

Improving the Quality of Life for those in Extreme Poverty

An Examination of Two Market-Based Strategies

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Abstract

Market-based strategies focused on poverty alleviation populate the global landscape of social welfare policy. The goals of these strategies include removing barriers for the poor to participate in the marketplace and thus improve their quality of life. In some cases, these strategies also seek to expand market growth opportunities for businesses.

A review of literature examines two of these market-based strategies, Social Enterprise and Bottom of the Pyramid, in order to address the question: What are the elements of Bottom of the Pyramid and Social Enterprise market-based strategies that aid in advancing the quality of life for those living in extreme poverty? The 2015 United Nations Millennium Development Goals inform the definitions of “extreme poverty” and “quality of life”.

This paper proposes that inter-organizational collaboration, investment in human capital, distribution access and innovation are key elements in elevating the quality of life for the poor. This examination points out limitations and criticisms of Bottom of the Pyramid and Social Enterprise strategies and then presents a conceptual model that illustrates the strengths of each strategy. This model provides information for management practice that can improve the quality of life for those living in extreme poverty.

Introduction

Social welfare policy has expanded extensively in the past two decades and innovativemarket-based strategies are now considered effective and sustainable tools to relieve poverty and dependence of the poor on public assistance (Cooney & Shanks, 2010; Dees, 1998; Kourula & Halme, 2008). While market-based strategies themselves are not new, e.g., references to social enterprises began appearing more frequently in the latter quarter of the 20th century (Aiken, 2010), renewed interest in these strategiesgained momentum followingthe 2000 United Nations Millennium Summit (UNMS). The UNMS addressed international poverty in all of its forms and participants adopted the 2015 Millennium Development Goals (MDGs) that included a focus on alleviating “extreme poverty” (Sachs &McCarthur, 2005). The MDGs define a person in extreme poverty as one living on less than \$1.25 per day.

The MDGs highlighted the criticaland immediate need to set quantitative outcome objectives and explore innovative solutions for the worsening problems of income and economic development disparities.Five years later, the Davos World Economic forum re-emphasized the MDGs by voting global poverty as the number one issue to be addressed (Habib & Zurawicki,

2010). Concurrently, Sachs and MacArthur (2005) expressed the urgent need for countries to organize around these goals and take “quick, practical steps at scale before the goals become impossible to achieve”. The authors contended that to date the poorest nations had not achieved any meaningful movement toward attainment of the MDGs. Notably no progress had been made toward MDG number one, the “reduction of extreme poverty and hunger by half in 2015 relative to 1990” (United Nations, 2013) nor to the establishment of a global partnership for economic development. However by 2010, the United Nations (UN) reported that the first MDG was met, five years ahead of schedule.

The first goal of the MDGs addresses the economics of poverty directly. Goals two through seven (Table 1) go further and speak to a broader focus on improvement to the quality of life that informs this paper. The United Nations Secretary-General, Ban Ki-moon refers to these as, “the rights of each person on the planet to health, education, shelter and security” (United Nations 2013).

Table 1. Millennium Development Goals (Sachs & McCarthur, 2005, p. 347; United Nations, 2013)

Millennium Development Goals
1. Reduce extreme poverty and hunger by half relative to 1990
2. Achieve universal primary education
3. Promote gender equality and empowerment of women
4. Reduce child mortality by two-thirds relative to 1990
5. Improve maternal health
6. Prevent the spread of HIV/AIDS
7. Ensure environmental sustainability
8. Develop a global partnership for development

Research Problem, Objectives and Plan

Even though the global poverty rate decrease realized the stated economic goal of the first MDG, the UN estimated that almost one billion people will still live on less than \$1.25 a day in 2015 (United Nations, 2013, pointing to the breadth of severity of the problem that has yet to be addressed. Through a review of literature, this paper will examine two market-based strategies, Bottom of the Pyramid (BOP) and Social Enterprise (SE), to evaluate elements of these strategies that have successfully aided in creating advancement in the quality of life for those living in extreme poverty. While this examination identifies weaknesses and critiques of both BOP and SE, a conceptual model illustrates the strengths and proven success that can inform both existing and innovative market-based strategies and thereby improve the quality of life for those in extreme poverty. The key elements identified are collaboration among private, public, nonprofit and community partners, investments in human capital, distribution access and innovation.

The author chose BOP and SE for review from a variety of market-based strategies that are often employed to improve the quality of life for the poor as they reflect disparate profit motivations and chronology. SE strategies are older and more traditional models that do not include profit as an outcome (Dees, 1998; Thompson & Doherty, 2006). Conversely, BOP is considered a newer, more innovative model (Cooney & Shanks, 2010) and making a profit is an implicit characteristic (Prahalad, 2004).

This paper will first characterize BOP and SE strategies as explained in the literature, and then continue the review of BOP and SE strategies research through the lenses of collaboration, investment in human capital and distribution access. Literature surveyed included case studies of BOP and SE strategies, seminal theories and empirical research extracted from business databases and the Web of Science. Collaborations through networks and alliances with business, government, NGOs and community members play a key role in the effectiveness of BOP and SE strategies in improving the quality of life for the poor. Accordingly, inter-organizational and alliance theories support the proposed conceptual model that follows the literature review. This paper concludes with a discussion of findings related to the conceptual model, limitations of the study and questions worthy of additional research.

Literature Review: Bottom of the Pyramid and Social Enterprise Strategies

Bottom of the Pyramid (BOP)

Shortly following the MDG recommendations, Prahalad and Hammond (2002) published their seminal article drawing attention to market-based strategies that would encourage and assist the poorest of the poor to advance economically while also creating a profit for businesses (Prahalad & Hammond, 2002). The authors coined the term Bottom of the Pyramid (BOP) to describe the population of individuals and societies living in abject poverty. They emphasized that increasing distribution access for the poor is the key to doing business in impoverished economies. Cooney and Shanks (2010), researchers in social enterprise and welfare, conducted a review of recent literature on these market-based strategies designed to reduce and prevent impoverishment. The authors asserted that these strategies became popular at a time when political ideology tied poverty alleviation to employment and when support for income maintenance strategies was not politically popular.

BOP strategies emphasize expansion of consumer markets to those who earn less than two to four dollars per day. Supporters of BOP initiatives contend that these strategies allow a balanced approach to economic improvement for the individual and community, as well as generating increased revenues for the company (Anderson, Markides, & Kupp, 2010; Cooney & Shanks, 2010; Prahalad & Hammond, 2002).

The BOP strategy model (Prahalad, 2004) minimized the role of the state and highlighted the role of MNEs in advancing the standard of living for the poor. The author viewed the numbers of people living in rural villages and slums as an opportunity for profitability and market expansion. He proposed that BOP consumers are underserved and overcharged and that multinational companies can design more affordable products to improve their quality of life. Prahalad argued that the growing use of microloans and group lending for the poor can be profitable and gives those living on two dollars per day additional buying power. He presented the BOP strategy as a more dignified conception of the poor, i.e., BOP strategy does not view the poor as victims, but rather as consumers and small indigenous entrepreneurs connected to a global market. He asserted that the BOP strategy provided poor consumers with a high quality product and an opportunity for economic advancement, training and education.

However, the BOP model has been the target of criticism. Karnani (2007) assessed the case studies presented by Prahalad (2004) in defense of BOP initiatives. The author found flaws in the BOP proposition and argued that the bottom of the pyramid holds no fortune. Karnani claimed that the purchasing power of the poor was overestimated and that the only way to alleviate poverty is to raise the “real income” (p. 91) of the poor by reducing costs through a

reduction in profits. Karnani (2007) maintained that the role of government is essential and a BOP strategy's emphasis on MNEs dilutes government interventions that address public safety, health and infrastructure, as well as basic education that increase chances for long term productivity and employability for the marginalized.

Kamani (2007) argued that BOP should focus on the poor as producers rather than consumers. He maintained that the general process of economic growth is too slow to bring adequate benefit to poverty reduction. The author also criticized the use of microcredit to finance small entrepreneurs and contended that the investment would be better spent with larger MNEs to create jobs with a competitive advantage, thus disputing Prahalad's (2002) "romanticized" (p. 104) claim that the poor are "resilient and creative entrepreneurs". The author suggested that along with concentrating on involving the poor as producers and employees, companies could help them by innovatively designing affordable products with an acceptable price-quality trade-off.

Social Enterprise (SE)

In contrast to the profit motive intrinsic to BOP strategies, monetary profit is not a goal of SE strategies, although SE strategies are designed to develop "business solutions to social problems" (Thompson & Doherty, 2006, p. 2). Dees (1998), a specialist in economic development in low-income communities, crafted the "social enterprise spectrum" to illustrate the wide range of motives, methods and goals that can be included under the banner of social enterprise. These spectrum range from purely philanthropic initiatives, where beneficiaries pay nothing for the services and the workforce consists of volunteers, to purely commercial enterprises where fees and salaries reflect the market rate. The author emphasized that at the core of these initiatives is a commitment to social mission.

The European research network on the social economy (EMES) characterizes a model typology of social enterprise, exhibited in Table 2, that notes the collaborative (participatory) element of SE strategies. Defourny (2001) referred to SE as "a new entrepreneurial spirit focused on social aims" (p. 2), while Kerlin (2006) broadly defined the construct as the "use of nongovernmental, market-based approaches to address social issues". Kerlin observed that the United States applies a more expansive definition to SE that is attentive to sustainable revenue generation. As defined by the EMES network, a SE must have an explicit aim to benefit the community, a decision-making power not based on capital ownership and a participatory nature that involves the persons affected by the activity (Defourny, 2001; Kerlin, 2006).

Table 2. Characteristics of social enterprise as defined by the EMES network (Borazaga & Defourny, 2001; Kerlin, 2006).

Typology of Social Enterprise	
<ul style="list-style-type: none"> • • • • • • • • 	<ul style="list-style-type: none"> A continuous activity producing goods and/or selling services A high degree of autonomy A significant level of economic risk A minimum amount of paid work An explicit aim to benefit the community A decision-making power not based on capital ownership A participatory nature, which involves the persons affected by the activity Limited profit distribution

In contrast to the profit-bearing requisite of BOP strategy, Ridley-Duff and Bull (2011) maintained that commercial strategies related to SE must concentrate on improvements for human well-being rather than maximization of profits. The scope of SEs covers an expansive range of programs that can involve for-profit and nonprofit organizations in collaborative business development most frequently connected with Corporate Social Responsibility (CSR) innovations (Cooney & Shanks, 2010; Dahan, Doh, Oetzel, & Yaziji, 2010; Kourula&Halme, 2008).

Theoretical Perspective

The eighth MDG acknowledged the importance of collaboration in its call for the development of a global partnership (United Nations, 2013). Inter-organizational and alliance theories add perspective and support to this goal as well as to the inclusion of collaboration as a primary variable in the conceptual model that follows. Additionally, literature reviewed in this analysis affirmed that buy-in and collaborative engagement from businesses, government and NGOs are critically important to the success of BOP and SE strategies (George & Khoja, 2012; Karnani, 2007; Kourula&Halme, 2008; Nakata & Weidner, 2012; Rahman, Haque, and Tareq, 2012; Vachani & Smith, 2008).

Seminal inter-organizational theorist Evan (1965) asserted that firms with limited resources must necessarily adopt strategies that allow them to be key network partners. The author stressed the need for reciprocity and shared value among members of a network and emphasized that the greater the degree of complementary functions and shared goals among organizations, the greater the success.

Alliance theory emphasizes the importance of interactions and the purpose of the work between and among organizations. Psychotherapist Bordin's (1979) seminal work on the theory of the alliance also focused on the significance of common purpose to collaborative work. Hatcher and Barends' (2006) later study maintained that alliance partners are most successful when engaged in a joint effort for success and problem resolution that is both purposeful and interactive.

Variables that Contribute to Enhancement in the Quality of Life for the Poor

Collaboration – Private/Public/Nonprofit/Community

The NGO Bangladesh Rehabilitation Assistance Committee (BRAC) is one model of SE that has evolved and sustained over time. BRAC has maintained emergency relief and community self-sustainability efforts while expanding and replicating internationally to become the largest NGO in the world as well as a powerful advocate in the human rights arena. In their case study of BRAC, researchers Rahman, et al., (2012) emphasized the importance of collaboration and the active role of businesses in complex systems. These relationships enable NGOs to use resources efficiently and provide opportunities for economic advancement in impoverished communities.

The strategy of SE focuses primarily on improving the quality of life and economic status of the stakeholder while BOP strategies focus on shareholder outcome (Dees, 1998; Thompson & Doherty, 2006; Prahalad, 2004). Both supporters and critics of BOP have suggested that initiatives are mutually beneficial to shareholders and the community when collaboration with local partners, building local relationships and gaining greater community involvement

occur (Anderson, Markides and Kupp, 2010, Ilahiane and Sherry, 2012; Karnani, 2007; Habib & Zurawicki, 2010; Seelos & Mair, 2005). These collaborative community relationships provide feedback that supports the development of the most appropriate goods and services that add to the quality of life for those in poverty.

Anderson, Markides and Kupp (2010) confirmed the importance of collaboration to BOP initiatives and concluded that companies must go beyond transactional partnerships and collaborate with the community to win trust and support. Again, this collaboration deepens understanding of the goods, support and services that those living in poverty need in order to have a better quality of life. This study defined three consumer subsets of poor communities: conflict zones, urban slums and deep rural areas. Anderson, et al. (2010) undertook a two-year process research study using multiple case studies of wireless industry companies operating successfully in the three international environments. The researchers concluded that attracting non-traditional partners in low income communities was critical to successful product development and marketing. The authors developed the 4As framework of “Affordability, Availability, Awareness and Acceptability” (p. 6) to determine the success of products and services designed to enhance the quality of life for poor communities.

In their study focused on the nature of collaboration through public/private/NGO relationships, Habib and Zurawicki (2010) were in disagreement with Anderson, et al.’s (2010) primary focus on the poor as consumers. They maintained that BOP initiatives must primarily view the poor as suppliers, producers and employees in order to effectively reduce poverty and improve living standards. Habib and Zurawicki (2010) also aligned with Karnani (2007) and disagreed with Prahalad’s sole focus on Multi-National Enterprise (MNE). They contended that collaborative public private relationships are essential to improving economic advancement of the poor as well as enhancing beneficial policy development and advocacy in poor nations.

While Habib and Zurawicki (2010) recommended that companies concentrate on extending the reach of their core skills through innovative products and services, Hart (2005) questioned whether a business can adhere rigorously to their core while attempting to improve the health of a poor community. The author argued that in order to be competitive and innovative in BOP markets, companies need to expand their concentration on shareholders to include stakeholders. Developing skills in collaboration, community engagement and understanding in order to effectively partner with the poor consumers allows a business to serve the needs of the community and enhance the quality of life, rather than causing further damage in the long-term by heavily marketing a current product. George and Khoja (2012) supported Hart (2005) and Habib and Zurawicki (2010) in emphasizing the importance of collaborative networks and innovation to the success of BOP initiatives. The authors presented a case study of IT provider Affordable Business Solutions (ABS) who utilized industry clusters and vertical integration to become a network connector in supplying service to impoverished areas.

SE strategies include CSR initiatives that form collaborations with partner businesses, NGOs, and often community members to generate social good and income for the poor. Kourala and Halme (2008) positioned Corporate Responsibility (CR) into three different categories: CR philanthropy, CR integration and CR innovation. In their study that analyzed 20 business/NGO collaborations involving the Hindustan Unilever, Nokia and Stora Enso companies, the authors found that local self-sufficiency and income generation are more probable with CR innovation and integration than CR philanthropy. The authors used The Grameen Foundation as an example of a successful CSR collaboration designed to develop business models for women-owned sustainable businesses in impoverished countries.

The literature thus far suggests that BOP and SE initiatives that include collaboration are stronger and have a better chance of enhancing the quality of life for those living in extreme poverty. Collaboration, economic enhancement, sustainable energy and training are all elements consistent with the Millennium Development Goals. This review continues with an examination of the impact that investment in human capital, distribution access and innovation have on elevating the quality of life for those living in extreme poverty. Collaboration stands alone as a variable as well as providing strength and support to each of these variables.

Investment in Distribution Access and Human Capital

In order to improve the economic status of underdeveloped nations and the quality of life for those in extreme poverty, it is crucial to address distribution access, information gaps, education and training concurrently with business ventures (Anderson, Markides, & Kupp, 2010; Cooney & Shanks, 2010; Vachani & Smith, 2008). The following literature indicates that collaborations and alliances serve to assist the removal of barriers to distribution access in the very important area of technology transfer, as well as to support investments in human capital through training.

Prahalad (2004) considered barriers to distribution access the largest contributors to poverty as well as a discouragement to MNE expansion. He acknowledged that distribution may become easier in urban areas if predicted concentrations of the poor reach 35-40% by 2015. However, he maintained that rural areas will continue to present challenges. In their study of BRAC, Rahman, et al., (2012) contended that development of renewable, sustainable technology and collaborative communication networks are critical to the removal of barriers to access.

Snow, et al., (1992) asserted that only firms forming “dynamic” (p. 11) networks that are investment driven in people and technology will sustain and self-renew. In addition to considering collaboration in terms of not only efficiency but also effectiveness, network members must be ready and willing to invest in human capital and technology to continue enhancing the added value (Das & Bing-Sheng, 2000; Snow, et al., 1992). BOP initiatives are effective in creating employment, training and technology access (George & Khoja, 2012). The information and communication technology industry is a prevalent participant in the BOP marketplace and the business models are often referenced as advancing the quality of life of those in poverty by providing access to low-cost, advanced technologies (Anderson, et al., 2010; Kuriyan, Ray, & Toyama, 2008).

Vachani and Smith (2008) found that conduits to removing barriers to distribution access for increased income and affordable commodities depend upon collaboration among businesses, NGOs and policy makers. The authors presented three case studies to support and develop their proposed construct of socially responsible distribution channels. Cross sector collaborations can serve to engage poor consumers in the marketplace not only as consumers, but also as producers (Karnani, 2007; Nakata & Weidner, 2012; Vachani & Smith, 2008). When these collaborations commit investments to human capital, stakeholders have the opportunity to participate in advancing their skills, knowledge and resources. Additionally, these partnerships offer informed feedback and information to the business, government and NGO partners. The authors maintained that the results of their study are broadly generalizable across environments of rural poverty.

Innovation

The proposed conceptual model points out that collaboration, improvements to distribution access and investment in human capital support innovation. At the same time, innovation brings creativity to the development of distribution channels and training mechanisms. Kourala and Halme (2008) and Weerawerdena and Sullivan Mort (2006) considered innovation and risk-taking critical to producing and marketing appropriate and affordable goods and services in poverty ridden communities. Nakata and Weidner (2012) emphasized that the role of the poor in collaboratively designing, producing and consuming products and services creates more useful products that better fit the needs of impoverished consumers.

The cell phone industry has been a very visible and active participant in developing innovative distribution channels for the poor. Ilahiane and Sherry (2012) conducted an ethnographic study of low-income workers in Morocco to determine the relationship between their cell phone use and the creation of business opportunities and social networks. The authors' research, funded by Intel, found that innovation and business marketing strategies have resulted in rapid rates of cell phone adoption among the poor, in spite of their unpredictable cash flow. They pointed to the positive aspects of bricolage apparent in the building of social and business networks, as well as the value-added nature of blending these relationships to identify and act upon economic opportunities. The study concluded that creative destruction is due to the entrepreneurial creativity of the vendors. George and Khoja (2012) reported on the innovative ABS "reverse franchise model", where the franchisee has responsibility for operations and management with no upfront capital investment or managerial knowledge. The company model emphasized the importance to the success of the venture of collaborative relationships with government and other businesses.

Viswanathan, Sridhara, Ritchie, Venugopal and Jung (2012) conducted an in-depth, in situ study of consumers and entrepreneurs in low-income South India communities. In contrast to Karnani (2007), their findings supported the growth of local entrepreneurs as well as an increase in the number of consumers. The authors suggested that economists can bring perspective to social problems by broadening measurement to include social exchange and context. They concluded that the failure of many social programs relates to the lack of consideration given to investing in human capital to develop market skills and innovative practices.

Conceptual Model and Implications for Management Practice

While BOP and SE strategies have limitations and critics, the review of literature pointed to variables in each that serve to enhance the quality of life for those in extreme poverty. The MDGs definition of extreme poverty, i.e., an income of less than \$1.25 per day, informs the conceptual graphic in Figure 1. The holistic approach used by the MDGs to capture poverty in all its forms brings definition to the term "quality of life" (United Nations, 2013). Therefore, an increase in the quality of life of a person in extreme poverty could mean an improvement in not only economic advantage, but also education, equity and access to health care.

The variable of collaborations among private, public, nonprofit organizations and the community have proven to be an effective strategy for improving the quality of life of those in extreme poverty. Collaboration adds strength to additional variables of investment in human capital, distribution access and innovation that also add to the quality of life of those living in extreme poverty.

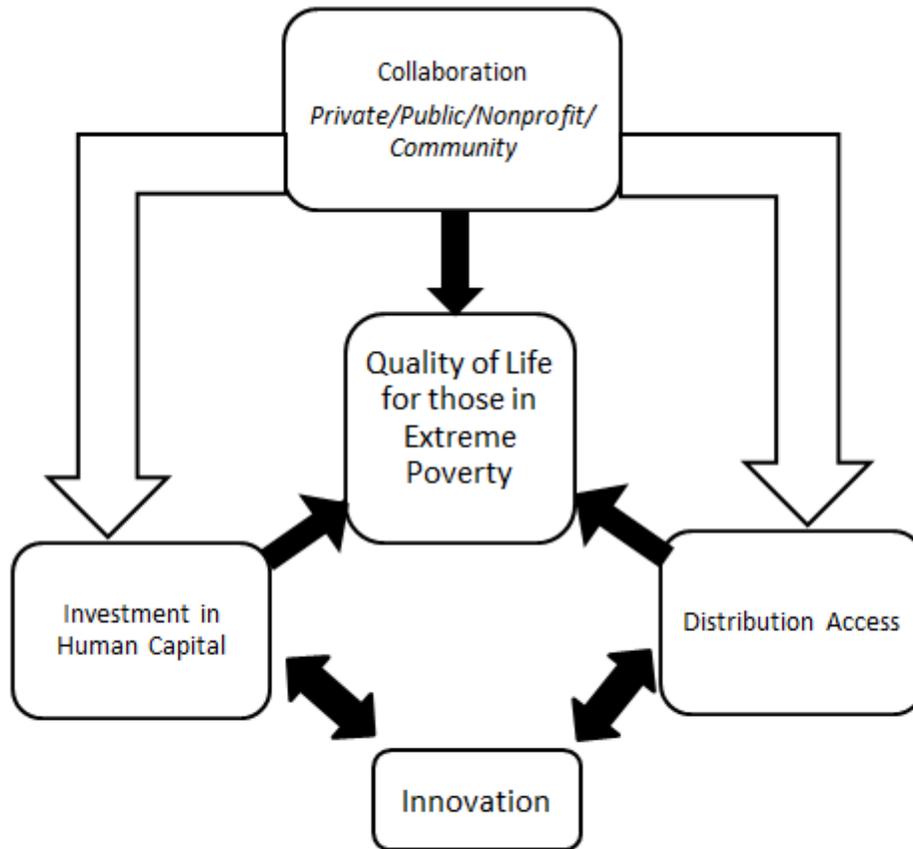


Figure 1. A conceptual model of variables that positively impact the quality of life for those living in extreme poverty as defined by the U.N. Millennium Development Goals (United Nations, 2013)

In spite of limitations, both BOP and SE strategies have experienced successes in creating jobs, profits and adding income and market value to impoverished areas. Although the profit motive of BOP is a target of critics, Prahalad (2004) created a level of dignity in viewing the poor as consumers and partners in the marketplace, rather than victims. This paper suggests that the inclusion of collaboration and investment in human capital, as well as attention to removal of barriers to access and innovation, will add strength to the probability of their value to improving the quality of life for those in extreme poverty.

Even when these interventions are applied, market based strategies should be considered as only one part of a paradigm to eradicate poverty. Additional social responsibility initiatives on the part of businesses entering poor markets must also include attention to public health and early childhood education in order to assure long term results as well as to participate as an authentic community partner. Karnani (2007) pointed out that relying on market based strategies alone, no matter the profit motive, is not enough to eradicate poverty, "...we need to go beyond increasing the income of the poor; we need to improve their capabilities and freedoms along social, cultural and political dimensions as well (p. 108)."

In a presentation at the 2012 National Conference on Emerging Challenges for Sustainable Business, Sharma, Agarwal and Bharti (2012) suggested that BOP enterprises can increase in value if implemented and measured by not only profit, but also as a CSR enterprise. The authors proposed that corporations may be hesitant to look at the poor as consumers and, in

so doing, may actually miss opportunities to engage the population in the marketplace at all levels. Collaborations add to ethical community and commerce development, including profits, education and skill-building, create “just and equitable... sustainable development” (Sharma, et al., 2012, p. 1498).

Discussion and Management in Practice

The following case study exemplifies how collaboration, investment in human capital, distribution access and innovation work together to elevate the quality of life for those living in extreme poverty. Seelos and Mair (2005) observed that while the BRAC has generally focused on economic development and enterprise with little involvement from the private sector, collaborations such as those exemplified by Telenor, a telecommunications firm, and Grameen Bank show how companies can create both shareholder profit and positive social outcomes. Bangladesh’s Grameen Bank, or The Bank of the Poor, boasts a Nobel Prize as a community development bank making small loans with no collateral. Telenor partnered with Grameen to operate mobile cell phone licensing in Bangladesh to create two organizational structures: one for-profit and the other nonprofit. The for-profit side boasts a 60% market share and positive profits by marketing to the middle class consumer, while the nonprofit arm has created entrepreneurial opportunities for more than 100,000 women in poverty. The private/nonprofit collaboration resulted in training, employment and innovative technology access. BRAC, which began as an SE now boasts an ambidextrous structure. One side continues to operate with the original SE objectives, but the other is a successful profit-making entity more closely aligned with BOP strategy. As a result, other partnerships such as BRAC/Sekem, which focuses on developing sustainable agriculture, have been successful in large scale abatement of poverty and quality of living improvements.

Limitations and Further Research

“The world has also learned that economic growth, by itself, cannot close the gap between rich and poor.” – Dalai Lama XIV

Many case studies included in BOP and SE research were generated and funded by companies involved in the initiatives. Further research calls for the development of measures that adequately calculate the effectiveness of market-based strategies. Paton and Halmes (2007) suggested that by applying quantitative evaluation to BOP as a hypothesis, i.e., both business and the poor can benefit from the BOP strategy, the value of its worth to the alleviation of poverty can be affirmed.

While this study provides support for BOP and SE as related to the MDGS, further research should not be bounded by the success or failure of attaining the 2015 targets. Attention to innovative market-based solutions for the complex social problems of poverty must continue in order to assure appropriate initiatives are developed to equalize income opportunities, health and welfare in an ever growing global economy. As the global environment expands, questions remain and continually develop regarding the ethical responsibility of business in social welfare.

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