramid. The case of Lafarge</b></p>	<p data-bbox="1480 568 1977 735"><b>Relational Capacity for Social Innovation: A new perspective on learning and innovation</b></p> <p data-bbox="1480 884 1977 963">Forthcoming in <i>Journal of Business Research</i></p>



## A Strategic Framework of firm's engagement with the BOP

Based on Simons's levers of control (1995)

	<b>STAGE 1 Compliance approach</b>	<b>STAGE 2 Business approach</b>	
<b>Belief system</b>	BOP as a philanthropic and public-relations issue	BOP as a potential business	
<b>Boundary system</b>	Not part of the company's core business (no support)	Inflexible boundary	Flexible boundary
<b>Management control</b>	Not aligned with control systems	Dominant diagnostic system	Dominant interactive system
<b>BOP strategy</b>	Isolated programs with no support	Market capture strategy	Market creation strategy

## Differentiating business strategies : *market capture vs. market creation*

- Programs developed with Lafarge confirm the typology of business strategies

	 <b>Market capture</b>	 <b>Market creation</b>
<b>Market situation</b>	Existing markets	Existing needs, but no existing market
<b>Business model</b>	Limited adaptation	Local adaptation
<b>Management</b>	Part of the organization	Special project
<b>Funding</b>	No innovation	Innovative sources

- The capacity for firms to choose between the two strategies is strongly determined by local market contingencies (institutional and competition challenges)

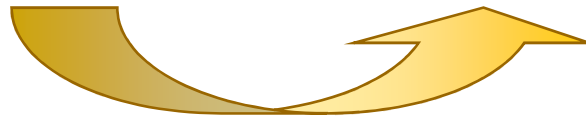
## BOP at Lafarge *before* and *after* action-research

### 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

Houses under construction



- **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

A finished house



### 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**



**Social Housing Project in Medan**





**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



**Microcredit for Housing program in Aceh**





**Microcredit for Housing program in Aceh**

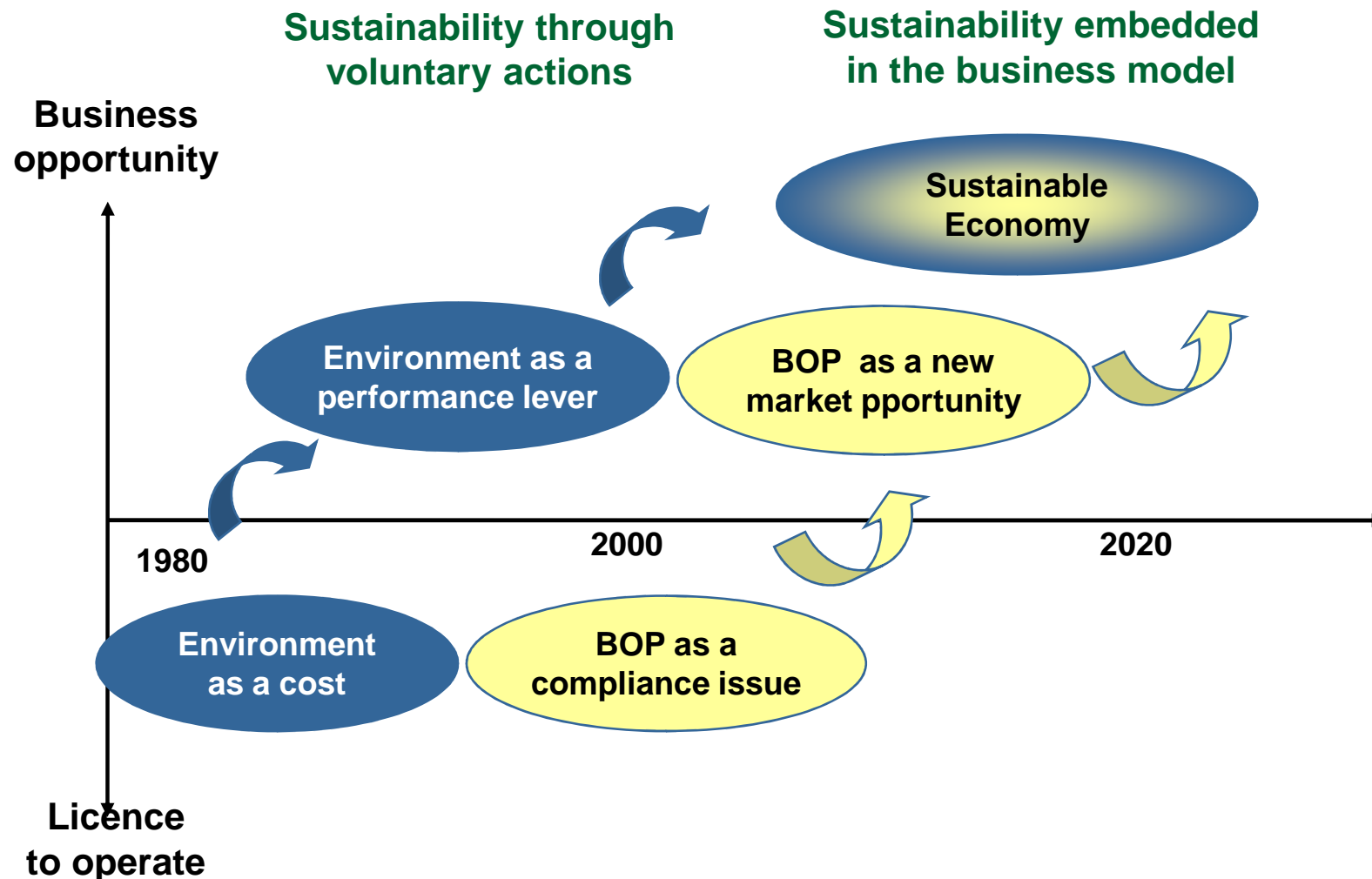


## Microcredit for Housing program in Aceh





# The way forward: BOP practices as experiments of a transition towards sustainability





---

## References (1/2)

- Armendariz, B. and J. Morduch 2005. The Economics of Microfinance, The MIT Press.
- Banerjee A., Duflo E., 2011. Poor Economics. A Radical Rethinking of the Way to Fight Global Poverty. Public Affairs.
- Crabtree, A. 2007. Evaluating “The Bottom of the Pyramid” from a Fundamental Capabilities Perspective, CBDS Working Paper Series.
- de Soto H. 2000. The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. Basic Books.
- 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.
- Hart S., 2007. Capitalism at the Crossroads: The Unlimited Business Opportunities in Serving the World’s Most Difficult Problems, Wharton School Publishing.
- Hart S, Simanis E. 2008. Beyond Selling to the Poor: Building Business Intimacy Through Embedded Innovation. Working paper.
- Karnani A., 2007. “The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty”, California Management Review, Vol. 49, No. 4, p. 90-111
- O’Donohoe N, et al., 2010. Impact Investments: An emerging Asset class. JP Morgan and The Rockefeller Foundation.
- Ponsard J-P. & Crifo P., 2010. “Corporate Social Responsibility: from Compliance to Opportunity?”, Editions de l’Ecole Polytechnique: Palaiseau.



## References (2/2)

- Prahalad C.K. et Hart S., 2002. "The fortune at the bottom of the pyramid", *Strategy+Business*, No 26 (First Quarter), p. 2-14
- Prahalad C.K., 2004. *The Fortune At the Bottom of the Pyramid*. Wharton School Publishing.
- Rapoport R., 1970. Three dilemmas of action research, *Human Relations*, Vol.23, pp. 499-513
- Reille, X. and S. Forster 2008. *Foreign Capital Investment in Microfinance*, CGAP Publication.
- Sachs, J. 2005. *The end of poverty: how we can make it happen in our lifetime*. London: Penguin Books.
- Sen Amartya, 1992 « Inequality, reexamined », Oxford University Presse, 1992
- Simons, R., 1995. *Levers of control: How Managers use Innovative Control Systems to Drive Strategic Renewal*. Boston: Harvard Business School Press
- Simanis, E. 2009. At the Base of the Pyramid, *The Wall Street Journal*. October 26, 2009
- Stiglitz, J. 2002. *Globalization and its discontents*, W.W. Norton & Company
- Susman G., Evered R., 1978. An Assessment of the Scientific Merits of Action Research, *Administrative Science Quarterly*, Vol.23, pp.582-603
- Todorova G. Durisin B. 2007. Absorptive Capacity: Valuing A Reconceptualization. *Academy of Management Review*; 32 : 774-786.