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Resources and governance in "base of the pyramid"-partnerships: Assessing collaborations between businesses and non-business actors

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ABSTRACT

Identifying, building, and maintaining partnerships with non-business actors are crucial challenges for multinational companies (MNCs) when implementing Base of the Pyramid (BoP) projects. Using a multiple-case study we analyze such partnerships through the lens of the relational view, focusing on resources generating inter-organizational value and on mechanisms for governing the partnerships. The cross-case analysis suggests that proficiency in identifying appropriate partners featuring non-tangible synergy-sensitive resources is vital for BoP ventures. MNCs compensate for their lack of local knowledge, contacts, and legitimacy by recruiting non-business actors for this consultancy and brokering function. Once a suitable network of partners has been identified, these resources need to be explored and exploited by developing personal relationships, communication routines, common goals, and partner-specific capacity building. Synergy-sensitive resources facilitate performance and long-term maintenance of BoP partnerships by establishing well-adapted and well-informed management practice and by creating a lock-in that works as an informal self-enforcing governance mechanism.

1. Introduction

In recent years, a considerable amount of research has emerged on business models specifically adapted to the circumstances of poor populations in developing and emerging countries. The "Base of the Pyramid" (BoP) concept—which originated in Prahalad and Hart's (2002) seminal work—has garnered much attention in the business world and academia. Finding strategies for tapping into markets of poor populations and successfully integrating them in corporate value chains, however, is still connected with a plethora of unsolved issues and black boxes. The list of potential hurdles is vast: For example, developing countries usually possess low-grade infrastructure (electricity and transport networks, telecommunications, water provision, etc.). In areas where large parts of the population live in poverty, a high level of illiteracy and a lack of professional education (Todaro & Smith, 2009), as well as an extensive level of bureaucracy (World Bank, 2007) and corruption (Seelos & Mair, 2007), can be found. Furthermore, companies that traditionally act mainly with affluent people often lack local legitimacy, social capital, expertise, and contacts (Webb, Kistruck, Ireland, & Ketchen, 2010). These factors create challenges for companies that wish to successfully enter and sustainably remain in these markets. Hence, the need arises for multinational companies (MNCs) to include non-traditional actors—such as civil society organizations (CSOs), development and governmental agencies—as partners and facilitators in the companies' supply chains.

Identifying adequate partners as well as building and maintaining partnerships with non-business actors, however, can be challenging. Usually, companies, CSOs, and governmental agencies have different organizational objectives, organizational cultures, and operational and decisional processes and approaches (Klijn & Teisman, 2003). These differences may result in a mismatch of priorities and misperceptions about project goals that may actually lead one partner to abandon the partnership (Karamchandani, Kubzansky, & Lalwani, 2011). Moreover, the kind of resources brought into the ventures directly influences mechanisms available for governing such partnerships. Non-business actors contribute primarily non-tangible resources to BoP partnerships with business organizations such as local market expertise and access to sourcing and distribution networks as well as legitimacy with local customers, governments, and civil society (Dahan, Doh, Oetzel, & Yaziji, 2010; Webb et al., 2010).

Compared to other business partners, CSOs are less likely to invest in partner-specific physical or site-specific assets; thus, formal safeguards for reducing opportunistic behavior in terms of symmetric equity investments are generally not a suitable governance instrument in BoP partnerships. Theorizing about BoP ventures through the lenses of institutional theory and transaction cost economics, Rivera-Santos, Rufín, and Kolk (2012) recently suggested in their conceptual paper in this journal that BoP ventures involving various partners from multiple sectors substitute traditional formal governance mechanisms—such as equity participation and formal contracts—with alternative governance mechanisms. These alternative mechanisms embrace, for example,

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informal contracts or in-kind contributions and gifts, thus increasingly relying on normative and cognitive instead of regulative institutions. In this respect, locally enrooted non-business actors may considerably facilitate initial trust among BoP actors who have little or maybe even unpleasant experience with formal economy businesses (London, Anupindi, & Sheth, 2010).

The extant paper ties in with this line of research on cooperation and partnerships at the BoP. The paper complements and advances previous research efforts by using a multiple-case study to offer an in-depth view of various BoP partnerships between businesses and other actors. These partnerships are analyzed through a stringent view on the resources contributed by BoP partners, the exploration and exploitation of these resources, and the respective governance challenges. Despite the recognition of the importance of business–non-business partnerships for the success of BoP projects (cf. Van den waeyenberg & Hens, 2012, for the case of Philips Lighting) and despite the fact that the relational view is a cornerstone of strategic management theory, no study has empirically tested the relational view perspective for analyzing BoP collaborations, so far. While some papers dealing with MNCs' alliances at the BoP recently addressed the notion of resources and capabilities (e.g., Seelos & Mair, 2007; Reficco & Marquez, 2009; Rivera-Santos et al., 2012), leveraging the explanatory potential of an established framework facilitating an analytic view inside these partnerships can help in achieving further insights contributing to the existing knowledge. Looking comprehensively at the management of intra-firm and inter-firm resources, this study may be metaphorically characterized as taking a molecular viewpoint instead of just looking at the phenotypic appearance of BoP relationships or on single resources as building blocks; it investigates which molecules (resources and capabilities) need to convene and interplay for facilitating overall success of the whole organism (the BoP project). We specifically focus on ventures involving Western MNCs and assume that the institutional distance between these companies and the BoP is large. Therefore, new partners familiar with the BoP environment and bringing new resources and capabilities required by the MNCs must be involved, although these partners pose distinct challenges to the effective governance of these partnerships. Taking up constructs from the relational view (Duschek, 2004; Dyer & Singh, 1998) as a theoretical lens, we discuss the following research questions: (1) How do resources brought into BoP partnerships between business and non-business actors help generate value? (2) What mechanisms and tools are applied to govern these BoP projects?

Answering these questions, we provide further evidence under which conditions Western MNCs' BoP strategies can be successful. Namely, we provide insights into the requirements and functioning of these new forms of partnerships between business and non-business actors. In detail, our perspective examines the resources that the various players bring to these partnerships. We discuss how these resources relate to the governance mechanism used to successfully maintain these partnerships. The paper makes two main contributions: On the one hand, it contributes with an empirical analysis to the so-far rather conceptual work on BoP partnerships—for substantial conceptual works in this field see, for example, Rivera-Santos et al. (2012); for notable exceptions see the empirical work of Van den waeyenberg and Hens (2012). On the other hand, it further enriches the stream of alliance and collaboration literature with the specific BoP perspective, by investigating how the identification of appropriate partners may lead to exploitable synergies that facilitate (long-term) governance of BoP partnerships.

To achieve this purpose, the paper is structured as follows: First, we develop the analytic framework focusing on partnership resources and governance from the perspective of the relational view of strategic management. Then, we illuminate the multiple-case study design applied, while concisely outlining the case studies. Thereafter, we present the most relevant findings of the data analysis and subsequently discuss them against the background of the literature on the relational view (thus highlighting the peculiarities of BoP partnerships) and on the BoP (thus zooming in on the requirements and functioning of BoP alliances).

2. Resources and governance in BoP partnerships

Inter-firm resources and governance mechanisms are central aspects of the relational view of strategic management. In a seminal paper, Dyer and Singh (1998) argue that relationships between firms not only create a need for firms to guard against the threat of opportunism but also represent a major source of competitive advantage. In the last decade, the relational view became a sound research stream, extending and complementing the resource-based view (Barney, 1991). Duschek (2004) argues that both theories focus on resources as the primary object of analysis, while the relational view aims at conceptually anchoring sustained competitive advantage specifically in inter-organizational resources. Relational rents may be derived from complementary resources combined with relation-specific assets that need to be complemented by effective governance to maintain a competitive advantage (e.g., Dyer & Singh, 1998; Duschek, 2004). Many researchers have taken Dyer and Singh's (1998) proposition and approached questions such as how inter-organizational competitive advantages are built, which preconditions have to be met to successfully exploit inter-organizational rents, and what central factors impact inter-firm relationships (e.g., Mataanda & Freeman, 2009; Soekijad & Andriessen, 2003). Building upon this literature, we arrive at a pattern of analytic "best practice" constructs on resources and governance within such partnerships and aim in the extant paper to provide a comprehensive picture of prerequisites and drivers of long-term BoP alliances. In the following sub-chapters, we elaborate on both resources and governance while placing the constructs within the context of BoP literature.

BoP research reveals numerous references to partnerships and governance mechanisms as explanatory factors of success (and failure) in BoP projects. Most interestingly in the context of this study, BoP scholars regularly highlight the importance of non-traditional actor combinations involving actors well beyond the business sphere, such as CSOs (e.g., Dahan et al., 2010; Doh & Teegen, 2002; Rivera-Santos & Rufín, 2010b; Vachani, Doh, & Teegen, 2009; Webb et al., 2010) or government agencies (e.g., van Marrewijk, Clegg, Pitsis, & Veenswijk, 2008; Klijn & Teisman, 2003). Considering non-business actors as central partners extends the focus on inter-*firm* relationships referred to as traditional relational view logic (as in Dyer & Singh, 1998) to inter-*organizational* relationships. This broader conception of relationships brings about new partnership characteristics entailing novel requirements for successful governance. Thus far, empirical analyses of BoP projects through the lens of the relational view are usually performed rather anecdotally and for single issues only. In this respect, for example, Reficco and Marquez (2009) point to the fact that partnerships at the BoP, once established, create synergies from which all participants may profit. Rivera-Santos et al. (2012) study the link between subsistence market institutions and partnership structures and Webb et al. (2010) investigate what type of resources NGOs can bring to those partnerships.

When investigating relationships, resources and synergies as potential sources of competitive advantage in the frame of our multiple case study, we deliberately limit our argumentation to the value that is *created* through collaborations between businesses and non-business actors. Due to a lack of respective relevant information in our data, we do not regard the issue how value is actually *captured* by BoP parties (i.e., rent generation) and how this may lead to competitive advantage for the for-profit organizations involved. Furthermore, we underline that it might be misleading to use the concept of rents (hence value captured by one party) when considering public goods (such as poverty reduction) as performance outcome of BoP projects, because public goods exclude one-sided appropriation of value per