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The role of proximity in business model design: Making business models work for those at the bottom of the pyramid☆

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ABSTRACT

This paper explores the role of proximity in designing business models that work for those at the BoP. BoP markets represent an extreme setting where actors struggle to access and organise limited resources and develop appropriate socio-economic-political practices. Drawing on Boschma's (2005) concept of proximity, we analyse three historical cases of business at the BoP to uncover the spatial-temporal dimensions of business model design in practice. Findings suggest that 1) business model design practices iteratively structure connections with markets and open up new spaces for market activity. This means that business models are necessarily understood as plastic and continuously in-the-making; 2) by taking into account the stability and change of proximity dimensions and the dynamics between them as they relate to business activities, managers are better equipped to identity opportunities that create, shape and connect with markets; and 3) the spatial-temporal dynamic of the business model proximities framework reveals that some proximities strengthen others through time, with negative and positive consequences.

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1. Introduction

How do managers and entrepreneurs organise their business activities to connect with business networks and markets? The relationship between organisational and market structures has long been of interest (DiMaggio & Powell, 1983; Meyer & Rowan, 1977); though today business models (Doganova & Eyquem-Renault, 2009; Magretta, 2002) and market architectures (Fligstein, 1996; Fligstein, 2001) are more familiar terms. The relationship between these phenomena is often referred to as the sociology of markets (Callon, Millo, & Muniesa, 2007; Fligstein & Dauter, 2007; Knorr-Cetina & Preda, 2004). The concern remains: how market actors enroll others, mobilize resources and organise markets (Araujo, Kjellberg, & Finch, 2010).

Bottom of the pyramid (BoP) businesses offer an extreme setting that foregrounds efforts to imagine and put into practice organisational structures that connect with markets (Dolan & Johnstone-Louis, 2011; Lindeman, 2012; Viswanathan & Rosa, 2010). The '*bottom of the pyramid*' is a term coined by Prahalad and Hammond (2002) to describe the large numbers of people living in subsistence conditions, typically earning less than $2 per day, having inadequate access to food, education, transportation, consumption choice. Because BoP actors have limited available resources their proximity is likely to have a significant influence on how business activities are imagined and organised. Weidner, Rosa, and Viswanathan (2010) suggest that social relations, cognition and geographical spread impact on the success of business activities at the BoP. However, they do not theorise these dimensions of proximity as shaping organising structures. In the economic geography literature, proximity is understood as a multi-dimensional, socio-spatial construct that impacts on economic life (Bathelt, 2005; Boschma, 2005; Capello & Faggian, 2005; Torre & Rallet, 2005). Yet the impact of proximity on BoP business structures is rarely discussed (see, Reficco & Márquez, 2012 as a notable exception).

Zott and Amit (2010) conceptualise business models as abstract organising structures and suggest that designing a firm's structure in relation to its network and markets is directly related to firm performance (also see, Doganova & Eyquem-Renault, 2009; Mason & Spring, 2011). Despite these valuable observations, the socio-spatial-temporal dimensions of the business modelling process remain unexplored. How businesses are organised in situ, and which proximities taken into account, has largely been ignored. We set out to address this gap.

In this paper, we bring together the theoretical lenses of proximity and business models to explicate business at the BoP. We examine the role of proximity in designing business models that work for those at the BoP. Proximity is understood here as a multi-dimensional construct, comprising five dimensions: (1) *cognitive proximity*: the similarities and complementarities between the knowledge-base of firms that collaborate and trade, manifest as the intra-organisational routines and actions that shape the production and circulation of technical and market knowledge; (2) *organisational proximity*: the inter-organisational routines controlling the circulation and production of technical and market

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knowledge across firm boundaries; (3) *social proximity*: individual actors' competences that can be reliably connected in practice, (4) *institutional proximity*: the norms, rules and values of the broader environment that enable reliable actor connections, and (5) *geographical proximity*: the physical space and distance between economic actors (Boschma, 2005).

Business models are understood as being epistemic devices that represent, order and organise business activities connecting the firm and the market. At an abstract level, business models are conceptualised as a three-dimensional construct, including: (1) *technologies*: used in structuring the product/service offerings, and delivery management; (2) *market offerings:* the structuring of the producer-user interactions that generate the firm's offering; and (3) *network architectures*: the structuring of business activities of all buyers and sellers needed to make that market offering possible (Mason & Spring, 2011). We emphasise the *structuring* role of each element here to foreground proximity issues. We understand the practice of *designing business models* as an ongoing iterative, reflexive process of deliberate change to the business model dimensions, performed through reactions to events, other market actors and new understandings (cf. Romme, 2003).

The paper begins with a brief literature review to explicate the relationship between firm and market structures in BoP markets. We then propose and apply a *business model proximities framework* to an historical analysis of three BoP businesses that have made deliberate structural changes to their activities. Findings suggest that different dimensions of proximity impact on, or are invoked by, managers and entrepreneurs at different times in the business model design process. Understanding proximities helps managers work out how to frame problems and reorganise their business activities – sometimes opening up new spaces for market activities. The paper concludes by discussing the relevance of insights for non-BoP contexts and suggests an agenda for future research.

2. Literature review

2.1. Firm and market structure

Since Coase (1937), scholars have studied the relationship between the firm and the market as alternative and inter-connected structures for co-ordinating resources for production. Much of the work preceding Coase's seminal paper focused on understanding economic systems, and specifically the role of price in shaping markets. Coase argued that price as an organising mechanism was not sufficient to explain the allocation of resources: '*entrepreneurial-co-ordination*' replaces price as a coordination mechanism when social relations are '*desired for [their] own sake*' (Coase, 1937: 390). Social relations are invoked when the costs of using the price mechanism are too high: costs are high when information is not available, and/or the work to be done is uncertain and innovative (also see, Schumpeter, 2009). Williamson (1975, 1979) referred to these costs as transaction costs. When transaction costs are high (or undetermined), actors organise their activities within the boundaries of a '*firm*': this is '*the nature of the firm*' (Coase, 1937: 386). The assumption is that firm structure is affected by market costs and uncertainties. Dimensions of proximity are implicitly taken into account: market costs are understood to rise when resources are geographically distant; firms need to be organised in ways that reduce uncertainty (organisational proximity).

By the 1970s, research on firm structure began to consider the influence of the broader institutional setting. Chandler (1969) describes how firms grow through vertical integration in an effort to remove transaction costs and increase profits. While he does not use the term proximity explicitly, Chandler foregrounds geographical proximities: for example, the impact of the development of railroads and other technologies on the way firms grew their scope and scale of activities. Chandler's interest in the scope and scale of the firm, lead him to argue that firm structures are designed to achieve a specific purpose or strategic intent: "*[M]ulti-unit business enterprise replaced small traditional enterprise when administrative coordination permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms*" (Chandler, 1977: 6). This view emphasises organising for efficient administration and management. Other scholars suggest that such practices necessarily produce inefficient routines and bureaucracy and that in time, these begin to shape firm structure. In other words, different social and institutional proximities shape firm structure. Meyer and Rowan (1977) observe the impact of the professions, policies and programmes created alongside products and services. Policies and programmes become institutionalised rules expected or legislated as organising requirements: "*…organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society*" (Meyer & Rowan, 1977: 340). The assumptions here are that firm structure is shaped by both market institutions and practices, and the strategic intent of managers and entrepreneurs. Cognitive, social, institutional, and geographical dimensions of proximity are implicit in these authors' descriptions of what it means to organise in markets. Yet no explicit consideration is given to proximity.

Meyer and Rowan's (1977) thesis recognises the multiple and varied forms and roles of market actors. 'The Architecture of Markets' (Fligstein, 2001) argues that markets are structured by the social actions that take place in organised social spaces or 'fields'. The theory of fields focuses on understanding how new social spaces are opened. These spaces contain collectives of actors who attempt to dominate a particular space through the systems they produce. However, domination can only be achieved through the production of a local culture, defined by localised social relationships. In this sense, social structures are understood to be formed *in* markets. The assumption is that firms and other market actors are embedded in the social structures that constitute markets, and that these social structures are, in turn, transformed through the performance of markets (Araujo, 2007; Fligstein & Dauter, 2007; Granovetter, 1985). The dynamics of proximity are foreground in this view, as it suggests that different dimensions of proximity are taken into account in different ways, places and times, by different actors as the market is performed.

Taking proximity seriously requires a focus on the relatedness of proximity dimensions to each other through time. Such an approach stands to generate a deeper understanding of how market architectures emerge. By focusing on the role of proximity in designing business models at the BoP, we take the first tentative steps in developing this agenda.

2.2. Firm and market structures at the BoP

The particularities of proximity in BoP markets are challenging because of the extreme scarcity of resources and extant socio-political-economic practices[1] (Thompson & MacMillan, 2010). Many people at the BoP live in one of a group of underdeveloped countries known as the BRICs – Brazil, Russia, India and China (Sridharan & Viswanathan, 2008), where poor infrastructures, problems of distribution and communication can appear insurmountable - yet trade goes on. London and Hart (2011:8) define BoP as the "*low-income socioeconomic segment that is not well-integrated into the formal economy*" and address the challenge of business development where there is an absence of a

[1] As others have noted, BoP sites are often rich with resources that remain beyond the reach of people at the BoP for a complex combination of socio-political-economic reasons that range from limited education to corruption or lack of technological expertise). Socio-political-economic practices that are institutionalised routines in developed markets (such due diligence or developing and reviewing models of practice that compete with and threaten established organisations and institutions), are often inoperable in BoP settings (see for example, Thompson, James D., and Ian C. MacMillan. 2010. "Business Models: Creating New Markets and Societal Wealth." Long Range Planning 43(2–3):291–307.; de Soto, Hernando 2000. The mystery of capital: why capitalism triumphs in the West and fails everywhere else. New York: Basic Books).

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