Long Range Planning 49 (2016) 283–297

Contents lists available at ScienceDirect

Long Range Planning

journal homepage: http://www.elsevier.com/locate/lrp

Innovations to Serve Low-Income Citizens: When Corporations Leave Their Comfort Zones

Roberto Gutiérrez, Alfred Vernis

Some companies succeed in developing a business that serves the poor at the "base of the pyramid" (BOP), while others do not go beyond pilot programs. Understanding the reasons behind these performances is important because of their significant differences in social impact. The former create economic value by developing full-fledged business units that generate considerable social value; many firms, among the latter, choose to avoid the challenge of integrating social ventures in their businesses. We undertook a detailed comparative study of the internal and external conditions surrounding two multinational utilities that distribute natural gas. The extremely different outcomes we found highlight the need for a pressing role by civil society organizations and adequate government interventions to increase access to basic services. In monopoly sectors, such pressure is only equated by considerable increases in the level of earnings to be successful in making firms leave their "comfort zones" and deliver on the BOP promise.

Introduction

Business impact in society has become a key management issue in today's world. In particular, developmental impacts of multinational enterprises (MNEs) are gaining relevance in international business research (Ghauri and Buckley, 2006). MNEs are often blamed for social and environmental ills, while some of them take the lead in becoming part of the solutions for some of those ills. One such problem, the social and economic exclusion of millions, is increasingly receiving more attention. Our study examines why some companies succeed in serving myriads of poor and excluded, but others do not go beyond pilot programs.

Evidence is mounting that MNEs have not delivered on impacts they promised (Bruni Celli and González, 2010; Karnani, 2007). Prescriptions to tie social issues to companies' businesses receive increasing attention. The calls for creating shared value (Porter and Kramer, 2011), or to integrate CSR initiatives in business (Yuan et al., 2011), are conceptually attractive, but implementation has proven very challenging. Extant research lists external and internal organizational barriers that prevent large companies from generating both economic and social value as they include low-income citizens in their operations. In this article we ask the following to go beyond the description of barriers: What differentiates those few companies that have overcome these barriers from the many that have not? Are there special conditions in the environments surrounding those companies, or are there internal drivers within these few organizations that make the difference?

To answer these questions we contrast the experience of two large companies in the utilities sector. The first one is a subsidiary of a large MNE, and the second one is a large local firm. For years, both have had projects to serve low-income citizens. An analysis of these initiatives points to external pressures as drivers behind innovation in this sector. These drivers are of paramount importance when a company confronts barriers to develop a new initiative.

Our focus on process issues complements the literature that has suggested leveraging a firm's resources to benefit society (Porter and Kramer, 2002, 2006, 2011), and the extant research on the challenges to do so (Márquez et al., 2010; Olsen and Boxenbaum, 2009). For those who concentrate on the internal fit of socially oriented initiatives with prevailing business practices (Yuan et al., 2011), or for those focusing on the external consistency with societal stakeholder demands (Atkinson et al., 1997), an analysis of the interaction between societal stakeholder demands and internal responses is missing. This article examines this interaction and connects its dynamics to the scale attained by the BOP initiatives of two utilities.

Our research contributes by examining the task of guaranteeing universal access to basic utilities. In an industry increasingly privatized and where MNEs are getting a stronghold, this challenge brings the "base of the pyramid" (BOP) promise of "serving the poor profitably" to the forefront. Fulfilling this promise will bring everyone closer to an efficient system in which companies contribute the most by doing their business. But as long as low-income populations lack access, calls for interventions by governments and civil society organizations will be recurrent. Our analysis also addresses the interaction

http://dx.doi.org/10.1016/j.lrp.2015.12.007
0024-6301/

between MNEs, states and civil society. In utilities pricing is inherently political (Spiller, 2010), and governmental interventions can send signals that lead to marketplace inclusion. Correspondingly, non-governmental organizations (NGOs) can play a role in bringing about the inclusion that a company could provide but may turn away from.

This research highlights other than productive roles for governments and NGOs. Beyond interventions to influence the quality of business environments, public policies that request firms to increase coverage will help with governments' responsibility of guaranteeing universal access to basic services. As government interventions can nudge an increase in the positive impact the private sector has in the lives of many, in our research, NGO confrontation of utilities promises to be more effective than collaboration to bring about the provision of highly needed services. In the absence of strong NGOs that can pressure for change, conditions of exclusion can be perpetuated.

It is urgent to close the gap between theory and practice. As more companies state their allegiance to sustainability and social responsibility principles, while their practices do not follow suit, accusations of "green washing" and "window dressing" become more common (Fisher, 2010). Also, the gaps between ideas and actions feed into the mistrust civil society organizations have about businesses. These accusations and mistrust can in turn impair the power of certain ideas. Before some of the ideas behind BOP and inclusive businesses lose their appeal, we highlight the underpinnings of scale and impact in initiatives that purport to do well while doing good.

This article begins by addressing the gap between the promises of a "fortune" at the BOP, and the realities of organizations that try to do well by doing good. After reviewing some of the obstacles for doing so, it considers two contrasting cases that illustrate the interplay between industry characteristics and internal resources and capabilities. The ensuing discussion focuses on the forces that drive action by businesses, and the roles organized civil society and government play to promote responses that increase welfare in society. The article ends with a call to consider the dynamics in which companies engage as they seek impact through market initiatives.

Potential and limitations of market initiatives that improve the lives of low-income citizens

During the last decade, hope that markets can tackle the problems of economic poverty has increased. Private sector initiatives can have the scale, permanence, efficiency and efficacy needed to address certain social problems (Austin and Chu, 2006). The development of an industry, far beyond the success of one company, can provide the scale and permanence to reach millions, and its competitive nature can push for increasingly productive use of resources. In the meantime, governments could scale interventions to massive levels, but they might lack permanence and efficiency. NGOs could foster social innovations, but they might lack the resources to reach and maintain massive scale.

The private sector has contributed to the struggle against poverty through economic development, but also through other means like philanthropy and corporate social responsibility. Some researchers characterize CSR initiatives with having "only a limited connection to the business" (Porter and Kramer, 2011, 76), and many firms "have not even attempted to 'routinize' their recurring CSR undertakings." (Yuan et al., 2011, 75) An identification of patterns of integration of CSR initiatives in business has been accompanied by the recognition of several challenges in doing so. However complex and risky responses to different stakeholder pressures are, CSR initiatives are also required to fit with prevailing internal practices and to have adequate cross-functional coordination (Cordano and Frieze, 2000; Westley and Vredenburg, 1996; Yuan et al., 2011).

In one type of effort to deliberately tackle economic exclusion, some MNEs have sought "the fortune at the bottom of the pyramid" inspired by the belief that it is profitable to take advantage of market opportunities in which low-income populations also benefit as consumers. The BOP promise has attracted considerable attention at very different levels (Prahalad, 2004; Prahalad and Hammond, 2002; Prahalad and Hart, 2002), and MNEs were signaled as the type of organizations that could tap into the "fortune at the BOP". MNEs possess the resources and knowledge-generating capabilities that would allow them to compete in these markets.

The proposed BOP approach, being explored by practitioners as well as academics, posits that companies can develop profitable business models while also improving the lives of those at the base of the economic pyramid. "Serving the poor profitably" is an expression of seeking social and economic benefits simultaneously (Prahalad and Hammond, 2002; Prahalad and Hart, 2002). Under the broad definition of CSR proposed by Aguinis and Glavas (2012), BOP initiatives can be considered as one of the different types of CSR activities, despite the fact that the environmental bottom line is not particularly emphasized. The close alignment of private sector dynamism seeking economic profit with the well being of economically disadvantaged distinguishes BOP efforts.

Initially, the BOP approach only considered market opportunities that sold products or services to low-income consumers, and MNEs were considered the organizations that were best fit to find and take advantage of those opportunities. Both tenets have been put into question (Karnani, 2007). Recent formulations have expanded the approach, engaging low-income citizens in other roles (e.g., producers or distributors), and consider the advantages and disadvantages of other types of organizations — even nonprofits — as they deal with such market opportunities (London et al., 2010; Márquez et al., 2010).

Another contention in this field has been that companies need to create radically different business models and redesign their products for the BOP (London and Hart, 2004; Simanis and Hart, 2009). Adaptations are required to make products acceptable, attractive, affordable and available to underserved populations (Anderson and Markides, 2007). Documented cases cover a spectrum with numerous adaptations of existing products, at one end, to few co-invention of new products with local entrepreneurs, at the other end. However, there is a call for "a better understanding of the continuum that may exist between traditional market entry and BOP initiatives" (Kolk et al., 2014, 357).