BUSHOR-1480; No. of Pages 13
ARTICLE IN PRESS
Business Horizons (2018) xxx, xxx—xxx

Available online at www.sciencedirect.com
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The promise and problems of price subsidization in social entrepreneurship

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KEYWORDS
Social entrepreneurship;
Pricing dilemmas;
Price discrimination;
Price subsidization

Abstract Social entrepreneurship research has often focused on the benefits and challenges of designing hybrid organizations that integrate competing institutional logics to tackle social problems using market-based methods, especially in developing economies. Drawing on case evidence from the Safe Water for Africa program, we show how and why pricing new products at other than market prices offers a seductive but dangerous mechanism for managers seeking to pursue dual objectives in hybrid organizations. We identify five strategic and operational challenges with ethical implications that manifest as pricing dilemmas and show how and why they are likely to elicit moral dilemmas among stakeholders of social entrepreneurship who are not equally committed to both social and economic objectives.

1. The price is right

Determining the release price for any new product is difficult—set it too high and the product will not sell; charge too little and the venture runs the risk of lost revenue and profits. Worse yet, this release price—whether too high or too low—tends to fix the product's market value position, making it difficult to correct after the fact. Pricing poses strategic and operational challenges for all entrepreneurs, but for social entrepreneurs, pricing can also take on ethical overtones with social implications as they seek to serve the poor through price subsidization (Auerswald, 2009; Cooney, 2011; Prahalad, 2005; Yunus, 2010). By subsidizing some of their product's price, social entrepreneurs seek to employ market methods. They have the poor pay what they can while having charitable donations or wealthier customers cover the difference. But, even though subsidizing product prices appears to offer a means of pursuing the dual

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https://doi.org/10.1016/j.bushor.2018.03.009
0007-6813/

objectives (social and commercial) of social entrepreneurship, price subsidization has a dark side: it can impair social entrepreneurs' ability to learn from the market while exposing them to charges of exploitation, especially when these social entrepreneurs are tackling social problems in development contexts.

In this article, we describe a number of pricing dilemmas encountered by the Safe Water for Africa (SWA) program, a strategic partnership in social entrepreneurship in which corporate investors, philanthropic donors, and a hybrid organization came together to build privately financed micro-utilities that offer World Health Organization-quality (WHO-quality) water at a nominal fee to the poor of Ghana, Nigeria, Liberia, and Sierra Leone. The SWA partnership is an exemplar of social entrepreneurial activity in today's developing world, with a diverse group working to balance complex challenges and competing objectives in a highly uncertain environment. In this case, we identify a number of strategic and operational challenges that call into question the benefits of subsidized product pricing frequently championed by the social entrepreneurship literature. We propose that (1) the potential for being perceived as exploitative is pervasive in social entrepreneurship; (2) such perceptions are likely when social entrepreneurs employ subsidized product pricing; and (3) fear of these perceptions can have the unintended effect of impairing the venture's ability to learn, further complicating short- and long-term strategic decisions that are essential to the organization's performance and survival.

After a brief introduction of the case, we discuss the strategic and operational challenges manifest in pricing dilemmas related to use of subsidized product pricing at SWA. For each dilemma, we show how SWA's pricing decisions were consistent with the pricing assumptions of the social entrepreneurship literature, but nonetheless problematic in practice. We then use these discrepancies between theory and practice to generate research questions concerning each pricing dilemma, and conclude with a discussion of the moral dilemmas—real and perceived—such pricing decisions encapsulate.

2. The Safe Water for Africa program and WaterHealth Ghana

Globally, one in ten people lack access to safe water (Water.org, 2018). According to the WHO/UNICEF Joint Monitoring Program for Water Supply and Sanitation: "The water and sanitation position in West/Central Africa is of particular urgency, as the region has the highest under-five mortality rate of all developing regions" (WHO/UNICEF, 2012). Impoverished communities in this region continue to depend on unsafe and unreliable water sources, such as unprotected wells or springs, rivers or ponds, vendor-provided water, tanker truck water, or bottled/sachet water for all needs. The United Nations announced the early achievement of Millennium Development Goal 7.C—"To halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation[1]"—but data across West Africa does not exhibit this trend, challenging the operational sustainability, reliability, and scalability of water improvement efforts to date (The World Bank, 2016).

Despite this troublesome situation, West Africa's GDP in recent years has grown more than 45% faster than the global average (African Economic Outlook, 2016), making the region as economically promising as it is socially challenging. This dynamic made the region an attractive environment for a water-focused strategic partnership, anchored by two multinational firms with a commercial history and growing interests in the region: The Coca-Cola Company and Diageo PLC (Guinness).[2] Together with WaterHealth International (WHI) and the International Finance Corporation (IFC), the companies in 2011 announced Safe Water for Africa (SWA), a private-led initiative to provide sustainable access to safe drinking water in Africa—namely Ghana, Nigeria, Liberia, and Sierra Leone. Given the unique challenges associated with multiple corporate donors and a hybrid organization working together to enact a private solution for a public problem, the Global Environment & Technology Foundation (GETF)—a nonprofit organization with expertise in multilateral management—was brought in to govern the partnership and navigate the various interests of the parties. Ultimately, SWA would work with West African communities to drive the expansion of an innovative, self-sustaining model of water provision developed by a leader in the sector: WaterHealth International (WHI).

WaterHealth Ghana (WHG), a subsidiary of WHI founded in 2008, would install the WaterHealth centers that were funded and publicly sponsored by SWA. These small modular structures, which operate as privately-financed micro-utilities, house purification equipment to treat locally available water and produce WHO-quality water that is available on site or

[1] http://www.un.org/millenniumgoals/environ.shtml

[2] Prior to this announcement, the Coca-Cola Company—through efforts like The Coca-Cola Africa Foundation (TCCAF) and its 2009 Replenish Africa Initiative (RAIN)—had a multi-million dollar history of supporting water issues and initiatives across the continent. Diageo PLC had equally large commitments to water initiatives, including its Water of Life program.