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PERSPECTIVE

Reinventing strategies for emerging markets: beyond the transnational model

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Abstract
With established markets becoming saturated, multinational corporations (MNCs) have turned increasingly to emerging markets (EMs) in the developing world. Such EM strategies have been targeted almost exclusively at the wealthy elite at the top of the economic pyramid. Recently, however, a number of MNCs have launched new initiatives that explore the untapped market potential at the base of the economic pyramid, the largest and fastest-growing segment of the world's population. Reaching the four billion people in these markets poses both tremendous opportunities and unique challenges to MNCs, as conventional wisdom about MNC global capabilities and subsidiary strategy in EMs may not be appropriate. How MNCs can successfully enter these low-income markets has not been effectively addressed in the literatures on global and EM strategies. An exploratory analysis, involving interviews with MNC managers, original case studies, and archival material, indicates that the transnational model of national responsiveness, global efficiency and world-wide learning may not be sufficient. Results suggest that the success of initiatives targeting low-income markets is enhanced by recognizing that Western-style patterns of economic development may not occur in these business environments. Business strategies that rely on leveraging the strengths of the existing market environment outperform those that focus on over-coming weaknesses. These strategies include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity. Together, these successful strategies suggest the importance of MNCs developing a global capability in social embeddedness.
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> Everyone wants brands. And there are a lot more poor people in the world than rich people. To be a global business and to have a global market, you have to participate in all segments.
> – Keki Dadiseth, Director, Hindustan Lever Limited (Unilever's India subsidiary), discussing his company's efforts to target the rural poor.

Introduction

With developed world markets becoming increasingly saturated, multinational corporations (MNCs) have turned to emerging economies such as India, Indonesia, Brazil, China, and Mexico, as key locations for future growth. In their efforts to enter these markets of the future, most MNCs have focused on the wealthy elite at the top of the economic pyramid, with products and business models similar to those used in the developed world (Arnold and Quelch, 1998; Prahalad and Lieberthal, 1998). This has resulted, as Prahalad and Lieberthal (1998) note, in MNCs using an 'imperialist mindset' to sell existing products to established upscale markets in emerging economies.

By focusing on wealthy consumers and partner organizations who participate in the formal economy, however, these firms are seeing only the tip of the proverbial iceberg. Almost completely ignored until recently is a huge base of potential customers whose annual purchasing power parity (PPP) is less than $1500 per year, a market aptly termed the bottom (or base) of the pyramid by Prahalad and Hart (2002). Low-income markets in emerging economies present both tremendous opportunities and unique challenges. There can be little doubt that the four billion customers in these base-of-the-pyramid markets represent a vast potential untapped market opportunity. MNCs, however, may not be able to rely on capabilities in global efficiency and national responsiveness to incrementally adapt current products and extend existing business models. Similarly, emerging economy strategies that emphasize overcoming limitations in the business environment may be viable only in high-income markets that are integrated into the global capitalist system.

In spite of these apparent challenges, however, a growing number of MNCs are now beginning to recognize and explore the enormous business opportunity at the base of the economic pyramid (Hart and Milstein, 1999; Prahalad and Hart, 2002).[1] Firms such as Unilever and Hewlett-Packard, for example, have made public commitments to generate a sizeable portion of their revenues from these markets (Ellison *et al*., 2002). Yet, while MNCs are increasingly viewing low-income markets in developing countries as potential sources of future growth, there is almost no empirical research on strategies for pursuing these opportunities. If MNC entry into these markets challenges existing theories on global capabilities and emerging market (EM) strategies, this gap in research is becoming increasingly untenable. It may be necessary to reinvent strategies for EMs if firms are to successfully serve the vast low-income markets at the base of the pyramid.

In studying such situations, an exploratory approach focused on theory building is most appropriate (Eisenhardt, 1989). This matches the research methodology that has been used to study MNC subsidiary initiatives (Birkinshaw, 1997) and corporate venturing (Burgelman, 1983). A qualitative empirical study was therefore used to examine how MNCs as well as other enterprises are pursuing opportunities in base of the economic pyramid markets, and which strategies appear to be most successful.

In presenting this study, we first outline the unique opportunities and challenges for MNCs associated with low-income markets in emerging economies. We then review the international business (IB) literature focused on global and EM strategy, and highlight the strengths and limitations of these theories when applied at the base of the economic pyramid. Next, we describe the research design and methods for the study; this is then followed by a discussion of the results of our analysis of interviews with MNC managers, case studies, and archival data. We conclude by distilling the theoretical insights that emerged from this study and discussing the implications for researchers and practitioners.

The base of the economic pyramid: opportunities and challenges

The opportunities associated with low-income markets are becoming increasingly apparent to both scholars and managers. There is clearly more than meets the eye when considering customers with annual purchasing power parity (PPP) of $1500 or less (Prahalad and Hart, 2002). The vast majority of the populations operate primarily in the large, but hidden, informal economies that are not recorded in official gross national product (GNP) or PPP statistics.[2] Across the globe, it has been estimated that the informal sector includes more than $9 trillion in hidden (or unregistered) assets, an amount nearly equivalent to the total value of all companies listed on the 20 most developed countries' main stock exchanges (de Soto, 2000: 35). In addition to assets, the value of economic transactions in these markets may match or even exceed what is recorded in the formal economic sectors in developing countries (Henderson, 1999).

In Mexico, for example, the informal economy represented roughly 30–40% of the economic activity in the country in the late 1980s, and has continued to grow rapidly (de Soto, 2000: 78). Beyond the desire to hide illicit activities, the incentives encouraging entrepreneurs to participate in the informal, as opposed to the formal, economy are fundamentally different in the developed world from those in the developing world. In developed countries the informal economy is much smaller, and a primary objective is to evade taxes (The Economist, 1999). In the developing world, on the other hand, it is simply too costly or complicated for many entrepreneurs to enter the formal economy. For example, de Soto (2000) found that it takes 289 days and $1231 to register a business in Peru. As a result, in emerging economies, the informal, or extralegal, sector plays a different and more substantial role than what is found in the developed world.

Concealed below the surface of the GNP and PPP numbers, therefore, is an immense and fast-growing economic system that includes a thriving community of small enterprises, barter exchanges, sustainable livelihoods activities, subsistence farming, and unregistered assets (Chambers, 1997). Furthermore, most entrepreneurs and customers in base-of-the-pyramid markets are poorly served by low-quality vendors or are actively exploited by predatory suppliers and intermediaries, suggesting the possibility of generating both profits and consumer surplus (Prahalad and Hammond, 2002). Clearly, serving base-of-the-pyramid customers, who number approximately four billion worldwide, offers tremendous opportunities. However, they also present unique challenges to MNCs looking for new markets.

Social contracts and social institutions dominate

Entering low-income markets in emerging economies may require a different strategic approach. Reaching these markets involves bridging the formal and informal economies. In the informal economy, relationships are grounded primarily on social, not legal, contracts (de Soto, 2000), and the organizations with the most expertise in serving these markets – government and civil society – have a strong social orientation (Aturupane *et al.*, 1994; Chambers, 1997; Sen, 1999). As de Soto (2000: 163) highlights with his story about listening to the 'barking dogs' in low-income markets, informal social boundaries often dominate over formal legal documentation. In these environments, although formally registered property ownership may not exist, the local dogs demonstrate that boundaries are recognized and protected. The dogs bark only when someone passes by or crosses extralegal boundaries recognized in the informal economy. Clearly, boundaries exist and are respected. Successfully operating in this business environment requires a capability to understand and appreciate the benefits of the existing social infrastructure (Chambers, 1997).

Indeed, organizations that value and leverage existing social capital have achieved success in these markets. Many of the most successful microloan programs targeting the poor, for instance, rely on group lending and peer pressure to ensure payback. If one person in the group defaults, no one else in that group is eligible for a future loan. When used in low-income markets in the developing world, this novel design has created payback rates that even banks in the developed world would envy. However, when transferred to the inner city in the US, this model has been a failure (Buntin *et al.*, 1996), illustrating that unique social institutions operate in the informal economy in developing countries.

Traditional partners may lack relevant experience

In their efforts to protect proprietary technology and knowledge, MNCs have tended to partner with the minority of individuals and businesses in the developing world that participate in the formal economy, understand the global capitalist system, and value Western products (de Soto, 2000). Local partners come from a relatively small subset of organizations – typically large domestic firms, government entities, or a combination of both, such as state-owned enterprises – whose primary business experience is centered on dealing with the local, and mainly urban, elite.

However, economic development at the base of the economic pyramid may not follow familiar patterns found in the developed world (Arnold and Quelch, 1998; Hammond, 1998). As the Nobel prize winning economist Joseph Stiglitz suggests, the failure of the world's global financial institutions in their efforts to facilitate economic development that is more inclusive demonstrates the dangers of relying on traditional players and their limited views of what is appropriate and effective (Stiglitz, 2002). Non-profit organizations and other socially oriented institutions can play an important role in business development (Rondinelli and London, 2003), especially in developing countries (Hart and Sharma, 2004). Grameen Bank and Grameen Phone, for instance, have combined commercial and non-profit operations to successfully provide banking and cellular services to rural areas in Bangladesh (Richardson *et al.*, 2000), and the non-profit organization the Solar Electric Light Fund, together with for-profit partners, has been active in developing commercially viable electrification programs for the rural poor in Asia (Sonenshein *et al*., 1997).

Societal performance matters

Finally, there is increasing pressure for corporations to take a greater role in addressing global societal issues such as eradicating poverty and environmental protection in developing countries. As the literature on global sustainable development indicates, the pressure on MNCs to create a more inclusive capitalism is mounting (Hart and Christensen, 2002). The fact that the developed world consists of 20% of the population, yet uses 80% of the world's resources, however, suggests that raising the economic condition of those in the developing world will require a different model of development (Hart, 1997).

Indeed, the World Summit on Sustainable Development in Johannesburg, the anti-globalization demonstrations in Davos, Prague, Seattle, Washington, DC, and Cancun, and the increase in intra- and cross-border tensions highlight the fact that the growing discontent of the world's poor can no longer be easily ignored by global institutions and companies (Stiglitz, 2002). Global firms and institutions are therefore increasingly being expected to consider the societal and environmental impacts of their activities (Soros, 2002). As another Nobel prize winning economist emphasizes, a crucial aspect of this effort is the development of human capabilities that build economic and political freedom (Sen, 1999). This integrated approach to economic development and poverty alleviation is especially important in low-income markets where economic, social, and environmental considerations are so closely intertwined (Chambers, 1997; Sen, 1999; World Bank, 2001). Firms without a capacity to appreciate and create social value or to become locally embedded in the social infrastructure that dominates low-income markets may struggle to overcome their liability of foreignness.

Gaps in existing IB theory

Over the past several decades, corporations have gained increasing experience in expanding their operations in foreign markets, and the literature on EMs and global strategy has also grown. However, most MNC investment has been targeted at developed countries (Arnold and Quelch, 1998; Sachs, 1998); these countries are also the context for most IB research (see the excellent review by Tallman, 2001). For example, most of the research on subsidiary entrepreneurship has focused on developed countries in North America and Europe (Birkinshaw, 1997; Frost, 2001; Andersson *et al*., 2002), limiting the generalizability of this theoretical stream to countries at the same stage of economic development and having the same cultural orientation toward entrepreneurship (Hofstede, 1993; Busenitz *et al*., 2000).

EM strategy

Most research by management scholars on firm strategies in emerging economies suffers from a similar limitation: a pre-occupation with strategies that seek to overcome the lack of a Western-style business environment (Peng, 2001). Even when serving top of the pyramid customers, operating in emerging economies is challenging as the rule of law is often poorly enforced (Hoskisson *et al*., 2000). MNCs accustomed to creating competitive advantage through patents, brands, and contracts are wary of entering markets where their proprietary technology and knowledge cannot be protected through enforceable legal mechanisms (Delios and Henisz, 2000).

To address this uncertainty, MNCs entering these markets look for ways to overcome limitations in the business environment. Firms design boundaries to protect internal resources and capabilities from unintended spillover, and look for partner organizations that wield substantial capability to fill voids in the business environment (Dunning, 1988; Khanna and Rivkin, 2001). Indeed, a wide variety of international management scholars have adopted the 'Westernization' assumption in their research: while waiting for a more Western-style economy to develop, they explore how MNC managers can successfully implement strategies that help to overcome the lack of legal boundaries and difficulties in property rights protection. For example, researchers have examined how firms can address gaps in the business environment through forming alliances (Beamish, 1987; Hitt *et al*., 2000), joining networks (Khanna and Rivkin, 2001), using interpersonal ties (Peng and Luo, 2000), or managing firm boundaries (Delios and Henisz, 2000).

More specifically, Hoskisson *et al*. (2000), in their introduction to a special issue in the *Strategic Management Journal* on emerging economies, emphasize that developing country adaptation to Western practices is crucial to attracting investment by MNCs from the developed world. In discussing foreign direct investment (FDI), the authors propose that

> The primary impediment appears to be the lack of well-defined property rights that convey exclusivity, transferability, and quality of title… As a result, institutional capacity building was, and continues to be, key for attracting inward FDI (Hoskisson *et al.*, 2000: 252).

This perspective assumes that over time the local business environment will evolve into an economic setting that is familiar to Western managers: legal contracts will supersede social ones and competitive advantage will be grounded in the ability to protect resources and knowledge from unintended leakage outside firm boundaries. In the meantime, firm managers should develop strategies that overcome the current weaknesses in this environment. This view, however, relies on an implicit assumption about EMs. As Arnold and Quelch (1998: 9) make clear:

> In particular, our field research suggests that MNCs often erroneously adopt a 'less developed countries' mindset, assuming that these markets are at an early stage of the same development path followed by the advanced or developed countries… and that market evolution patterns seen previously in developed economies will be replicated in EMs.

MNC managers and academics must move beyond the 'imperialist mindset' that everyone must want to look and act like Westerners (Prahalad and Lieberthal, 1998). While it can be argued that the wealthiest fraction of the population in emerging economies participates in a capitalist system that is evolving toward a more Western-style business environment, the vast majority of the people are on the outside looking in (de Soto, 2000). This suggests that, at the very least, there are two different and important patterns of economic development occurring in most emerging economies. In fact, the informal economy may account for as much as 30–60% of the total economic activity in some developing countries (de Soto, 2000), meaning that a substantial amount of business activity in low-income markets is conducted outside the official law, with informal social contracts being used as binding arrangements.

Global strategy

Researchers have suggested that, in pursuing top-of-the-pyramid markets in emerging economies, MNCs can rely on proven global capabilities to incrementally adapt existing business models and a familiar subsidiary strategy based on controlling resources, extracting knowledge, and leveraging economies of scale and scope (Bartlett and Ghoshal, 1989). Internalization, or the modifying (national responsiveness), leveraging (global efficiency), or sharing (worldwide learning) of existing products or resources within firm boundaries will allow MNCs to overcome liabilities of foreignness in serving the wealthy top of the pyramid (Hymer, 1976; Buckley and Casson, 1991).

This approach implicitly assumes that all markets within a country are following a similar pattern of economic development, and that MNCs using the transnational model can effectively leverage capabilities in global efficiency, national responsiveness, and knowledge transfer to maximize economic benefits in all business environments (Bartlett and Ghoshal, 1989). The success of distributed energy and micro-loan ventures, however, suggests that small-scale, decentralized initiatives may make more sense in low-income markets than the developed world mantra of centralization of control and economies of scale (Christensen *et al.*, 2001). In addition, boundary-protecting strategies are less likely to be effective in low-income markets where social benefits influence economic decisions (Kennedy, 2001) and where shared use of property is common and blurs ownership boundaries (Chambers, 1997). In these EMs, MNC knowledge and resources are unlikely to be successfully protected through patents or brands (McDonald *et al.*, 2002).

Although the transnational approach remains the most influential model of global strategy (Tallman, 2001), others have argued that firms operate primarily either as global companies leveraging economic efficiencies or as multidomestic organizations that allow their subsidiaries to compete independently in different countries (Hout *et al.*, 1982). MNC strategy is viewed as either exploiting economic efficiencies through economies of scale or encouraging national responsiveness by adapting to local conditions – or a mix of the two (Doz, 1980). Researchers, using data from MNC practices, have explored which country-level strategy is the best fit for a subsidiary (Ghoshal and Nohria, 1989). This view is potentially representative of effective global strategy in top-of-the-pyramid markets, but it ignores within-country differences in business environments and implicitly assumes that capabilities developed at the top of the pyramid will be viable across all prospective markets.

In a similar manner, international marketers have also recognized the need to consider both global efficiencies and local adaptation in segmenting consumer markets. The challenge is to find global similarities that can be leveraged across multiple countries while adapting to local differences as needed (Hassan and Kaynak, 1994). Two interesting approaches to global segmentation have been proposed. One is to cluster countries along similar dimensions, with firms being encouraged to concentrate on one cluster, or subset of countries, at a time (Moskowitz and Rabino, 1994; Oyewole, 1998). A second strategy is to look for global segments that transcend national and cultural boundaries (Hassan and Katsanis, 1994). Although this second approach recognizes within-country differences, the emphasis is on segmenting top of the pyramid customers more finely, such as the global elite and the global teenager (Hassan and Katsanis, 1994). Expected behaviors in these segments are typically modeled after Western values and lifestyles. In both segmentation approaches the focus is on leveraging knowledge and skills developed in and for top-of-the-pyramid markets.

In sum, emerging economies should not be viewed as following a homogeneous pattern of economic development in which all markets are evolving toward a more Western-style business environment. Although the wealthy elite in these countries may participate in global capitalism, the vast majority of the population has been excluded from this economic system. Indeed, as Dawar and Chattopadhyay (2002) observe, it makes little sense for MNCs to think in terms of distinct 'country strategies' (e.g., China strategy) in the context of EMs. Instead, it might be more appropriate to develop separate strategies for wealthy, rising middle class, and poor customers across country markets (Hart and Milstein, 1999). Hence, entry into base-of-the-pyramid markets may require a global capability beyond the adaptive skills of national responsiveness or the centralized control inherent in global efficiency, and a market entry strategy that moves past a reliance on imported business models based on extracting knowledge and protecting and controlling resource flows. This creates challenges for MNCs, and, as Monsanto's and Unilever's experiences illustrate, firms have had mixed success in pursuing low-income markets in developing countries (see Exhibit 1).

Yet, although an increasing number of firms are exploring the economic opportunities at the base of the pyramid, there is little in the way of theory or research in the area of IB that provides clear guidance on how to pursue these EMs. Indeed, it seems apparent that there is a serious gap in the existing literature when it comes to global capabilities and business strategy at the base of the

Exhibit 1 Monsanto and Unilever at the base of the pyramid: two corporate examples

Monsanto: unsuccessful at the base of the pyramid
In the mid-1990s Monsanto launched an effort to transform itself into a life science company with a strong focus on agricultural biotechnology (Simanis and Hart, 2001). Emphasizing genetic engineering, Monsanto tried to reinvent the agricultural industry. As part of this effort, Monsanto saw an opportunity to use genetically modified organisms (GMOs) to address the food and nutrition needs in low-income markets in the developing world.

Targeting local farmers in emerging economies provided a potential avenue for growth while simultaneously cultivating good public relations. What Monsanto failed to realize, however, was that low-income farmers in emerging economies typically rely on using saved seed for the next planting season. As a result, Monsanto's strategy to use sterilized seeds to prevent pirating of the firm's intellectual property upset both these farmers and NGO activists. Indeed, this technology was viewed as an affront to cultural traditions in many emerging economies. This, combined with well-publicized concerns about GMOs in Europe, created a backlash against the company. The arrogance of this approach was later noted by CEO Robert Shapiro in a speech in October 1999. However, by then it was too late, and support for Monsanto's genetically modified seeds had collapsed.

Unilever: successful at the base of the pyramid
In contrast, Unilever's Indian subsidiary, Hindustan Lever Limited (HLL), has been extremely successful with its strategy to serve base-of-the-pyramid markets (Ellison *et al.*, 2002). HLL uses a wide variety of partners to distribute its products, and also supports the efforts of these partners to build additional capabilities. For example, HLL provided opportunities and training to local entrepreneurs, and was not afraid to experiment with new types of distribution, such as selling via local performers and village street theaters (Balu, 2001).

In addition, managers were also aware that existing biases about the process of local economic development could be constraints as the firm entered new low-income markets. They therefore required new employees to spend 6 weeks living in these markets, and actively sought local consumer insights and preferences as they developed new products. By encouraging a creative and flexible market entry process, HLL has been able to generate over $1 billion in revenues from operating in low-income markets in India alone (Ellison *et al.*, 2002).

economic pyramid. This highlights an important and increasingly untenable discontinuity between MNC practices and academic research.

Research methods

Given the relatively new and unexplored nature of the phenomenon – the launching of business ventures in low-income markets in developing countries – this study adopted an exploratory research strategy (Yin, 1984; Eisenhardt, 1989). Qualitative research, rather than traditional quantitative empirical tools, is particularly useful for exploring implicit assumptions and examining new relationships, abstract concepts, and operational definitions (Bettis, 1991; Weick, 1996). The objective was to conduct an analysis of firm strategies for low-income markets in emerging economies that would help to build theory on how companies successfully enter these business environments and to develop constructs that would facilitate future hypothesis testing (Eisenhardt, 1989).

The initial research questions provided guidance for this study and helped us to identify meaningful and relevant activities (Yin, 1981). More specifically, this included collecting data on the background and success of each venture, strategies used to enter low-income markets, product design and development, knowledge transfer and sharing, the leveraging of existing capabilities, and inter-organizational relationships. The research was conducted over a period of 3 years and involved triangulation among a variety of different sources of data including analysis of archival materials, evaluation of both original and existing case studies, and the conducting of formal and informal interviews with managers at a number of MNCs (Yin, 1984).

An exploratory methodology such as this has been recognized as being particularly useful for researchers interesting in examining strategies in emerging economies (Hoskisson *et al.*, 2000). In addition, qualitative research has provided critical insights into innovation (Galunic and Eisenhardt, 2001), entrepreneurship (Miner *et al.*, 2001), and alliances (Larson, 1991, 1992), as well as a variety of other phenomena, such as social issues (Dutton and Dukerich, 1991), organizational change (Smith and Zeithaml, 1996), and proactive responsiveness to environmental uncertainty (Sharma and Vredenburg, 1998).

Data collection involved several overlapping steps (Yin, 1984). Beginning in 2001, two research assistants conducted an exhaustive search for existing cases and other archival information on base-of-the-pyramid market entry by multinationals, local companies, and non-governmental organizations (NGOs). In addition, from 2001–2003, 24 such ventures were selected for further in-depth analysis, which included collecting archival material and, where possible, contacting key informants. Written cases for each venture were prepared by teams of MBA students as part of a course focusing on business strategy at the base of the pyramid conducted by the authors (see Table 1 for a list of these ventures).

These ventures were not selected randomly, rather they were chosen because they offered a variety of different approaches to exploring opportunities in base-of-the-pyramid markets (Eisenhardt, 1989). Both Western and local (indigenous) for-profit ventures were examined. In addition, non-profit (NGO) ventures were included in the sample, as these organizations play an important role in facilitating income-generating initiatives in areas where there has been limited economic development (Sonenshein *et al.*, 1997; Richardson *et al.*, 2000). Finally, we selected cases to ensure appropriate geographical and cultural diversity, including ventures from Asia, Africa, and Latin America.

Concurrent with the collection and analysis of the archival materials and case studies, interviews and discussions were held with managers at MNCs engaged in launching business ventures in low-income markets. Extensive discussions were held during 2001–2003 with MNCs involved in a business school-based think tank focused on base-of-the-economic-pyramid markets. MNCs involved included DuPont, Hewlett-Packard, Ford, Procter & Gamble, Motorola, Johnson & Johnson, Coca-Cola, Dow Chemical, Unilever, and Nike.

In addition, four MNCs were specifically included as part of this exploratory study. These four were selected because they were highly active in pursuing opportunities at the base of the pyramid in emerging economies, and allowed the investigators extensive access to these ventures over an extended period of time. In addition, all four MNCs produced products for the consumer sector, which meant that they faced similar challenges regarding sourcing, production, distribution and marketing. Furthermore, the four were US-headquartered companies, which helped control for any differences in home country ('national diamond')-based competitive advantages (Porter, 1990).

Table 1 Background information on 24 original case studies

Organization name	*Type of organization*	*Western or local organization*	*Region*	*Successful or unsuccessful in reaching base of the pyramid*
Ahold (Sustainable Assistance)	For profit	Western	Africa	Unsuccessful
Alpina	For profit	Local	Americas	Unsuccessful
AmaZoncoop	Not for profit	Local	Americas	Unsuccessful
Amazon Life (Treetap)	For profit	Local	Americas	Successful
Cemex (Patrimonio Hoy)	For profit	Local	Americas	Successful
CMPC	For profit	Local	Americas	Unsuccessful
DFCU Leasing	For profit	Local	Africa	Unsuccessful
Freeplay Energy Group	For profit	Local	Africa/Asia	Unsuccessful
Hand Made in America	Not for profit	Western	Americas	Successful
Honey Care	For profit	Local	Africa	Successful
Hydraform	For Profit	Local	Africa	Successful
Indigenous Designs	For Profit	Western	Americas/Asia	Unsuccessful
Kenya Ceramic Jiko	Not for profit	Local	Africa	Successful
N-Logue	For profit	Local	Asia	Successful
PEOPLink	Not for profit	Western	Americas	Unsuccessful
Pot-in-Pot Refrigeration	Not for profit	Local	Africa	Successful
Protela	For profit	Local	Americas	Unsuccessful
Seawater Farms	For profit	Western	Africa	Unsuccessful
SELCO	For profit	Western	Asia	Successful
TARAHaat	Not for profit	Local	Asia	Successful
Tiviski Dairy	For profit	Local	Africa	Successful
Utz Kapeh Foundation	Not for profit	Western	Americas	Unsuccessful
WorldSpace	For profit	Western	Africa/Asia	Unsuccessful
WorldWater Corporation	For profit	Western	Asia/Africa	Unsuccessful

With one MNC (MNC #1), a company with approximately $9 billion in annual revenues, discussions were held over a period of about 18 months, starting in mid-2001. The focus was on a low-income market venture that the company had launched in 1999 in a large developing country in Asia. At a second MNC (MNC #2), a company whose products are sold in more than 100 countries, a series of interviews were conducted over a period of about 12 months with two managers actively involved in initiating base-of-the-pyramid ventures in South America and Asia. With the third MNC (MNC #3), which has affiliates in more than 50 countries, intensive discussions were held with two managers over a period of several months during 2002 as they prepared to launch a new initiative targeting a Latin American low-income market. At the fourth MNC (MNC #4), a Fortune 50 company that has had overseas operations for more than 50 years, discussions with three managers were conducted for about 2 years regarding base-of-the-pyramid ventures in Asia and South America.

To encourage greater disclosure of information, we assured the respondents that confidential information would not be attributed to specific low-income market ventures. Where possible, material on the organization and the venture was collected and reviewed in advance. These interviews, together with the case studies and other archival material, were compared and contrasted in an exploratory manner. Partially ordered data displays were used to help in the data analysis and reduction process (Miles and Huberman, 1984). For example, once case studies had been developed and coded, the different initiatives were ordered by level of success and placed on the vertical axis. On the horizontal axis we listed various strategies, capabilities, and activities for these initiatives. These data displays facilitated both within- and cross-case analysis (Miles and Huberman, 1984). The emerging results were then compared with existing theory (Eisenhardt, 1989). As we iterated back and forth between existing theory and our findings, the displays and our conclusions were updated and refined (Huberman and Miles, 1994). The results of this analysis are discussed below.

Results

The analysis of the archival material, case studies, and interviews all pointed to important differences between low-income markets in emerging economies and top-of-the-pyramid markets involving the wealthy and elite. In particular, the interviews with MNC managers shed substantial light on the limitations of the transnational model for companies interested in exploring base-of-the-pyramid markets, and the case studies and archival materials revealed critical success factors for entering these emerging, low-income markets.

Learnings from MNC interviews: limitations to the transnational model

The interviews with MNC managers were especially important when it came to critically evaluating the role of global capabilities in successfully launching new ventures targeting low-income markets in emerging economies. They helped to clarify and elucidate the weaknesses and shortcomings associated with received theory in the area of global strategy. These findings are summarized in Table 2 and discussed below.

The venture manager at MNC #1, for example, indicated that his company's entry into a low-income market failed due, in significant part, to their misjudgment of the market environment. The company felt that it could rely on old technology, existing performance metrics, and minor adaptations to its familiar distribution channels and techniques for communicating with potential customers. As it turned out, the venture was unable to reach its target market effectively, as it was relying on inappropriate assumptions about market development. Although they levered their expertise by 'leading with the product', the technology used was

Table 2 Limitations of the transnational model: analysis of interviews with MNC managers

MNC #1	
Lessons	
	Transferring existing metrics and relying on existing relationships did not work
	Relying on existing product development knowledge restricted the design process
Findings regarding global capabilities	
	Global efficiency: Leveraging existing knowledge was not an effective strategy
	National responsiveness: Adapting existing resources to local environment did not work
Implications: Inability to understand local context doomed venture	
MNC #2	
Lessons	
	Local subsidiary did not understand low-income market context
	Moving forward required surfacing biases at the subsidiary level
Findings regarding global capabilities	
	National responsiveness: Adapting existing knowledge did not uncover biases
	Worldwide learning: Company did not have existing knowledge needed to enter market
Implications: Important to find partners with context-specific knowledge	
MNC #3	
Lessons	
	Benefits from piloting in country with no local subsidiary to create learning environment
	Important to be aware of potential biases and over-reliance on traditional metrics
Findings regarding global capabilities	
	National responsiveness: Subsidiaries could not successfully adapt existing resources
	Worldwide learning: Sharing existing knowledge could prevent success due to existing biases
Implications: Critical to find ways to overcome gaps and biases in existing knowledge base	
MNC #4	
Lessons	
	Difficult to leverage existing products, consumers, or channels in these markets
	Needed new mindset about transferable capabilities and resource allocation process
Findings regarding global capabilities	
	Global efficiency: Relying on traditional metrics was not an effective strategy
	Worldwide learning: Firm needed to unlearn as opposed to leveraging internal knowledge
Implications: Required new perspective on appropriate metrics and valuable capabilities	

based on a product introduced to Western markets more than 10 years before. The venture team relied on the assumption that low-income markets were similar to familiar upscale markets, but a decade or so behind in their stage of development.

Our respondent also noted that, without any explicit consideration, they 'plugged [the venture] into the existing metrics', particularly the MNC's pricing formula. The result was an overpriced product that was too expensive for low-income markets and not functionally attractive enough for wealthier customers. In addition, the venture was unable to create effective incentives to encourage their current distributors to promote the product, as this new offering potentially cannibalized the distributors' existing, and more lucrative, product lines. As our respondent indicated, relying on existing partners meant that the product 'didn't go to the secondary cities or the more rural areas'.

The venture also relied on existing linkages with the firm's local manufacturers for market-specific knowledge. As a result, the entry strategy was not very inclusive and failed to incorporate important environmental conditions. The firm was unable to adjust to an environment where intellectual property was not easily protected. As our respondent explained, 'embracing a new business model' was very difficult for the company, and there was significant 'internal resistance'. The decision to rely on existing partners and a strategy based on its traditional model of market entry into an emerging economy resulted in the venture struggling to meet its sales goals. The MNC venture was viewed as a failure and is now considered dead, but two rivals' business models have apparently succeeded. Both of these models utilized a larger and more diverse network of alliance partners. They were able to generate significant revenues by creating a low-cost manufacturing and distribution process that did not rely on the legal protection of intellectual property.

At MNC #2, the challenges of relying on the conventional mindset regarding global capabilities emerged as one of the respondents discussed his recent experience in conducting market research on a low-income market. In collaboration with the company's subsidiary in a South American country, the goal was to further analyze the potential to launch a new product that targeted low-income markets. In a very short time it became apparent to the respondent that the managers at the host country subsidiary were as unfamiliar with the local context as he was. Yet, these local managers felt, being citizens of that country, that they understood low-income markets. To overcome these biases, the respondent felt it was critical to 'surface the implicit assumptions of the local brand team'. As he noted: 'We have a lack of knowledge about base-of-the-pyramid markets. The poor are not just survival machines.'

In his efforts to explore these differences, this manager felt it was important to contrast the perspective of 'impoverished markets, our view of the base of the pyramid' with 'impoverished mindsets, [which reflects] our lack of knowledge'. To conduct the necessary research, a third-party organization was hired that understood that relying on traditional assumptions about economic development could constrain the market research process. Using more anthropologically oriented methods to explore the unique business context at the base of the pyramid, the resulting data collection process focused on both local needs and local culture. As one of our respondents explained: 'bottom-up learnings are critical'.

During the study, this respondent found that a number of non-profit organizations could provide valuable and relevant information that complemented what was learned from the market research. These organizations had developed an expertise in jointly promoting local social and economic development. To move forward, the respondent indicated that it would be necessary to establish relationships with non-profit organizations that could provide knowledge about the local context. He did note, however, that although these relationships would be important, the MNC would need to 'overcome a lack of transparency' typically found in its dealings with this sector of society.

Managers at MNC #3 also recognized that their existing local partners did not have the necessary knowledge and capabilities to reach the targeted low-income market. In fact, both managers interviewed were not only worried about the subsidiary's lack of familiarity with base-of-the-pyramid markets, but were also fearful of the negative impact that transferring existing biases might have on the success of the new venture. They therefore decided to launch a pilot project in a country where the MNC did not currently have a local subsidiary. This opportunity could then be, as one respondent noted, a 'learning market' where the 'situation is not to control', but rather 'keep it simple' and 'maximize flexibility'.

These managers further explained that the standard company model for international expansion was inappropriate for this environment. A successful strategy would require more than leveraging existing internal capabilities or adapting standard entry strategies. They acknowledged the importance of identifying partners with the appropriate context-specific knowledge, and looked to 'access external competencies where ever possible'. This partnership model also recognized that many of these potential partners were organizations with a strong social mission. This meant that the venture needed to incorporate social as well as economic performance goals, an approach that expanded upon the company's traditional metrics.

In discussing its low-income market initiatives, one of the respondents at MNC #4 noted that resources for new ventures were typically allocated according to whether the firm 'could leverage existing products, consumers, or channels'. The company also looked for 'something that [it] can own'. Base of the pyramid ventures, however, did not fit with traditional assumptions about market entry strategies. As the respondents explained, these initiatives involved a new product, targeted a new set of customers, and required a new mindset about distribution. Thus, the managers recognized that they faced difficult hurdles in generating internal support and the needed funding.

Rather than tackle these issues head on, one of the managers found that the best strategy was to acknowledge that this was a new business environment. As opposed to developing an argument based on premium brands and high margins, which the company 'knows', she felt that the most attractive metric for this venture was penetration. However, the 'penetration game' was something the company 'knew nothing about', and to get support involved demonstrating that conventional hurdle rates are 'not written in stone'.

To move forward, the respondent recognized the 'need for high level strategic support'. To build this support, she focused on 'benchmarking of competitors' and the fact that some of the firm's major global rivals were already pursuing these types of markets using metrics that evaluated both economic and social benefits. She argued that, if the firm relied on its traditional capabilities and mindset, it could be missing a substantial opportunity. Highlighting the potential risk from failing to respond enabled managerial support to coalesce around this initiative. This created the potential to override the traditional metrics used in the resource allocation process and generate more internal support for a pilot venture.

In summary, then, the interviews with MNC managers and associated in-depth analysis of these new ventures pointed to the shortcomings of existing theory and practice in the areas of EM and global strategy. The four companies were all profitable and considered to be well-run firms and highly successful in top-of-the-pyramid markets. However, as highlighted in Table 2, when entering low-income markets, these firms found that relying on global capabilities articulated in the transnational model was not sufficient and, at times, could actually be constraining. In all four firms the managers recognized the need for an additional capability. Together, these findings lead to the following propositions:

Proposition 1a. *Top-of-the-pyramid (high income) and base-of-the-pyramid (low-income) markets will require different strategies and mix of capabilities.*

Proposition 1b. *When entering base-of-the-pyramid markets, traditional capabilities in global integration and national responsiveness might actually inhibit effectiveness.*

Proposition 1c. *When entering base-of-the-pyramid markets, firms cannot rely on the transfer or protection within firm boundaries of knowledge and resources developed in top-of-the-pyramid markets.*

Proposition 1d. *When entering base-of-the-pyramid markets, firms will need additional capability beyond those of global efficiency, national responsiveness and transfer of existing knowledge, which are used successfully in top-of-the-pyramid markets.*

Learnings from archival and case analyses: strategies for the base of the pyramid

In particular, the interviews suggest how existing biases associated with top-of-the-pyramid markets can blind managers to the realities of doing business in the base of the pyramid. Relying on existing technology, products, partners, channels, and metrics can serve to doom such ventures to failure. Leveraging existing knowledge and the exploitation of global efficiencies can prevent success as it precludes the deep listening and local knowledge generation needed to succeed in such markets. National responsiveness is also not enough, especially if pre-existing solutions or business models are wholly inadequate for the context at the base of the pyramid. Indeed, an entirely new capability appears to be necessary.

To explore more deeply which factors contribute to successful strategies in base-of-the-pyramid markets, the 24 cases and the accompanying archival materials were analyzed. Insights from the MNC interviews were also drawn upon where appropriate. The first step was to make an assessment of whether or not the various initiatives were deemed to be successful, based on early market experience and the ability to develop economically sustainable business models. Each MBA team was asked to make an assessment of their case. Where possible, they relied on evaluations by managers of these initiatives as well as an analysis of the archival data. Their assessments were presented in class and discussed. In addition, each of the authors independently reviewed all the data and rated each initiative. We compared these analyses and found no discrepancies in the evaluations. The more successful ventures were then contrasted with those perceived to be poor performers (see Table 3). Several important factors emerged as being present in successful initiatives, but missing in those that failed or performed poorly. These involved identifying and leveraging strengths in the existing environment and included collaborating with non-traditional partners, co-inventing custom solutions, and building local capacity.

Collaborating with non-traditional partners: understanding the social context

Ventures facing challenging new environments usually need to turn to partner organizations for missing resources and expertise (Eisenhardt and Schoonhoven, 1996). Indeed, government regulations often require MNCs to have a local corporate partner to ensure market access in emerging economies (Blodgett, 1991). When entering base-of-the-pyramid markets, however, firms may need to expand dramatically the potential field of alliance partners. Indeed, our analysis indicated that successful base-of-the-pyramid strategies relied heavily on non-traditional partners. These partners included non-profit organizations and community groups, as well as local and even village-level governments. Unsuccessful strategies, on the other hand, relied primarily on traditional partners such as national governments and large local companies. Typically, these more traditional partners were as far removed, in terms of business knowledge of low-income markets, as the firms trying to launch the venture.

Table 3 Need for a new global capability: analysis of archival material, case studies, and interviews with MNC managers

Strategies of successful base-of-the-pyramid market entries	*Strategies of failed (or poorly performing) base-of-the-pyramid market entries*
Collaborating with non-traditional partners	*Collaborating with non-traditional partners*
• Recognized the value of both corporate and non-corporate partners	• Heavy reliance on expertise of local subsidiary or familiar partners
• Proactively established relationships with non-profit and other non-traditional partner organizations	• Limited or no contact with non-profit and other non-traditional partner organizations
• Relied on non-corporate partners for expertise on social infrastructure and local legitimacy	• Tended to rely on familiar or existing partners for information about new markets and the local context
Co-inventing custom solutions	*Co-inventing custom solutions*
• Often linked with multiple distributors, who modified product differently before selling to final user	• Preferred to sell the product as is and tried to limit modifications by distributors and users
• Allowed for user innovation and modification	• Substantial effort to protect property rights (e.g., patents, brand names)
• Product and business model design co-evolved	• Product was developed before business model was designed
• Tended to view product in terms of the functionality it provided	• Tended to view value proposition in terms of product, not functionality
Building local capacity	*Building local capacity*
• Recognized the value of existing local institutions	• Tended to view the environment in terms of the institutions that were missing
• Provided training to local entrepreneurs and other partners	• Limited contact with local entrepreneurs and local institutions
• Often saw gaps in local infrastructure or missing services as potential opportunities	• Often saw gaps in local infrastructure as challenges or problems that had to be overcome

A variety of non-corporate partners provided access to important information on target customers and the overall business environment that was not available in the corporate sector. This goes far beyond the typical focus on customers and suppliers (Andersson *et al.*, 2002). As suggested by Hart and Sharma (2004), greatly increased uncertainty about what knowledge is useful increases the importance of radical transactiveness, or the ability to identify and interact effectively with a diversity of non-traditional stakeholders. By including input from civil society, local community groups, and the public sector, firms were better able to understand and leverage existing social strengths in these business environments. In addition, they could better understand which societal concerns were, as one MNC respondent noted, 'myths and which were realities'. These non-traditional partners could provide information on the local context, local legitimacy, and access to needed resources (Rondinelli and London, 2003).

One initiative, for example, utilized non-traditional partners to overcome a lack of potential sources of external funding. The managers identified a multilateral institution and an NGO as potential partners, and developed a business plan that highlighted how a successful initiative could help both these organizations achieve their social objectives. As a respondent noted, while it 'takes time to build credibility and relationships in the public sector', it was invaluable 'getting to know the core influentials'. By getting the support of these organizations, the company could secure important access to critical financial, legitimacy, and knowledge resources.

In contrast, another firm relied primarily on economic metrics and capabilities developed for top-of-the-pyramid markets. The national government was viewed primarily as an important source of funding for base-of-the-pyramid ventures in two different countries. A pre-existing technology was introduced, with the governments serving as key business partners. The venture struggled to create locally acceptable product offerings as it did not develop relationships with local partners that could provide an awareness of the actual needs and desires of base-of-the-pyramid customers. In addition, in both countries the governments were economically unstable, and the base-of-the-pyramid ventures had substantial trouble with their cash flow.

In another example, one local for-profit venture created a three-way partnership between the private sector, the development sector, and the local community. The partnership recognized the existing social infrastructure and was designed so that knowledge and benefits flowed between each set of partnerships. For example, the company identified, manufactured, and sold context-appropriate farm equipment to the development sector partner, which in turn leveraged local social capital to provide micro-credit financing to small farmers for the purchase of the equipment. The company also recognized the local need for a steady source of alternative income, and committed itself to purchasing all of the farmers' production, creating a loyal source of supply. As opposed to concentrating solely on economic efficiencies and economic-oriented metrics, the for-profit venture was able to generate significant growth by creating a collaborative model that enabled it to better understand and leverage the social context. Using this approach, the company recognized and valued the role of the other two partners, even though it was dealing with unfamiliar organizations.

In contrast, another local venture has been unable to create needed cash flow, owing, in significant part, to its inability to establish effective collaborations with non-traditional partners. In this case, the initiative has struggled to develop an understanding of the social context, and has not generated mutually beneficial economic and social incentives. As a result, the venture has not secured the support of key partners who could provide much needed financial and knowledge resources.

Co-inventing custom solutions: building from the bottom up

In pursuing low-income markets in developing countries, firms must adjust to an environment where social, not legal, contracts dominate (de Soto, 2000), and where accurate knowledge about potential consumers is not readily available (Grosh and Glewwe, 1995). Assessing context-specific information appears to require a more participatory approach in which all parties need to be willing to share information (Chambers, 1997). This extends far beyond the idea of 'national responsiveness' (adapting pre-existing solutions to local conditions), which pervades the existing literature on global strategy (Bartlett and Ghoshal, 1989).

In fact, our analysis indicated that entry into low-income markets at the base of the pyramid indeed benefited from identifying local partners who could actively contribute to venture conceptualization by adding local content to the product design.

Entrepreneurship by local distributors was encouraged by providing flexibility in how the final product or service could be marketed or delivered. As one corporate respondent emphasized, their goal was 'building infinite flexibility into the product and, therefore, selection of third-party partners'. In contrast, unsuccessful initiatives tended to rely on controlling the adaptation of existing products and, focusing on the weaknesses in the environment, they also made substantial efforts to protect property rights, including preventing user or distributor modification.

Furthermore, in successful ventures, the emphasis was on maximizing the functionality of the product offering. This often included having the product and business model development co-evolve. Partner organizations co-designed the entry strategy, including the delivery of the product or service. As one respondent indicated, a successful initiative requires 'everybody who touches it to make money'. Poorly performing ventures, on the other hand, tended to view the value proposition in terms of the product itself, and often completed the development process at a centralized and geographically distant location (for example, at corporate R&D centers) prior to designing the business model.

One successful venture, for instance, decided to forgo adopting the traditional pricing model of cost plus margin. Rather, in discussions with local partners, they identified the appropriate selling price first. By 'reverse engineering' and 'maximizing local knowledge and entrepreneurship', as one respondent noted, they could then jointly design a product and business model that provided the functionality required and offered profit margins that were acceptable for a high-volume business.

In other example a locally based MNC was unable to enter base-of-the-pyramid markets effectively, primarily because its entry strategy was based on making an incremental adaptation to a current product. By removing some of the existing functionality, it was able to create a lower-cost version of one of its mainstream products. Selling this less expensive version through its traditional distributors did allow the firm to capture some additional price-sensitive customers. However, the MNC was not successful in reaching the vast majority of low-income customers. This low-income market would have been much better served if the company had co-designed the product from the bottom up (as opposed to the top down) with local partners who understood what set of functionalities were most important to base-of-the-pyramid customers.

Developing local capacity: sharing resources across boundaries

The transnational model, the predominant view of global strategy, focuses on global integration, national responsiveness, and worldwide learning (Bartlett and Ghoshal, 1989). This perspective emphasizes sharing resources internally and maximizing the economic benefits to the firm (Buckley and Casson, 1991). However, our analysis suggests that firms interested in targeting base-of-the-pyramid markets must also consider both societal performance and the sharing of resources outside firm boundaries – local capacity building – to be successful.

Firms entering low-income markets may face novel challenges from NGOs and civil society. As one respondent noted, he was worried about 'push back from NGOs', including 'demonstrations' and claims of 'corporate imperialism'. Respondents indicated that the increased attention on global poverty, the growing anti-globalization movement, and the threat of intra-country wars, regional conflicts, crime, and terrorism highlighted the fact that ventures in the base of the pyramid require strong consideration of the social impact on local communities.[3]

One important way in which successful ventures addressed the need to consider societal performance was by incorporating local capacity building directly in their business models (rather than through the more conventional approach of corporate philanthropy as an activity separate from the business). For example, several successful initiatives included training programs for local entrepreneurs. Others identified mutually beneficial opportunities that built the capacity of existing institutions, such as micro-lending organizations, or filled in gaps in local infrastructure through providing basic services.

The financial investment in local capacity does not necessarily have to be large to create substantial benefits. For example, strategic bridging offers a different and potentially useful way of flexibly adjusting the level of collaboration (Westley and Vredenburg, 1991). Similar to the entrepreneur filling a structural hole (Burt, 1992), an MNC can become an unofficial strategic bridge between existing organizations that are having difficulty cooperating with each other. By becoming a strategic bridge, the MNC becomes a conduit and can enhance the flow of information, capabilities, and financial resources between these organizations.

In one Latin American country, for instance, a locally based MNC was able to target effectively a low-income market only after serving as a bridge between local distributors and base-of-the-pyramid customers whom these distributors were having trouble reaching effectively. In this case, the MNC spanned the social gaps between organizations by providing value-added advisory services and training programs that strengthened the inefficient practices by the intermediaries, built local knowledge, and created surplus value for local consumers. Using an approach of identifying and developing existing local capacity, the MNC covered the cost of providing the service, improved its sale of raw materials, enhanced inter-organizational communication and trust, and generated additional reputational and branding opportunities.

Another MNC venture, also interested in improving the local supply chain, has been unsuccessful to date, primarily because of its inability to develop local capacity. The initiative was grounded in the firm's reputation for corporate social responsibility. The company's social responsibility capabilities were, however, based mainly on donating resources to third parties. As a result, this approach did not involve investments by the company's operating units, and was not focused on identifying and strengthening business-critical existing institutions in the local market environment. To date, the firm has not been successful in capacity building in the targeted low-income market. The supply chain remains weak, and the new initiative is yet to bridge the gaps in local capabilities necessary to create a successful business model.

Together, these results lead to the following propositions:

Proposition 2a. *When entering base-of-the-pyramid markets, identifying and leveraging existing strengths in the business environment can enhance effectiveness.*

Proposition 2b. *When entering base-of-the-pyramid markets, strategies that include understanding the social context, building from the bottom up, and sharing resources across organizational boundaries can enhance effectiveness.*

Implications: a new global capability

Our findings from the interviews, case studies, and archival material seem to provide an important opportunity to extend the existing literatures on global strategy and EMs. Both these literatures rely on implicit assumptions that are embedded in their theoretical development. These assumptions, however, are challenged when MNCs enter low-income markets. Indeed, MNC advantage, and the associated ability to overcome a liability of foreignness, is assumed to come from the transfer of knowledge and resources within firm boundaries (Hymer, 1976; Buckley and Casson, 1991). The transnational model identifies global efficiency (leveraging knowledge and resources), national responsiveness (modifying knowledge and resources), and worldwide learning (sharing knowledge and resources) as the crucial capabilities for a successful multinational firm (Bartlett and Ghoshal, 1989).

In our examination of four ongoing MNC initiatives, however, we found that these ventures could not rely solely on the traditional capabilities that a global firm is thought to have. In each of the four MNCs, capabilities in global efficiency, national responsiveness, and worldwide learning were not sufficient and, at times, could actually be constraining. When entering base-of-the-pyramid markets, successful organizations possessed an additional capability. As highlighted by the successful strategies used to enter low-income markets, this capability appeared to be based on valuing and facilitating the bottom-up co-invention, by a diversity of partners, of locally appropriate solutions. These solutions also involve investing resources to develop capacity beyond the protective boundaries of the firm.

Indeed, this fourth global capability could be considered 'social embeddedness' or the ability to create competitive advantage based on a deep understanding of and integration with the local environment. This capability involves the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom-up development, and understand, leverage, and build on the existing social infrastructure. Rather than looking to overcome weakness in an emerging economy business environment, this capability is based on the ability to craft a strategy that relies on resources and knowledge in the external environment as sources of competitive advantage. This approach challenges and extends the more top-down, internally oriented orientation favored in the transnational model of leveraging and transferring resources within the safe confines of the firm's boundaries.

Management researchers have emphasized that MNCs, in particular, have the ability to form partnerships with a wide variety of organizations. For example, Hitt *et al.* (2000) found that local firms in developing countries value reputation and a willingness to share expertise when selecting partner organizations. Similarly, Frost (2001) found that larger parents and local subsidiaries with greater resources are viewed as more credible exchange partners, as they have greater opportunities for reciprocity. The results of this exploratory study suggest that this role needs to be expanded even further if MNCs are to successfully enter the vast markets at the base of the pyramid.

MNCs must overcome cross-organizational differences to convene a diversity of stakeholders and create relationships with non-traditional partners (London and Rondinelli, 2003). Given their resources, reputation, and 'convening power', MNCs have the potential to attract the range of potential partners needed to succeed in this domain. Our results suggest that firms entering low-income markets in developing countries may not be able to rely on traditional partners, familiar structures, or preconceived notions about the pattern of economic development (Arnold and Quelch, 1998). At the base of the pyramid, MNCs must develop relationships that enable them to better understand the social context of an environment that is local, diverse, dynamic, complex, and unpredictable (Chambers, 1997; Dawar and Chattopadhyay, 2002; Hart and Sharma, 2004). And although large local firms can still be important partners, MNCs may also need to develop relationships with community groups, non-profit organizations, and local entrepreneurs, and build the capacity of local institutions (Sharma *et al.*, 1994; Prahalad and Hammond, 2002). Developing relationships with these organizations, however, requires greater transparency, an ability to understand and appreciate local societal conditions, and the skill to recognize and deliver the social performance that these partners value.

Furthermore, whereas the conventional wisdom on emerging economies suggests that local partners are the ones that must unlearn, in low-income markets our study suggests that MNC subsidiaries may be the ones with the most unlearning to do (Norberg-Hodge, 1991; Chambers, 1997; Autio *et al.*, 2000; Dawar and Chattopadhyay, 2002). These markets are regulated by informal rules, social contracts, and shared use of assets (de Soto, 2000). Entry strategies may therefore require greater inclusiveness and less reliance on protecting knowledge and technology, strategies that may be counterintuitive to subsidiary managers (Autio *et al.*, 2000). This is highlighted in our study by the benefits that organizations gained from the capability to co-invent custom solutions with a variety of different stakeholders.

For example, maintaining flexibility in the product and the business model can allow local entrepreneurs, who are more familiar with local culture and customer needs, to innovate proactively (von Hippel, 1998). Similar to the idea of user communities and open source (MacCormack and Herman, 1999; von Hippel, 2001), the closer the innovation efforts are to the end user, the more likely they are to respond to user needs and incorporate desired functionality. Competitive advantage is therefore premised less upon the protection of pre-existing proprietary technology and intellectual property, and more on the development of trust, social capital, and permeable boundaries (Raymond, 1999).

This extends to the idea of capability development beyond firm boundaries. By supporting local capacity building, MNCs can generate both economic and social benefits (Sen, 1999). To do this successfully, however, firms must be able to understand the local context and recognize holes in the social structure that need to be filled (Burt, 1992). This can mean acting as a bridge to connect third-party organizations and thus reduce or eliminate inefficient practices in the value chain (Sharma *et al.*, 1994; Prahalad and Hammond, 2002). In addition, firms can also benefit from effectively working with and supporting financial and other institutions that facilitate value creation and entrepreneurship in emerging economies (George and Prabhu, 2000). Hence, by developing skills to create capabilities outside of its boundaries, an MNC can leverage local social development to improve its economic performance, while at the same time beginning to address emerging challenges to unfettered globalization (Soros, 2002; Stiglitz, 2002).

Taken together, these results suggest some important extensions to the literature on strategies for EMs and the transnational model of global capabilities. Firms entering low-income markets cannot rely on a strategy that is based on overcoming limitations in the business environment. Successful ventures did not assume that the local business environments would become more Western in orientation over time. As a result, they did not implement a strategy based on managing this environment while waiting for the transition to occur. Instead, successful ventures developed a deep understanding of the local environment, and focused on generating bottom-up business creation based on identifying, leveraging, and building the existing social infrastructure (for example, social capital in micro-loan programs; expertise of non-corporate partners; entrepreneurship in user communities), a capability that we are calling *social embeddedness*. Together, this leads to the following proposition:

Proposition 3. *When entering base-of-the-pyramid markets, firms with a capability in social embeddedness are most likely to be successful.*

Conclusions and future research

The pursuit of low-income markets in emerging economies represents an important new future direction at the intersection of strategic management and IB research. Rumelt *et al.* (1994), in their review of the strategy discipline, identified 'What determines the international success and failure of firms?' as one of the five most fundamental questions in the field. In his review of the IB literature, Peng (2001: 809) was even more explicit. He asserted that 'emerging economies are likely to become the new battleground for IB competition and that researchers need to pay careful attention to the institutional context in which IB activities take place'. Within developing countries, however, the real promise for significant growth lies beyond reaching the wealthy elite currently being served by MNCs (Prahalad and Lieberthal, 1998). Tapping into markets at the base of the pyramid can provide MNCs with access to a fast-growing population that is potentially the most exciting growth opportunity of the future (Hart and Christensen, 2002).

Yet, although an increasing number of firms are exploring the economic opportunities at the base of the pyramid, strategies in these markets have neither been empirically examined in the literature on global strategy (Hout *et al.*, 1982; Bartlett and Ghoshal, 1989) nor subsidiary strategies for emerging economies (Hoskisson *et al.*, 2000). This study therefore sought to examine how MNCs and other enterprises pursue opportunities at the base of the pyramid, and which strategies appear to be the most successful.

Our extended tracking, through interviews and archival material, of four ongoing MNC ventures highlighted potential limitations of the transnational model of global strategy. Our in-depth analysis of archival data and 24 original case studies began to explore these limitations by identifying important elements of successful low-income market strategies, including collaborating with non-traditional partners, co-inventing custom solutions, and building local capacity. As our results suggest, firms will need to develop a fourth capability, social embeddedness, which allows them to understand and leverage the strengths of the market environment at the base of the pyramid. These findings from our qualitative empirical study have important implications for both theory and practice.

At the theoretical level, successful pursuit of this type of strategy in emerging economies appears to require that MNCs move beyond the traditional view of transnational success (Bartlett and Ghoshal, 1989). These firms will need to integrate a fourth global capability when entering low-income markets. Our longitudinal, in-depth exploration of four multinational ventures indicated that reliance on capabilities in national responsiveness, global efficiency, and worldwide learning was insufficient at best, and could in fact negatively impact on performance. Rather than creating centrally developed 'one-size-fits-all' global solutions, or adapting solutions created elsewhere to local conditions, successful pursuit of base-of-the-pyramid markets appears to require firms to build, consolidate, and leverage learning from the 'bottom up'. This capability is also substantially different from the ability to leverage worldwide learnings, which assumes that the appropriate knowledge already exists within the firm.

Furthermore, entering these huge markets at the base of the pyramid requires a recognition that traditional views of economic development and business strategy may not apply. MNCs cannot rely on the assumption that all markets in the developing world are evolving in similar manner toward a more Western-style economy, and they should avoid designing a strategy based on overcoming limitations in the business environment. However, as Tallman (1991: 71) indicates, even in developed country environments '…an MNE may enter a new foreign market, an innovative step, but use proven strategies and structural forms to reduce its uncertainty in that market'. These approaches, and the associated implicit assumptions, are likely to be inappropriate in the developing world, where the gap between the rich and poor is substantial and growing (Hammond, 1998). Instead, strategies for base-of-the-pyramid markets in emerging economies must recognize that social contracts and social institutions dominate, traditional partners may lack relevant expertise, and social performance matters. Rather than look to overcome weaknesses in the business environment, firms entering these markets should craft a strategy that envisions organizations, institutions, and knowledge in the external environment as a basis for creating competitive advantage.

This line of research also has important managerial implications. An increasing number of MNCs are exploring low-income markets. Understanding which types of base-of-the-pyramid market strategies positively impact on venture performance will allow managers to better assess whether, and how, their firms should be pursuing these opportunities. Preliminary evidence suggests that successful pursuit of low-income markets in emerging economies requires MNCs to fundamentally rethink their business models. Scalability, flexibility, decentralization, knowledge sharing, local sourcing, fragmented distribution, non-traditional partners, societal performance, and local entrepreneurship appear to be important to the success of such business ventures. This is a significant departure from the current received wisdom of world-scale production, global supply chains, and local adaptation of centrally developed solutions.

Indeed, given the opportunities and challenges of the low-income market context, it may be necessary for MNC subsidiary managers to develop multiple strategies depending on which markets (top, middle, or low segments) within a country they are targeting. These various 'within-country' strategies appear to require a different mix of the four MNC capabilities (global efficiency, national responsiveness, worldwide learning, and social embeddedness). For example, exploration of low-income markets may benefit from social embeddedness and worldwide learning. However, capabilities in global efficiencies and national responsiveness may actually do more harm than good, and may need to be actively discouraged.

Furthermore, although capabilities developed for and in top-of-the-pyramid markets do not appear to travel well to base-of-the-pyramid business environments, the opposite may not be true. There has been considerable debate over the challenges of creating disruptive innovations (Christensen, 1997), and it has been suggested that the base of the pyramid may offer a unique opportunity to incubate disruptive technologies (Christensen *et al.*, 2001; Hart and Christensen, 2002). Interestingly, capabilities developed in this business environment may also have the opportunity to 'move up the pyramid' and challenge existing capabilities developed in top-of-the-pyramid markets. Hence, capabilities and strategies developed at the base of the pyramid may provide the missing means by which firms can catalyze internal creative destruction (Schumpeter, 1962). In developing the structure, processes, and partnerships to encourage the development of social embeddednesses, firms can potentially generate the capability to break old routines and boundaries and reinvent themselves (Schumpeter, 1934).

Firms with capabilities in social embeddedness, for instance, may be in a position to create strategies for a more inclusive capitalism that addresses both the growing opposition to globalization and the limitations of global resources. Business models for the base of the pyramid cannot match the consumptive nature of existing top-of-the-pyramid strategies (Hart, 1997). There simply are not enough resources for the four billion people at the base of the pyramid to mimic 'Western' approaches to economic development. Once successfully incubated in base-of-the-pyramid markets, it is entirely possible that these new capabilities could also address some of the more vexing developed world environmental and social problems.

For example, if distributed, environmentally sustainable energy production ventures are shown to be economically viable at the base of the pyramid, it may be only a matter of time before these technologies disrupt the reliance in top-of-the-pyramid markets on unreliable sources of fossil fuels, an aging energy distribution network, and a production method that may negatively affect the global environment (Hart and Christensen, 2002). In general, the capability to include more voices in strategy and product development and to profitably generate societal benefits could well become increasingly valuable for companies looking for new sources of competitive advantage in saturated developed world markets.

As this was an exploratory study, there are limitations to the conclusions that can be drawn. In the future, additional case studies and broader empirical analysis would be valuable in extending the results of this research effort. From an academic perspective, the study of business strategies in low-income markets provides an exciting opportunity to explore emerging trends that are part of an important future research direction for strategy and IB scholars (Rumelt *et al.*, 1994). Future research in this area could include examining how firms understand and create competitive advantage in unfamiliar environments, examining what strategies are valuable for protecting core competencies when the firm is faced with permeable and shifting boundaries, and exploring the value added by MNC corporate headquarters in base-of-the-pyramid markets. In addition, scholars may want to compare MNCs and large domestic firms that operate in low-income markets in emerging economies. When entering base-of-the-pyramid markets, domestic companies could have both advantages (e.g., the liability of foreignness is potentially lower) and disadvantages (e.g., strong existing biases toward copying Western business approaches and the belief that since they are nationals of this country they 'know' this market) as compared with their MNC competitors.

In sum, entry into base-of-the-pyramid markets may require a global capability beyond the adaptive skills of national responsiveness and centralized control inherent in global efficiency, and a market entry strategy that moves past a reliance on imported business models based on extracting knowledge and protecting and controlling resource flows. The challenge is nothing less than reinventing strategies for EMs to better reflect the realities of ongoing corporate efforts to enter markets at the base of the economic pyramid.

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Notes
[1]For instance, multinationals such as Procter & Gamble, DuPont, Dow Chemical, Hewlett-Packard, Johnson & Johnson, Ford, Tetra Pak, and Coca-Cola have made financial commitments to join think tanks focused directly on examining the potential for serving the four billion people, approximately two-thirds of humanity, who constitute this huge emerging market (for example, see http://www.kenan-flagler.unc.edu/KI/cse/bop.cfm). Furthermore, the World Business Council on Sustainable Development, a coalition of 160 international firms, has established a Sustainable Livelihoods Program. This project, with active involvement from MNCs such as British Petroleum, Eskom, and Suez, explores the business case for companies interested in pursuing low-income markets (see http://www.wbcsd.org).

[2]The GNP is the value of all the goods and services produced in an economy, including the value of the goods and services imported, but less the goods and services exported. PPP equates the price of a basket of identical traded goods and services in two countries. PPP provides a standardized comparison of real prices between countries.

[3]The United Nations, for example, has a vision of a more sustainable and inclusive global economy. The recent Johannesburg World Summit on Sustainable Development emphasized the growing importance attached to eradicating global poverty. Similarly, the Global Compact was created as a voluntary international initiative that allies companies with UN agencies, non-governmental organizations, and various other civil-society actors in the pursuit of social goals in areas of human rights, labor, and the environment.

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