BUSINESS FOR DEVELOPMENT:
A CASE STUDY OF THE MULTINATONAL COMPANIES’
development of inclusive business models and
commitment to business call to action

BY
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UNITED STATES INTERNATIONAL UNIVERSITY
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A Project Report Submitted to the School of Business in Partial
Fulfillment of the Requirement for the Degree of Global Executive
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UNITED STATES INTERNATIONAL UNIVERSITY
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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: __________________________  Date: __________________________

Hanna Carlsson (ID 618071)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________  Date: __________________________

Prof. Francis Wambalaba

Signed: __________________________  Date: __________________________

GeMBA Program Director
ABSTRACT

The purpose of the study was to investigate the motivations behind multinational companies’ development of inclusive business models and commitment to the Business Call to Action. The study was guided by the following research questions: what are the key features of the multinational companies focusing on inclusive business models – the bottom of the pyramid approach? What are challenges the multinational companies face when they work with the bottom of the pyramid? And what are the multinational companies’ strategies and opportunities at the bottom of the pyramid market.

The research adopted an exploratory multiple-case design. The total population in the study comprised of 63 companies that were members of the Business Call to Action initiative. Out of the 63 companies, 6 were identified as multinational companies active in Kenya. The sampling frame was drawn from the Business Call to Action’s website guided by the Business Call to Action annual review of the year 2012. The sampling technique used was judgmental sampling. The researcher did an initial literature review to get a better understanding of inclusive business models and the two cases. Thereafter, the study used a primary source of data; open-ended interviews also called “non-structured interviews”. The second source of data was documentation and publications that the respondents referred the researcher to. The material was coded and particular themes were identified in the material and presented descriptive.

The study established that the two companies, Vodafone Group and Barclays Bank, have some of the key features of multinational companies that pursue inclusive business models. The findings crystalized particular features such as an entrepreneurial outlook, support from the senior management, open to non-traditional partnership, a sustainability agenda, and the ability to localize the value chain. Remarkable was that Vodafone Group’s venture was outside the company’s core competence and activities, but still successful.

The study established that the main challenges the companies experienced at this particular market was lack of market information, not knowing the needs of the poor, and in one case regulatory framework. For both cases customer’s limited knowledge and educational
background were also challenges. The challenges faced were to a great extent overcome by the kind of partnership that the companies established.

The study established that the strategies pursued at this market were to establish trust with the poor, utilize partnership with non-governmental organizations, develop efficient, affordable and sustainable products, utilize local knowledge, remove market constraints by offering trainings to customers and participate in policy dialogue.

The main conclusion of the study is that the main motivating factors behind multinational companies’ development of inclusive business models and commitment to Business Call to Action are corporate social responsibility. The relative un-explored bottom of the pyramid market is an enticing factor, but not the main motivation. Growth and profitability seems to be factors that are explored at a later stage when the models have been proved feasible.

The study recommends companies to move the inclusive business initiatives from the corporate social responsibility department to the business development department. Also, companies need to invest in research and development with the anticipation that the models will break-even and be profitable when a critical mass has been reached. Finally, companies exploring inclusive business models need to focus on commercially-viable business ventures which benefit both the company and the poor.

The study recommends that future researchers can investigate the role of external funding in inclusive business models and the willingness of companies to invest own capital to develop inclusive business models within their core business stream.
ACKNOWLEDGEMENT

I wish to acknowledge my supervisor Professor Wambalaba who has effortlessly guided and supported me throughout this research. Also, all people who shared their in-depth knowledge in the subject matter and made this study possible. Last but not least my friends in Kenya who have continuously given me words of encouragement and moral support during this process.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In the past 50 years 2 trillions of US dollar has been channeled from developed nations to developing nations as aid in an attempt to give billions of people that live in poverty a decent human life with access to basic needs and social services (Moyo, 2010). Despite the enormous commitment from development partners, former UN Secretary-General Kofi Annan, acknowledge in 2004 that the challenge still remained and that the plight to achieve the Millennium Development Goals (MDG), by the year 2015, that had been adopted at the United Nations Millennium Summit in the year 2000 would need a global response from all actors.

Kofi Annan therefore appointed a Commission on the Private Sector and Development with the task to offer recommendations on how the existing private sector could be engaged in achieving the MDGs. The commission published their findings in a report titled *Unleashing Entrepreneurship: Making Business Work for the Poor* (United Nations Development Program [UNDP], 2004) which offered recommendation on how major actors – public development institutions, governments, civil society organizations and the private sector could “modify their action and approaches to significantly enhance the ability of the private sector to advance the development process” (UNDP, 2004, p i). The report captured the voices of village based and informal entrepreneurs and managers from national and multinational companies (MNCs) and gave examples of successful initiatives from both traditional multilateral development institutions and bilateral aid agencies, and the private sector. They highlighted that the initiatives from the private sector relied on market mechanism and were therefore much more replicable, scalable, and sustainable. Further, the private sector can alleviate poverty under the right market conditions because employment gives people economic power which in turn gives them purchasing power which generates profit and fuel economic growth. They also observed that there is a “lack of knowledge about best practices and the great need for more sustained research and analysis of what works and what doesn’t.” (UNDP, 2004, p ii).
UNDP took up the challenge and launched in 2006 the Growing Inclusive Markets Initiative. The initiative was based on UNDP’s strong belief that the private sector “is a great untapped resource for investment and innovation to achieve the Millennium Development Goals” (UNDP, 2008, p i). The broad aims of the initiative are:

- “Raising awareness by demonstrating how doing business with the poor can be good for poor people and good for business.
- Clarifying the ways that businesses, governments and civil society organizations can create value for all.
- Inspiring the private sector to action.” (UNDP, 2008, p 1).

The first report under the initiative was *Creating Value for All: Strategies for Doing Business with the Poor* and was based on 50 case studies where common patterns were identified among profitable inclusive business models “Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment” (UNDP, 2008, p 14). The report also highlighted constraints when operating at the bottom of the economic pyramid and strategies applied by companies. The concluding message to companies was that “Business with the poor can create value for all” (UNDP, 2008, p 13).

Inspired by UNDP’s Growing Inclusive Markets initiative Business Call to Action (BCtA) was launched by the British Prime Minister Gordon Brown in 2007. Operating as a global membership network its purpose is to challenge large companies to support the achievement of the MDGs through new investments that harness their core competencies and value chains. Principally, the companies are encouraged to implement sustainable inclusive business models with the potential of development impact in ways that: generate new employment and enterprises in developing countries; improve the quality of supply chains, helping local businesses to diversify and/or become competitive; and include innovations or technologies that make it easier for individuals and business to earn a living (Nelson, Ishikawa, and Geaneotes, 2009).
The initiative was a result of a partnership between the global donor community (Australian Agency for International Development, the Dutch Ministry of Foreign Affairs, the UK Department for International Development, the Swedish International Development Cooperation Agency, the US Agency for International Development, and the Clinton Global Initiative) and the United Nations Development Program, United Nations Global Compact and the International Business Leaders Forum and offers the participating companies:

- “A global leadership platform and opportunities to share expertise, knowledge, and best practices for market-based approaches to development;
- Initiative development advice and assistance; and
- Linkages with companies, donors, and other key stakeholders.” (Business Call to Action Review [BCtA], 2012)

Companies worldwide, both national and multinational, have committed to the call and by so offer to initiate commercially-viable business ventures that engage people at the bottom of the economic pyramid as producers, consumers, distributors, and suppliers of goods and service and by so hopefully improve the lives and livelihoods of billions of people. By 2012, the BCtA had attracted more than 63 companies according to the secretariat of the BCtA – 2012 Year in Review that collectively had committed to among other things make banking services available for more than 1 million people, to generate over 220 thousand new jobs for the under-employed, and to increase access to energy for 10 million low-income households by 2020.

The idea of including the private sector to solve the world’s biggest challenge was not initiated by the United Nations. Instead it was a professor at University of Michigan Business School, Ann Arbor, Dr. C.K. Prahalad, who in 1997 initiated the train of thought. Together with professor Stu Hard, professor of strategic management at the University of North Carolina’s Kenan-Flagler Business School they produced a working paper called *The Strategies for the Bottom of the Pyramid: Creating Sustainable Development* (the researcher has not the permission of the authors to cite or distribute). The article presented a new and alternative idea to alleviate global poverty; to view the bottom of the economic pyramid, where you find 4 billion of the world’s population, as an unrealized market
opportunity for both national and MNCs and convert these people into active consumers. This new consumer base, argued Prahalad and Hart, would foster innovations in new business models and technologies. The ideas in the working paper were too radical for the developmental economists at the time so all journals approached refused to publish the paper. Despite the rejections from a number of well renowned business journals the two professors uploaded the paper on the internet and, to their surprise; a number of managers read it and accepted its premise. This encouraged the authors to elaborate the thoughts further and within the year 2002, two articles were written and published. The first article, The Fortune at the Bottom of the Pyramid, which was published in Strategy+Business in January 2002, elaborated extensively the market promise among the billions of aspiring poor. The authors highlighted that even if a number of previously closed markets as such as Soviet Union, China, India and Latin America, had opened up to foreign investment with the fall of the Berlin War and the end of the Cold War, the promises offered to MNCs in these news markets still needed to be realized. The focus had been on the “middle class” consumers and the emerging middle-income consumers in the developing world, however, the authors bravely argued that these two groups were not the “prodigious opportunity for the world’s wealthiest companies” (Prahalad and Hart, 2002, p.2).

The MNCs need a new approach in a globalized world which embraces inclusive capitalism. Inclusive capitalism is an upcoming term comprised of two complementary meanings: “(1) poverty is a significant, systemic problem in countries which have already embraced or are transitioning towards capitalistic economies, and (2) companies and non-governmental organizations can sell goods and services to low-income people, which may lead to targeted poverty alleviation strategies, including improving people’s nutrition, health care, education, employment and environment, but not their political power” (Wikipedia, Inclusive Capitalism). Inclusive capitalism will embrace all tiers of the economic pyramid at the same time lifting billions of people out of poverty and improving their life with services that they have not been able to access before.
President Franklin D. Roosevelt was the first to use the phrase “bottom of the pyramid” in his radio address in 1932, *The Forgotten Man*. President Roosevelt said “These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power…that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid” (Roosevelt, 1932). As further developed by Professor Prahalad and Professor Hart, the world economic pyramid has five tiers, see Figure 1 below. It is worth to note that the population figures mentioned below for the tiers are from 2002.

<table>
<thead>
<tr>
<th>Purchasing Power Parity (PPP)</th>
<th>Population</th>
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<tbody>
<tr>
<td>More than US$ 20,000</td>
<td>75-100</td>
</tr>
<tr>
<td>US$ 1,500-20,000</td>
<td>1,500-1,750</td>
</tr>
<tr>
<td>US$ 1,500</td>
<td>4,000</td>
</tr>
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Figure 1: The Economic Pyramid

Tier 1, the top of the pyramid represents a world population of 75 to 100 million people. This group composes of middle- and upper-income peopled in developed countries and the few rich people from the developing countries and has purchase power parity of more than $20,000 (based on purchasing power parity (PPP) in U.S. dollars. The group is quite small and very cosmopolitan but used to be the main target group for MNCs. The fall of the Berlin Wall in 1989 opened up new markets and made borders more porous in terms of information flow among others, the MNCs started to target the new emerging markets consisting of poor consumers in developed nations and the rising middle class in developing countries, Tiers 2 and 3. Tiers 2 and 3 are the middle of the pyramid and consist of 1,500-1,750 million people with a purchasing power parity of $1,500-$20,000.
Tier 4 and 5, the bottom of the pyramid, consists of 4,000 million people (4 billion) with a purchasing power parity of $1,500. Hammond, Kramer, Katz, Tran and Walker (2007) calculate that some people in particular tier 4, has a purchase power parity of $3,000. Out of the 4 billion in tier 4 and 5, over a billion people, tier 5, has a purchasing power parity of less than $1,500. UNDP (2008) defines tier 4 and 5 as people living on less than $8 per day (UNDP, 2008). Considering that the income gap between poor and rich is growing, the inequity of wealth distribution is increasing, and that this group is left out from the global market, these two tiers should be the new target group for MNCs according to Prahalad and Hart. Based on their figures, the bottom of the pyramid represents a multitrillion-dollar market (Prahalad and Hart, 2002). UNDP (2008) and Hammond et al. (2007) estimates that tier 4 and 5 have a combined income of about $5 trillion based on World Development Indicators Database (2007). $5 trillion was the gross national income of Japan in 2007 (UNDP, 2008).

According to Prahalad and Hart (2002), companies need resources, persistence, radical innovations in technology and business models to compete at the bottom of the economic pyramid. Further, the focus cannot be on high gross margins - the profit margin on individual units – but instead “getting the highest possible returns on capital employed” (Prahalad and Hammond, 2002, p.8).

The second article based on Prahalad’s line of thought Serve the World’s Poor, Profitably, Prahalad wrote together with Allen Hammond. The article was published in the Harvard Business Review in September 2002 and continued to highlight the opportunities at the bottom of the pyramid but also as “a new source of revenue growth, greater efficiency, and access to innovation.” (Prahalad and Hammond, 2002, p 6). The professors not only argued for transforming the people at the bottom of the pyramid to consumers, but also to producers. With lower production costs and service costs thanks to new technology, companies can increase their profit margins. The new comprehensive approach, to include the poor as both consumer and producers, was adopted by the United Nation initiatives (see UNDP, 2004 and UNDP, 2008).
An opposing voice in the discourse is Aneel Karnani, Associate Professor of Strategy at the Ross School of Business at the University of Michigan. In an article titled *The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty* he strongly criticize C.K. Prahalad’s BoP proposition summarized as; there is much untapped purchasing power at the bottom of the pyramid. Private companies can make significant profits by selling to the poor; by selling to the poor, private companies can bring prosperity to the poor, and thus can help eradicate poverty; large multinational companies (MNCs) should play the leading role in this process of selling to the poor” (Karnani 2007, p 90). Prahalad had further elaborated the ideas in his book *The Fortune at the Bottom of the Pyramid – Eradicating Poverty through Profits* (Prahalad, 2004) which now Karnani strongly criticized. The main point of Karnani was that there is no fortune at the BoP, but that it is instead a mirage. By drawing attention to a number of examples Karnani tried to prove that the BoP proposition is “both logically flawed and inconsistent with the evidence” (Karnani, 2007, p 91) and that companies may end up exploiting the poor consumers by seducing them to make decision which is not in their own self-interest. Instead he offered an alternative approach where the poor are primarily seen as producers and the focus should be to buy from them. He means that poverty alleviation can only be achieved if the real income of the poor is raised. Herman B. Leonard had already in 2005 had similar thoughts. In his article *When is Doing Business with the Poor Good – for the Poor? – A Household and National Income Accounting Approach* (2005) he calculated that business with the poor is most profitable for the poor, particular on the poor’s income, when buying from the poor (Leonard, 2005).

The reluctance from MNCs to invest on this market is understandable. A person with hardly no income would assumable spend their money on basic needs like shelter and food. However, Prahalad and Hammond (2002) gave a number of examples on how this assumption is incorrect. One of the examples used in their article *Serve the World’s Poor, Profitably* is from Bangladesh. The average per capita income of villagers in rural Bangladesh is $200 per year. The telecommunication service provider, Grameen Telecom’s, developed a village phone which was bought by entrepreneurs in villages and served the whole community. The average income the phones were generating per month was from $90 and up to $1000 in bigger villages. It was estimated that villagers spent an
average of 7% of their disposable income on phone services. On traditional markets the average expenditure for phone services is a much lesser percentage. Banerjee and Duflo (2007) did an analysis based on household income and expenditure survey data from 13 countries to examine the economic lives of the poor. The poor were defined as those living on less than $2 dollar per day per capita at purchasing power parity or the extremely poor which are those living on less than $1 dollar per day. They found out that among rural households 56-78% of the income was used for food, and in urban areas 56-74% was used for food. Rural households usually do not have any rent expenditures which therefore give them a choice to spend the rest of the money on other commodities and needs.

It is also assumed that the business environment at the bottom of the pyramid is very harsh and companies face an illiterate consumer, bureaucracy, corruption, inadequate infrastructure, and currency fluctuations. However, many multinational companies that are already doing business in developing countries have experienced that the barriers are lower than assumed, and Prahalad and Hammond (2002) argued that managers need to adopt new business strategy when focusing on customers at the bottom of the pyramid. The same conclusion is drawn in the report published by UNDP, *Creating Value for All: Strategies for Doing Business with the Poor* (UNDP, 2008). The number of multinational companies committed to the Business Call to Action gives also another picture.

### 1.2 Statement of Problem

The literature about the bottom of the economic pyramid and how the private sector can contribute to human development have foremost focused on the actual market at the bottom of the pyramid (Prahalad and Hart, 2002; Prahalad and Hammond, 2002; Prahalad 2010; Hammond et al. 2007; UNDP 2008), their purchasing power (Prahalad and Hart, 2002; Prahalad, 2010; UNDP 2008; Banerjee and Duflo, 2007), strategies and how to include the poor in business models (Commission on the Private Sector and Development, 2004; Leonard, 2005; Karnini, 2007; Prahalad 2010), and a number of successful case studies were both national and multinational companies have in one way or the other included the poor as producers, consumers, distributors or suppliers which have contributed to human development (Prahalad 2010, UNDP 2008, Nelson et al. 2009). It is within this context that the study will investigate what motivates multinational companies
to develop inclusive business models and commit to the Business Call to Action. It is within this context that the study will investigate what motivates multinational companies to develop inclusive business models and commit to the Business Call to Action.

Two multinational companies have been identified, Barclays Bank and Vodafone Group.

Barclays Bank is a well-known global financial services provider with over 300 years of history and expertise in banking. The bank has extensive international presence in the Americas, Europe, Asia and Africa and provides services as credit cards, personal banking, wealth and investment management, and corporate and investment banking.

Barclays Bank has first of all focused on the middle-income or high-income segment of the population and all banking process and products have been designed particular for this class. The potential of the poor as customers had been ignored and most mainstream banks ignored this segment of the market. In 2009, Barclays Bank developed an innovative partnership with Care International and Plan UK, two international renowned not-for-profit organizations whose work focus on poverty alleviation particular focusing on women and children, to extend financial services to the bottom of the pyramid. The initiative is called Banking on Change and addresses the financial exclusion of the people at the bottom of the pyramid. The primary aim is to encourage people to save rather than buying on credit and risk being caught in a debt cycle. Financial services are expanded to village saving groups to increase their spending capacity to be able to build up financial assets which can reduce their vulnerability. Based on the results, Barclays Bank will further develop services to the poor.

Vodafone Group is a world leading mobile telecommunications groups with noteworthy presence in United States, Europe, Asia Pacific, Africa, and the Middle East through the company’s subsidiary joint ventures, undertakings and investments. Safaricom Ltd is an associate to the Group and Vodafone owns 40% of the shares.

In 2005, a grant was awarded to Vodafone Group from the UK Department of International Development, to develop a mobile application for mobile money transfer to low-income consumers that had no access to financial services. Based on the fact that 70% of the
households in Kenya did not have bank accounts, Vodafone Group chose to launch the application in partnership with Safaricom Limited in Kenya in 2007, M-PESA. A vast network of Safaricom-accredited M-PESA agents was built around the country, creating entrepreneurs who earns commission on marketing, customer support and processing any transaction. Original thought as an application for loan borrowers to pay back microfinance loans, it was soon adapted as general money transfer service and captured a significant market share. The innovation that grew tremendously fast has triggered other developments of mobile money services.

1.3 Purpose of the study
The purpose of the study is to investigate the motivations behind multinational companies’ development of inclusive business models and commitment to the Business Call to Action.

1.4 Research Questions
1.4.1 What are the key features of the multinational companies focusing on inclusive business models – the bottom of the pyramid approach?
1.4.2 What are the challenges the multinational companies face when they work with the bottom of the pyramid?
1.4.3 What are the multinational companies’ strategies and opportunities at the BoP market?

1.5 Importance of the study
Inclusive business models have yet received little international recognition. I hope this study will contribute further to the inclusive business model debate and particular to “newcomer” companies to further explore opportunities in this area.

1.5.1 Multinational Companies
The study will contribute to a better understanding of what motivates MNCs to implement inclusive business models which can contribute to human development and in the long run a reduction of people living at the bottom of the economic pyramid. In addition, the study can also guide other MNCs which are considering developing inclusive business models
but are hesitant because of the challenging environment at the bottom of the pyramid. Hence, MNCs are among the primary beneficiaries of the study.

1.5.2 Development Community
Among the primary beneficiaries of the study is also the development community including donor agencies, private foundations and civil society organizations. The study can help the development community to get a better understanding of MNCs reasoning in this field which can contribute to better partnership between the business community and the development community. Further, the development community can get a better insight of successful business models which can be adopted in development projects. This can contribute to more successful and sustainable development projects which will benefit the people at the BoP.

1.5.3 Governments
Furthermore, governments in developing nations can get a better understanding of the challenging business environment at the BoP which can generate new policies in the field. This can benefit the business sector and make them more prone to invest further in the country. Governments can also learn how to appreciate the business sector and their important role in economic growth and development.

1.5.4 Researchers and Academicians
The study can also contribute to the academic discourse on the BoP approach and open up for other studies in the field. This will benefit all the actors interested in economic growth, commercial-viable business ventures and human development.

1.5.5 People Excluded from the Market
The secondary beneficiaries of the study are people that today are excluded from the global market. With a better understanding of MNCs motivations to implement inclusive business models that can generate more inclusive business models by other actors and in turn create more job opportunities and sources of income.
1.6 Scope of the Study

The study will be limited to MNCs that have recently adopted inclusive business models and which have also committed to the Business Call to Action initiative by the year 2012. The MNCs also need to have activities in Kenya. National companies and social enterprises committed to the Business Call to Action will be excluded. The study will include two multinational companies and will take place in the month of April, 2013.

1.7 Definition of Terms

1.7.1 Bottom of the Economic Pyramid

Bottom of the Economic Pyramid refers to the bottom tier of the economic pyramid market comprising billions of poor consumers (Prahalad, 2004). Prahalad (2004) argues that companies investing in innovation to reach BoP consumers can deliver profits and reduce poverty. Some goods and services directly enhance livelihoods or productivity (finance, health care) and some are more routine consumers goods, offered at affordable prices.

1.7.2 Inclusive Business Models

UNDP defines it as ‘business models that create value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organizations’ (UNDP, 2008).

1.7.3 Social Business or Social Enterprises

Social business is described by Muhammad Yunus (2008) as business that makes profits but reinvests them in the business, whose primary purpose is to help the poor. Similarly, ‘social enterprise’ describes any non-profit, for-profit or hybrid corporate form that utilizes market-based strategies to tackle a social and/or environmental need.

1.7.4 Mobile Money Transfer

Mobile phone money transfer is the process of transmitting money from one person to another through a mobile phone (Vodafone Group, 2013).
1.8 Chapter Summary

The chapter has introduced the reader to a market segment defined as the Bottom of the Economic Pyramid (BoP) where it is estimated that 4 billion of the world’s population belongs. The purpose of this particular study is to investigate the motivations behind multinational companies’ to develop inclusive business models and commit to the Business Call to Action. The study is guided by three research questions: what are the key features of the multinational companies focusing on inclusive business models – the bottom of the pyramid approach?; what are the challenges the multinational companies face when they work with the bottom of the pyramid?; and what are the multinational companies’ strategies and opportunities at the BoP market? The study is limited to multinational companies with activities in Kenya that have recently adopted inclusive business models and which also have committed to the Business Call to Action initiative by the year 2012. The next chapters will explore the purpose of the study further. Chapter 2 gives the reader more indebt knowledge to inclusive business models, the challenges at the BoP, and the opportunities. Also, the chapter looks at features of companies that have adopted inclusive business models. Chapter 3 describes the method that has been used for this study. The study has adopted an exploratory multiple-case design and anticipates that the findings in Chapter 4 will contribute to patterns which can be used to formulate a hypothesis of the phenomenon. Conclusions and recommendations will be presented in Chapter 5.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This study is guided by the three research questions. The chapter starts with defining inclusive business models and how companies can include the poor in their value-chain. Thereafter, it explores features of multinational companies that embrace inclusive business models. It further looks at the challenges of the BoP market, how to overcome these challenges and the opportunities at the BoP. The chapter ends with a chapter summary.

2.2 Key Features of Multinational Companies with Inclusive Business Models

This section starts to elaborate more extensively about inclusive business models and the limitations before ending with a number of features identified in companies that has embraced inclusive business models.

2.2.1 Inclusive Business Models and Limitations

Christian Nielson and Morten Lund (2012) explain in Business Models: Networking, Innovation and Globalization that a business model denotes to the value that a service or product passes to the customer, how the service/product is distributed, and how the profit is generated. Inclusive business models, on the other side, strive to achieve both financial and social impact (Growing Inclusive Markets, 2010). Yunus, Moingeon, and Lehmann-Ortega (2010) define inclusive business models as models that directly integrate low-income earning people at the bottom of the economic pyramid in the value chain as suppliers, distributors, entrepreneurs, retailers, employees and consumers.

To be successful the models need to generate profit to the business and at the same time improve the lives of those included in the model. Bonnel and Veglio (2011) further explain that inclusive business models have the potential in self-sustaining and self-multiplying ways to propel development that do not require infusion of grant funding.

The greatest contribution to development can be achieved through the companies’ core business operations and value chains according to Jane Nelson (2009), senior fellow and Director at Corporate Social Responsibility Initiative, Harvard University:
“There is growing evidence that commercially viable business linkages between large corporations and micro, small, and medium enterprises in developing countries can play a vital role not only in creating local jobs, improving livelihoods, supporting gender diversity and enhancing economic options, but also in transferring skills, technologies, quality management and sound business standards along value chains.” (Nelson et al., 2009)

Despite a number of examples of successful inclusive business models a high-level panel (please see Appendix A for the panelists) organized by CSR Europe said that there are limitations for these models to be successful and argued that these models usually need support from governments and donors. In fact, majority of the Western-based development agencies have in recent years set up funds to provide financial support to companies interested to pilot or launch inclusive business models.

None of the case studies of inclusive business models, mention if the initiatives have received external investments from these kinds of funds. One of the panelists, Marc van Ameringen, Executive Director, Global Alliance for Improved Nutrition, also noted that multinationals corporations need incentives to develop inclusive business models (Eudevdays.eu, 2012). Nevertheless, the panel concluded that it is difficult to achieve sufficient profits on investment in poor markets and that governments should be involved as both investors and consumer. Furthermore, financial instruments are needed to share the risk of bringing goods and services to the poor (Eudevdays.eu, 2012).

2.2.2 Features

Prahalad (2010), UNDP (2008), Kasturi Rangan, Quelch, Herrero and Barton (2007) and David Jackman (2010), Nelson (2006), and Bonnell and Veglio (2011) share a number of examples and case studies of companies that have successfully implemented inclusive business models. From the examples and the case studies there are certain characteristics and features of the companies that crystalize. According to Rosabeth Moss Kanter in her article When Giants Discover the Disadvantage – Managerial Challenges and Success Factors in Building Capacity to Serve Underserved Markets published in Business Solutions for the Global Poor (2007) the companies have an entrepreneurial outlook toward exploring new markets, new forms of employment, ventures, and affordable
products and services. Also Bonnell and Veglio (2011) highlight this feature. The companies want to make a positive impact and are not foremost driven by profit. Notwithstanding, profit is an incentive but not the ultimate goal.

Further, Bonnell and Veglio (2011) establish that companies that focus on their core competencies and strengths are more likely to innovate products and services around those strengths. They also note that if there is a consistency across the company’s portfolio of activities and the inclusive business model the success factor will be higher.

Other features are leadership and organizational structure. According to Corporate Citizenship (2012) a global corporate responsibility consultancy, the top leadership is passionate and committed to inclusive business models and drives the vision. Prahalad (2010) goes further and mean that the CEO could personally be involved. Ms. Kanter elaborates that the company has a strong internal culture that enables readiness to further explore BoP markets, knowledge to guide and evaluate new ventures to make sure that they are aligned with the company’s existing values. The companies also have committed employees that are willing to stay even during difficult times when the financial results are not very positive (Kasturi Rangan et al. 2007).

Corporate Citizenship (2012) published that companies that have a strong sustainability agenda and which have been very active in corporate social responsibility (CSR) seem to be particular prone to try inclusive business models. For instance, Interface, the world’s largest maker and designer of carpet tiles, after had been working for years with the environmental impacts of their operations wanted to investigate how they would be able to intensify the cost-efficiency and social benefits across the value chain.

Bonnell and Veglio (2011) write that successful inclusive business models have included partnership with other actors as governments and NGOs. The companies are open to new partnerships. The idea for the civil society to work closely with business has increased in the last decade. If a company involves a local organization that shares corresponding or complementary goals, the company can benefit from the local organizations on-the-ground expertise and also reach out to very remote villages and places. Also, local organizations
are usually trusted by the communities where they work, which will be an additional benefit to the company (Prahalad, 2010).

Taking advantage of local networks and local knowledge is another feature of companies working with inclusive business models. Developing countries do not usually have the necessary infrastructure or support systems for distribution channels, manufacturing capabilities, and market intelligence. By using local entrepreneurs and networks companies get access to this (UNDP, 2008). Further, companies recruit staff locally to be able to benefit from their understanding of the community and its culture (Kasturi Rangan et al. 2007).

2.3 Challenges for Multinational Companies Working with the BoP

This section will discuss the challenges of doing business at the BoP. The operating reality at the BoP is complex. There are unmet demands for basic services, limited market information, lack of educated and skilled personnel, ineffective regulatory environment, inadequate suitable infrastructure which are fundamental for all business, and restricted access to financial products and services. Further, an assumption that the BoP is not a viable market prevails among multinational companies and other actors, the so called Power of Dominant Logic.

2.3.1 Power of Dominant Logic

Power of Dominant Logic is according to Prahalad (2010) mental models that we have adopted. He explains that we “are prisoners of our own socialization” (Prahalad, 2010, p 30). Our experiences, ideology, and established management structures colors how we perceive the world and we act accordingly. Eric Kacou (2010), an expert in post-conflict economic reconstruction and a Mason Fellowship in public policy at the Harvard Kennedy School and the author of Entrepreneurial Solutions for Prosperity in BoP Markets explains further “Mental models are the shortcuts we routinely use in our choices and decisions: they are both the structure and the strategy” (Kacou, 2010, p 41). The mental models shape how we think, how we perceive the world, which in turn guides our behavior (Kacou, 2010). Each actor has its own mental models or dominant logic. MNCs for instance do not see the BoP as a vibrant market opportunity because of assumptions that have been built
over decades. Table 1 outlines some of the assumptions of MNCs in relation to BoP. The table has been adopted from Prahalad, 2010, p 32:

**Table 1: Assumptions of MNCs in relation to BoP**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>The poor are not our target customers; they cannot afford our products or services.</td>
<td>Our cost structure is a given; with our cost structure, we cannot serve the BoP markets.</td>
</tr>
<tr>
<td>The poor do not have use for products sold in developed countries.</td>
<td>We are committed to a form over functionality. The poor might need sanitation, but can’t afford detergents in formats we offer. Therefore, there is no market in the BoP.</td>
</tr>
<tr>
<td>Only developed countries appreciate and pay for technological innovations.</td>
<td>The BoP does not need advanced technology solutions; they will not pay for them. Therefore, the BoP cannot be a source of innovations.</td>
</tr>
<tr>
<td>The BoP market is not critical for long-term growth and vitality of MNCs.</td>
<td>BoP markets are at best an attractive distraction.</td>
</tr>
<tr>
<td>Intellectual excitement is in developed markets; it is very hard to recruit managers for BoP markets.</td>
<td>We cannot assign our best people to work on market development in BoP markets.</td>
</tr>
</tbody>
</table>

Mental models or the Power of Dominant Logic is possible to change. If changed, the world will be perceived differently by governments, companies, aid agencies, charitable organizations and individuals according to Prahalad (2010) and Kacou (2010) and it would be possible to overcome world poverty.

**2.3.2 Operation Reality at the BoP**

UNDP (2008) established in the report Creating Value for All: Strategies for Doing Business with the Poor that at the bottom of the pyramid there is limited market information and it is often a challenge for companies to get a real understanding of the market. In addition, Prahalad (2010) states that company knows too little about the poor. There may be pre-set understandings on what the poor’s needs are and what they prefer and what they can afford. Also, there is no real understanding on what skills and capabilities they can offer as business owners, producers, and employees.
Nelson et al. (2009) explains that the poor usually resides in villages, slums or crowded rural areas where there is a lack of roads and supporting infrastructure. Furthermore, UNDP (2008) writes that there may be limited or no access to electricity, telecommunication, water and sanitation hindering a smooth running of operations. In addition, UNDP (2008) emphasizes the lack of a regulatory framework. Companies need a regulatory framework to operate within, a precondition which is usually lacking in the markets of the poor. And the legal system that exists is easily manipulated putting poor in a disadvantaged position. Further, the lack of a solid legal systems compromise enforcement of contract and rules.

Consumers at the BoP have usually a limited educational background, explains Prahalad (2010) and their exposure and ability to access information and knowledge are limited. For instance, Confederation of Danish Industry (DI) writes in their brochure Working with the Bottom of the Pyramid – Success in Low-income Markets (2007) that in many areas people do not know the relationship between unclean drinking water and stomach problems. Therefore, a product that purifies water may not seem to be beneficial to the consumer, or the consumer has a challenge to grasp how to use the product. Consequently, the consumer will ignore the product. UNDP (2008) also found out that from the perspective of involving poor in supply, distribution and retail there may be a lack of understanding of quality products and the importance to have consistent supply and delivery. A customer expects a product at a set cost and on time.

Closely connected to consistent supply and delivery is the ability to store products and invest in assets. Kacou (2010) and Prahalad (2010) highlight that at the bottom of the pyramid there is a lack of credit and suitable insurances which may deter investments in assets and stocks. The income becomes therefore vulnerable to theft and illness. Also the lack of financial services or the ignorance of the benefit of financial services to this segment makes their financing expensive, inefficient and insecure.

2.3.3 Profitability
The previous section discussed external challenges for MNCs at the BoP market. These challenges can become internal challenges for MNCs. Any company investing in new
products or business models are interested in the bottom line. The executives will analyze if the planned action increases or decreases the net earnings or the company’s overall profit. Even when implementing an inclusive business model profitability is one of the main goals for the corporation. (Prahalad and Hart, 2002)

According to Chris White (2009), a business strategy consultant with Intellecap, before entering a new market the executives expects appropriate market information to be able to make a business decision which will contribute to the company’s bottom line. As mentioned, most MNCs do not have enough knowledge of the market and it can also be difficult to gather this data. In the developed market there is number of marketing research firms that would be willing to collect data to fill the gaps, though, this is not the case at the BoP market argues White. And even if there would be willing marketing research companies, the process could become costly because of the lack of available public data. Therefore, it could become a challenge to secure internal support when there is not enough data to estimate when the initiative will break-even and become profitable.

Further, inclusive business models usually run on low-margin business models (Prahald and Hart, 2002). Even if the market is huge the consumers are spread over more than hundred countries and have different needs or buying habits (White, 2009). Therefore, it can take time for the MNC to understand the local environment to be able to customize services, products, or business models. During a trial period it can therefore be hard to achieve profit and the company can make major losses. Mr. White (2009) means that MNCs need to have patient and be able to balance corporate pressures for profitability with commitments for sustainable social impact and local poverty alleviation. He noted that many initiatives by MNCs were canceled before reaching fruition because the executives in the corporations lost patience.

2.4 Multinational Companies Strategies and Opportunities at the BoP

Out of 82,000 MNCs only 3,000 are exploring inclusive business models according to (Hutchinson, 2012). The reasons have been discussed in the previous sections. This section will look at how companies can overcome the challenges and the opportunities at the BoP
2.4.1 Overcoming the Power of Dominant Logic

A change of mental models can help countries and people to overcome the Power of Dominant Logic. The change needs to take place on two levels according to Prahalad (2010) and Kacou (2010). One side of the coin is civil society, development partners and governments. These actors need to appreciate the role of business in wealth creation. On the other side of the coin, businesspeople need to embrace diverse beliefs and attitudes to generate human and stakeholder value while also generating profit.

Prahalad (2010) argues that, historically, it seemed like all actors within development had agreed that market-based solutions could not lead to economic development and poverty reduction. However, in the last decade that assumption has started to change which may lead to that more multinational companies adopt inclusive business models.

On the other hand, there is still a very high reliance from both sides on development aid’s benefits. This is despite clear facts stated by people as Dr. Dambisa Moyo, an international economist and commentator on the global economy, who in her book Dead Aid (2010) show how $1 trillion in development-related aid to countries in Africa has not generated economic growth, instead many countries have gone deeper into poverty. It clearly shows that the Power of Dominant Logic needs to change among all actors.

2.4.2 Build Trust and Enable Prosperity Partnerships

In many developing nations people do not trust each other. It may be traced back to the day of colonialism when many countries were exploited. Also leaders have taken advantage of their positions to benefit themselves and the lack of checks and balances in public institutions have fostered an environment without trust and where the high cadre staff takes advantage of the low cadre staff who in turn takes advantage of the service receiver. Kacou (2010) and Prahalad (2010) mean that poverty usually put people in an exposed position and therefore it is very important that businesses working at the bottom of the pyramid try to build trust among its stakeholders. According to Prahalad (2010) the most important stakeholder in inclusive business models are usually the poor. UNDP (2008) writes that a company can increase trust, access and accountability by building on the poor’s social networks when engaging them as intermediaries. At the same time, the businesses expand involvement in their value chain and nurture their markets.
UNDP (2008) further explains that trust and also knowledge of the context are two key assets for inclusive business models, therefore, the poor should not only be engaged as intermediaries but also in other processes such as gathering market information. Further, Prahalad (2010) notes that the unique social networks at the BoP makes the people more keen to share information with someone from the same community, not only that, but also when it comes to buy products. Allan, Massu, and Svarer (2013), authors of *Banking on Change: Breaking the Barriers to Financial Inclusion*, explain that also the communities tend to pool the resources so that they can help each other, for instance it is very common with saving groups where a group of people come together and contribute a small amount of money each month. Each month one of the group members get the pot of money and can then make a purchase which the person would not otherwise be able to afford.

Austin, Márquez, Reficco, Berger, Fedato, Fisher … Prado (2007) argue in Building New Business Value Chains with Low-Income Sectors in Latin America that in addition to build trust with stakeholders, inclusive business models usually partner and collaborate with other institutions as non-profit organizations and public service providers. The partnerships need to be mutually beneficial for both parties and should build on their complementary strengths. By building partnerships the company can gain access to unique knowledge and capabilities for the particular environment. Prahalad (2010) notes that many non-profit organizations possess knowledge about the specific market, may have developed useful networks in rural areas, and built up trust among the communities. UNDP (2008) further highlights that partnership can also be built with other businesses such as banks than can provide credit and loan to entrepreneurs involved in the company’s inclusive business model. The company can then be the guarantee and by so secure the loan.

2.4.3 Focus on Solutions and Operate Efficiently and Sustainably

According to David Jackman and Janet Breeze (2010), authors of Inclusive Business Guide published by International Business Leaders Forum, a global membership organization with over 150 multinational companies, companies need to embrace the poor as a desirable, viable and exciting market and further develop products and services suitable particular for them. Companies need to find out the needs of this market, which may be different than other markets. The processes, systems and activities need to be focused on
whom the services and products will be sold to and even include them in the innovation stage. Moreover, UNDP (2008) mean that to operate efficiently of the tasks in the business models should be outsourced to poor. Studies have showed that when tasks are taken over by the poor, the transaction costs for the business drop at the same time the benefits for the poor are an increased income, skills and knowledge and also social standing. This strategy is also recommended by among others Prahalad (2010) and Hammond et al. (2007).

Further, Prahalad and Hammond (2002) explain that the poor’s individual purchasing power is low but with a focus on high volumes and low profit margins it is possible to generate a profit. Good oriented business models focus on affordability – quality and low priced products – that fits the consumption habits of poor. Hindustan Lever Limited (HLL), Unilever’s Indian subsidiary saw this opportunity and invented the shampoo sachets – small single-serve plastic packets of shampoo for as less as $0,022 which the rural and poor consumers were able to afford. The innovation of single-serve sachets became a success among the poor so that many other brands started to offer other products in single service-packets such as coffee and tea power, detergent, and tooth paste (Trendwatching, 2004).

On the other hand, Nelson (2006) argues that companies need to be set on delivering products and services that are both resource efficient and environmental friendly. Single-serve sachets are not very resource efficient. One way to achieve resource efficiency is to use the new technology. Jackman and Breeze (2010) mean that technology has offered new energy solutions where for instance solar energy and research in the same has generated new products which improve the lives for the poor and create sustainable environmental solutions. A solar lamp can extend opening hours in a small kiosk, help children when they do their homework, and at the same time improving their health when they don’t need to breathe in kerosene vapor.

2.4.4 Invest to Remove Market Constraints

According to Kasturi Rangan et al (2007) in ordinary circumstances governments adopt policies to create conducive investment climate. However, at the BoP market, removing market constraints usually become the task of the companies with inclusive business
models. Constrains can entail skills and knowledge of employees, infrastructure, or access to financial services and products. UNDP (2008) means that it can be cost-effective for a company to invest to remove these constraints, if it creates private value that is capturable and tangible, and at the same time ensure necessary benefits to the company. Jackman and Breeze (2010) identified that lack of vocational and technical skills are a major challenge when companies try to recruit people from excluded groups in the society. These people may have been excluded because of their ethnicity, gender, disability, class or socio-economic background. For instance, to ensure inclusive employability ICICI Bank in India has initiated an e-learning and technology based education in partnership with academic institutions - ICICI Probationary Officer Programme/Industry-Academia Partnership. The programme target young people from disadvantage low income areas that are usually ignored by other companies because they also represent socially marginalized groups. By building their technical skills, ICICI builds a pool of motivated and loyal workers with the right skills for their core business. At the same time, they are challenging social and economic inequalities which bring benefits to the society (ICICI Foundation, 2011). Allan et al. (2007) writes that the approach is particular interesting for companies that wants to expand into BoP markets. Not only will the companies have technical trained employees but the employees will possess essential local knowledge of these markets based on their upbringing. Also, the companies’ reputation can be enhanced because their employees come from the communities. Hence conclude Allan et al. (2007) investments to remove market constraints can be cost-effective for the company.

Further, Rose, Schneider and Tufano (2007) emphasize in their article H&R Block’s Refund Anticipation Loans – Perilous Profits at the Bottom of the Pyramid that investments like the example have also a public and private value. A more skillful workforce benefit the country at large, and the individual’s opportunities on the market can increase, contributing to human development which is one of the goals of inclusive business models.

2.4.5 Engage in Policy Dialogue and Utilize Social Networks
Market constraints and lack of a regulatory framework are two challenges at the BoP market that have been mentioned. It has also been suggested that companies can invest to
remove market constraints or work around them. Notwithstanding, Nelson (2006) also recommend that companies involve themselves in policy dialogue with both developing country governments and donor governments. Policymaking is a continual and complex process where companies can contribute with their insights, highlight problems and possible solutions. However, UNDP (2008) cautions that to engage companies in policy dialogues can also be controversial. There is always a risk that internal interests which are only benefitting one party are driving the agenda. To avoid this, space should be created where companies, government, and other sectors can meet to discuss frank and transparently how the business environment can be improved. Collaborative actions of companies and other sectors can give businesses a strong and legitimate voice in policymaking.

Policy dialogue can generate better regulations for companies with inclusive business models, but as mentioned it is a long and complicated process. In the meanwhile, UNDP (2008) summarize that companies should leverage on the strengths of the poor and take advantage of their social networks. At the BoP market it is difficult to enforce formal laws and regulation, but where poverty prevails informal rules are set by the communities and are enforced more effective than formal laws. These kind of informal rules can make inclusive business models viable (UNDP, 2008).

2.4.6 Commercial Opportunities at the Bottom of the Pyramid
2.4.6.1 The Market Size and High Growth Rates
As mentioned in chapter 1, the BoP market is vast. Based on UNDP (2008) and Hammond et al. (2007) calculations it is estimated to include more than four billion consumers with a combined purchasing power of $5 trillion. Prahalad( 2010), UNDP (2008), Confederation of Danish Industries (DI) Service (2007) all argue that very few companies have paid attention to this segment of the market and a large number of services and products are currently unavailable for people at the BoP. Therefore, it is a great opportunity for companies with resources and a strong research and development department to take advantage of. Prahalad and Hammond (2002) caution that to invest in the BoP market the company needs to take huge risks and also be patient. Further, to break-even will take
longer time because it needs to be a focus on extremely high volume sale rather than high profit margins.

According to DI Service (2007) many BoP markets are in countries which experiencing very high growth rates. As an example several African countries have growth rates of 5 percent and countries in Asia and Latin America are growing at an even faster pace (Wikipedia: Growth rate, 2013). With the expected growth rates people will move from the BoP to other higher income tiers in the economic pyramid, meaning that a company investing and present in the BoP market today builds market for the future.

Furthermore, DI Service (2007) notes that based on the fact that many companies target the middle tiers of the economic pyramid the competition at the BoP segment is low. Also, the BoP is not saturated with services and products and therefore the potential of rapid growth and profit for new innovations are high. With the right knowledge and understanding of the environment there are high numbers of business opportunities and possibilities.

2.4.6.2 Cost-saving, Innovation and Spill-overs Opportunities

Bonell and Viglio (2011) write that inclusive business models can take advantage of local production, local suppliers and distributors which can lower the overall production costs substantially and strengthen the value-chain. Many developing countries have high unemployment rates which consequently mean a large source of labor. DI Service (2007) argues that with investments in training and well-targeted marketing, high-quality products and services can be produced and delivered by the poor. Overall, compared to developed markets, the cost structures are lower in developing markets.

Furthermore, DI Service (2007) introduce the idea that innovations for the BoP market can have the potential to act as incubator of new products and technologies in developed market. For instance, mobile money transfers piloted on the Kenya market and further introduced in other developing markets have now been adopted in developed markets with slight improvements. In Sweden it is possible to send and receive money via your mobile number from your bank account to someone else mobile number. The product is called
“Swish” (Swedbank, 2013). New innovations can contribute to a company’s competitiveness.

2.5 Chapter Summary

This chapter has discussed inclusive business models, features of MNCs adopting inclusive business models, challenges, and MNCs strategies and opportunities at the BoP market. Inclusive business models were defined as models that strive to achieve both financial and social impact and also integrate low-income earning people at the BoP in the value chain as suppliers, distributors, entrepreneurs, retailers, employees and consumers. MNCs successfully pursuing inclusive business models have features as an entrepreneurial outlook, focus on their core competencies, the senior management is committed to the models and drives the vision. Further, the companies have a strong sustainability agenda, are open to partnership with non-traditional partners, and take advantage of local networks and knowledge.

The operation reality at the BoP is difficult and complex. There is limited market information and companies know too little about the poor. Furthermore, there is a lack of infrastructure and regulatory framework. The customers or producers have limited educational background and their exposure and ability to access information and knowledge is limited.

The strategies that MNCs implement at the BoP market to overcome some of the challenges are to build trust among its stakeholders, engage the poor as intermediaries and in gathering market information, partnering with non-profit organizations and public service providers. Further, MNCs should focus on solutions for the poor, operate efficiently and sustainably, invest to remove market constraints, engage in policy dialogue and utilize social networks. The opportunities in the end are a big market with high growth rates, cost-savings, innovation and spill-overs opportunities.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design used, the population and sample technique. It also
presents how the field research was done and further how the findings were analyzed.

3.2 Research Design

This research is a comparative case study examined through a phenomenological
methodology. A case study approach can be used to examine a phenomenon. According to
Allen (1990), a phenomenon is “a fact or occurrence that appears or is perceived,
especially one of which the cause is in question” (Allen, 1990, p 893). Hence,
phenomenology is the science of phenomena and tries to understand actions from the unit’s
own reference or frame (Collins and Hussey, 2003). Collins and Hussey (2003) explain
that “This quality approach stresses the subjective aspects of human activity by focusing
on the meaning, rather than the measurement, of social phenomena” (Collins and Hussey,
2003, p 53). The phenomenon the research tries to understand is the motives of
multinational companies’ development of inclusive business models and commitment to
Business Call to Action.

This research adopted an exploratory multiple-case design. The exploratory research
design was used because to the knowledge of the researcher there are no earlier studies done
on the phenomenon and the researcher tried to look for patterns to be able to formulate a
hypothesis. Case studies are a typical technique in exploratory research and usually the
research design does not provide any conclusive answers to the phenomenon studied.
Instead the research will guide future research in the same topic. (Collis & Hussey, 2009)
The units of analysis – the case - will be two companies therefore the study is a multiply-
case study or also called an extended case study. Yin (2012) notes that multiple-case
design is generally more difficult to implement compared to a single-case design, however
the benefit is that the ensuing data can provide greater confidence in the findings. Each
case aims to investigate a complementary facet of the purpose of the research and to find
out if the condition is replicated (Yin, 2012). In other words, are the motivational factors similar for the two companies?

3.3 Population and Sampling Design

3.3.1 Population

Collis and Hussey (2009) describe a population as a “precisely defined body of people or objects under consideration for statistical purposes” (Collis & Hussey, 2009, p 62). The total population in this study comprised of the 63 companies that were members in 2012 of the Business Call for Action initiative. The total population’s characteristics were 46% large multinational companies, 24% small and medium sized multinational, 22% small and medium sized nationals, and 8% large nationals. Within the category of small and medium, in both categories, small and medium is defined as 500 employees or less. The population distribution is illustrated in Figure 2 (BCtA, 2012).

![Figure 2: Population Distribution](source: Reprinted with permission from BCtA secretariat)

Further, 13 companies are active in Kenya, though seven of them are social enterprises and only 6 can be defined as multinational companies.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame
Sampling frame is according to Collis and Hussey (2009) a register of the population and in this explorative case study the sampling frame was drawn from the Business Call to Action’s website guided by the Business Call to Action’s annual review of the year 2012.

3.3.2.2 Sampling Techniques
The method used to select the sample was a version of judgmental sampling. Collis and Hussey (2009) describe judgmental sampling as being similar to snowballing sample where the respondents are chosen based on their experiences of the phenomenon being studied, and then recommend other respondents with similar experiences to the researcher. The difference is that in judgmental sampling the researcher decides who to include prior to the field research and does not contact other respondents that may have been mentioned during the course of the study.

3.3.2.3 Sample Size
This study focuses on two cases that are expected to give the researcher insight into a causal correlation across a larger population of cases. The objective of the case study remains the same regardless of the size of the chosen sample. According to Gerring “cross-case analysis and case study analysis both aim to identify cases that reproduce the relevant causal features of a larger universe (representatives) and provide variation along the dimensions of theoretical interest (causal leverage). In case study research, however, these goals must be met through purposive (nonrandom) selection procedures.” (Gerring, 2007, p 88). Further, professor Bent Flyvbjerg at Aalborg University, Denmark writes in his article Five Misunderstandings About Case-Study Research that it is better to select cases based on their validity (Fjyvberg, 2006). Therefore, the selection of cases was guided by the following criteria: (1) multinational companies committed to the BCtA and operates in Kenya, (2) and that has adopted inclusive business models for some of its products and services. Yin (2012) argues that there is no existing formulaic solution to determine the needed sample size in a case study research to draw conclusions; therefore, the researcher selected two cases offering financial services, Barclays Bank and Vodafone Group.
3.4 Data Collection Method

The researcher did an initial literature review to get a better understanding of inclusive business models and the two cases. Thereafter, the study used a primary source of data; open-ended interviews also called “non-structured interviews”. Open-ended interviews offer more extensive and richer material than structured interviews or open-ended survey instruments. It also assumes a more conversational mode which will allow the researcher to ask follow-up questions which will help to reveal how case study respondents think about situations and construct reality. This is of importance with reference to mental models discussed in Chapter 2. The second source of data was documentation and publications that the respondents referred the researcher to.

The open-end interview guide (see Appendix B) was divided into four sections: the first section analyzed general information about the company and the inclusive business model recognized by BCtA initiative; the second section of the tool tried to explore if the two companies manifested any of the key features of multinational companies focusing on inclusive business models, the third section looked at the challenges the companies face when working at the BoP market and fourth section the companies strategies and opportunities at the BoP market.

3.5 Research Procedures

The researcher did initial introduction contacts with Barclays Bank and Vodafone Group/ Safaricom Limited via email. In the case of Barclays Bank, the head office in UK was approached before approaching the Citizenship team in East Africa. The purpose of the study was explained and the themes of the open-ended questions shared and request for a Skype interview with the representative in UK. For the representatives in East Africa, meeting was supposed to take place but because of time constraints from respondents’ side, the interviews were made via telephone.

Vodafone Group and Safaricom Limited were approached in a similar way. Vodafone Group’s head quarter in UK was contacted and directed the researcher to the appropriate respondents. After a brief introduction and the presentation of the study, a time was found for a longer telephone conversation. For Safaricom Limited, initial contact was taken via
LinkedIn and extended to email. Once again, based on time constraints from respondents’ side, interviews were made via telephone.

3.6 Data Analysis

The researcher will take extensive notes and based on that the researcher will try to understand what is essential and typical in the interviews. Combined with former experiences and knowledge it will be possible to find important empirical patterns. Secondly, the researcher will code the material. Coding means that keywords or themes are found in the material. The purpose of the study constitutes an important starting-point for the researcher’s judgment of which contextual and theoretical contexts that are most relevant for the material that is coded. Hence the coding develops partly inductive with the empirical material as foundation, and partly deductive with origin in concepts and theories from earlier research. The researcher will code the notes by studying the interviews structured by minutes and systematically extracted “theme” parts to a matrix like document. Thereafter the researcher will study the theme groups to discern different aspects in the matrix like document. The coding will hopefully result in categories. Categorization of the material is helpful when further analyzing the empirical material. Finally everything will be attached together. By concluding the information, patterns and trends in the material, a description was produced to the reader in form of a result.

3.7 Chapter Summary

This chapter has outlined the research methodology adopted in conducting the study. The research adopted an exploratory multiple-case design. The total population under study comprised of 63 companies that were members of the BCtA initiative. Out of the 63 companies 6 were identified as multinational companies being active in Kenya. The sampling frame was drawn from the BCtA’s website guided by the BCtA annual review of the year 2012. The sampling technique used was judgmental sampling. The researcher did an initial literature review to get a better understanding of inclusive business models and the two cases. Thereafter, the study used a primary source of data; open-ended interviews. The second source of data was documentation and publications that the respondents referred the researcher to. The material was analyzed and the findings are presented in the next chapter.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results of the data collection from Barclays Bank and Vodafone Group. The purpose of the study was to investigate the motivations behind multinational companies’ development of inclusive business models and commitment to Business Call to Action. The study was guided by three research questions which tried to answer what the key features are of multinational companies focusing on inclusive business models, what kind of challenges the companies face when working with the bottom of the pyramid, and what are the strategies and opportunities at the BoP market. The chapter presents an analysis of the findings and has to a great extent been structured based on the research questions. Based on that the interviews were done via telephone/skype all answers were not elaborated fully and the researcher was referred to company reports to fill the gaps. To note is that Safaricom Limited belongs to the Vodafone Group and therefore the companies are treated many times as one in the findings below. When the findings refer particular to Safaricom Limited it is indicated.

4.2 General Information

The researcher found that both companies have in the last decade adopted inclusive business models. The models that have been recognized by the Business Call to Action initiative were the Banking on Change initiative by Barclays Bank and M-PESA innovated by Vodafone Group. The initiatives promote access to basic financial services for people in the BoP market.

Banking on Change addresses the financial exclusion of the people at the bottom of the pyramid according to the respondents. The primary aim is to encourage people to save rather than buying on credit and risk being caught in a debt cycle. Financial services are expanded to village saving groups to increase their spending capacity to be able to build up financial assets which can reduce their vulnerability. Based on the results, Barclays will further develop services to the poor.
M-PESA is a mobile application for mobile money transfer which was launched in Kenya in 2007. The respondents noted that original thought as an application for loan borrowers to pay back microfinance loans, it was soon adapted as general money transfer service and captured a significant market share. A vast network of accredited M-PESA agents was built around the country, creating entrepreneurs who earns commission on marketing, customer support and processing any transaction.

4.2.1 Features of the Models
For Barclays Bank, the model is within the company’s core competence. The bank is a global financial service provider and its inclusive business models try to extend their services to an undeserved market. On the other hand, Vodafone Group’s product was not part of the company’s core competence. Vodafone Group’s competencies were within voice or data products and not financial products. However, it was explained that it was the development debate at the time which encouraged public-private partnerships and mobile companies’ ability to adopt new technology that sparked the idea.

The inclusive business model that Barclays Bank has pursued is according to the collected material within the bank’s core portfolio of activities. As explained of respondents, the bank offer financial services and has now extended its reach to a new market. On the other hand, Vodafone Group entered a new field dominated by banks and microfinance institutions. The companies did not know how they would be received and it was a lot of skepticism that a mobile company would offer financial services. Even at the time when the service was launched in Kenya, it was a lot of rumors circulating questioning if the product was not another pyramid scheme.

4.2.2. Successfulness and Sustainability
Respondents explained that Vodafone Group was not aware of the potential of the service. One respondent clarified that initial the service was intended as a tool to cheaply and easily pay back micro-loans. However, during the pilot stage the Vodafone Group team in Nairobi followed the transactions taking place and realized that the users had a number of needs which M-PESA apparently cheaply and easily helped them with. Among examples mentioned were payments for trading, small business using it as an overnight safe because
banks closed early, and deposit of money before a journey and then withdrawing it at the destination to avoid traveling with a lot of cash.

For Barclays Bank the inclusive business model has according to the respondents been successful in terms of new product development and new customers from the BoP market. Examples given were group-based saving accounts (Kenya Uwezo account) which are being piloted and in Uganda an overdraft facility has been launch. Respondents also meant it has bridged informal saving groups with the bank, and mean that the information they share with the bank can lead to other new products for this particular market. The respondents from Barclays bank consistently emphasize that the initiative is part of the banks Citizenship agenda, corporate social responsibility.

The concern that inclusive business models are not self-sustaining and usually need external funding was elaborated from two different perspectives from the two companies. In the case of Vodafone Group, the idea would never have seen the daylight if it was not for a possible partnership with a challenge fund, in this case U.K. government's Department for International Development’s (DFID) Financial Deepening Challenge Fund. The senior management of the company was hesitant to invest research in a project which was not within their core competence and without external funding the senior management would not have supported the idea. The success of M-PESA has according to the company proved its sustainability. With a small profit margin and a high number of users the inclusive business model is self-sustaining.

Barclays Bank on the other hand, considered the model to be part of its citizenship agenda and invested 10 million pound in the initiative. According to the respondents, the sustainability of the model is based on that the bank deals with the groups and not individuals.

4.3 Key Features of Multinational Companies with Inclusive Business Models

4.3.1 Entrepreneurial Outlook and Sustainability Agenda

The respondents from Vodafone Group said that the company today is more open to explore new markets and new ventures because of the experiences of M-PESA. That the products and service they offer are affordable for the customer is key in the telecom
market. Further, it was explained that with the mobile phone explosion in emerging markets, affordable services and products are even more important because of the stiff competition. It was generally agreed by all respondents from the Vodafone Group that the driving force was growth and to stay competitive. When further asked about M-PESA it was explained that the model was initiated under the auspice of corporate social responsibilities initiatives and driven initial by that agenda. Vodafone Group explored what kind of role they could play in addressing sustainable development initiatives. But at the same time, one of the respondents emphasized that what what started out as a contribution to sustainable development for Vodafone Group became an important core business activity for Safaricom Limited.

Respondents from Barclays Bank meant that generally banks are very traditional, but in a time when it is important to take a social responsibility as a company, even Barclays bank has gone out of its way to explore new markets and ventures. With reference to the inclusive business model, the respondents explained that this particular model is under their Citizenship agenda. However, it has become a driving force for the bank to explore new products for the particular market based on the positive results of Banking on Change.

4.3.2 Support from Senior Management
The idea to explore Banking on Change was initiated from the bank’s Citizenship department. Though, one of the respondents explained that a sub-committee to the Barclays PLC Board of Directors has been established, the Board Citizenship Committee, to make sure that it does not become a side activity. Further, Barclays globally has invested in human resources responsible for Citizenship initiatives. One respondent explained that depending on the country the Citizenship initiative takes different forms but the main agenda is to support and include excluded people in communities in the formal banking sector.

For Vodafone Group, one of the respondents explained that initial the senior management did not support the inclusive business idea. It was a particular person in the corporate department that was the driving force behind the idea and put together a proposal to DFID.
When external funding had been secured it was easier to get support from some senior executives.

### 4.3.3 Partnership with other Actors

When M-PESA was developed, an initial partnership was created between the networks operators (Vodacom in Tanzania and Safaricom Limited in Kenya), a micro-finance institute (Faulu Kenya), and a commercial bank (Commercial Bank of Africa), explained one of the respondents. The respondent clarified that considering that the company did not have the competence, it was crucial to develop partnership with actors with different set of competencies. Today, when M-PESA is a matured and accepted product Safaricom Limited has further developed partnerships with different actors.

Also Barclays Bank has partnerships. The Banking on Change initiative is a partnership between Barclays Bank, CARE International UK and Plan UK. The respondent explained that to be able to implement a successful Citizenship program it was essential to bring in partners with unique expertise of the poor. Through the partnership, explained one of the respondents, Barclays Bank’s employees were able to directly interact with these savings groups and learn the specific needs of the market.

### 4.3.4 Localizing the Value Chain

The final questions in this part explored how the value chain had been localized. In the case of Vodafone Group it came out very clear that they took advantage of Safaricom Limited’s distribution networks consisting of airtime resellers that are independent entrepreneurs. One of the respondents explained that the same entrepreneurs were further used to train agents to operate M-PESA transactions.

A respondent from Barclays Bank explained that the point of the partnership was to utilize the local networks of their two partners. And as mentioned earlier, in the process of implementing the Banking on Change initiative the bank’s employees directly interacted with the savings group on the ground and based on the information they got they could develop new products that are being piloted at the moment.
4.4 Challenges for Multinational Companies Working with BoP

4.4.1 Lack of Knowledge of the BoP Market

The researcher tried to find out if the Power of Dominant Logic had been a challenge for the companies. Though, the representatives interviewed were very hesitant to discuss the issue. Therefore, the conversations were led towards the operation challenges experienced.

Barclays Bank did not know much about the market before the venture. However, one respondent explained that when the initiative was discussed with the two partners, the bank got a better understanding. The respondent also noted that the point of the partnership was to be able to complement each other; Barclays Bank knows about banking and financial management, the NGOs about the needs of the poor. The researcher learnt from reports that both NGOs have long experiences working with the BoP market and in their work they had introduced the methodology of village saving and loan groups. One respondent narrated what an eye opener it was to interact with the poor. The respondent understood that both the bank and the poor could mutually benefit from each other. An example was given, when the NGO partners had had a training and the respondent came to the village, one villager explained the advantage of saving money in a formal institution for the respondent, and further that these institutions are not only there for rich people.

For Vodafone Group, one of the respondents explained that they knew that Kenya was not the main market for them, but that mobile phone penetration was high and steadily increasing. Also, the product was within their corporate social responsibility department so profitability was not that important. The respondent remembered that a meeting was organized in Dar es-Salaam with relevant stakeholders from the financial industry. The respondent recalled that among others were microfinance institutions in the meeting. The outcome was according to another respondent that there is a need to make finance easily accessible to the customers. With Vodafone Group’s knowledge from the development debate they knew that financial inclusion was a critical issue for this segment of the market. In the further discussions Vodafone Group assumed microfinance institutions represented the voice of the poor because they interacted with them on a daily basis.
4.4.2 Lack of Product Knowledge

On the question of what other operation challenges the company had faced, Vodafone Group respondents highlighted knowledge about technology and electronic money. The initial users had never used a bank and therefore they were skeptical to the safety of their money. Also, the users did not know the different functionalities of a mobile phone. In their initial trainings a respondent explained they had to start with the basics as what is an application on a mobile phone and how do you find your text messages. Later another challenge was experienced, the agents that were employed were very skeptical to give out cash from their employer’s cash box based on a text message. When the product had been on the market for some time, the customers started to teach each other how to use the services and investment in trainings could be reduced.

4.5 Multinational Companies Strategies and Opportunities at the BoP

4.5.1 Building Trust

Barclays Bank’s respondents explained that employees tried to build trust by directly interact with the poor. One respondent mentioned that branch employees visit villages and meet with saving groups. Further, in those places where group-savings accounts are being piloted, the village group members visits Barclays Bank’s branches regularly.

For Vodafone Group, the respondents explained that Safaricom Limited had a strong corporate brand recognition from this segment of the market before M-PESA was introduced. But still, they invested a lot in marketing for the product and used the credit reseller networks to explain for villagers how they could receive money from relatives in Nairobi.

4.5.2 Operate Efficiently and Sustainable

The literature means that companies operating at the bottom of the pyramid need to focus on solutions and to operate efficiently and sustainable. Two different patterns emerge from the findings on this topic. Vodafone Group developed a product that gave people at the BoP with a mobile phone or who knew someone with a mobile phone access to financial services. Many of these people did not see the traditional banks as an option. During the pilot phase the customers were clients of microloan institutions, however, they realized the
potential of the product beyond the initial thought. They did not only use it for paying back
their microloan but started to use it for other financial services’ needs as well. When
Safaricom Limited finally launched it nationally they took advantage of the “solutions”
that the initial customers had discovered. By limiting barriers which are experienced at
traditional banks the service has attracted millions of users. The economy of scale with
small profit markets makes the service affordable for the poor and at the same time a
profitable business stream for Safaricom Limited. The product is based on mobile
technology which is both efficient and sustainable. Further, the respondents emphasized
that the product had contributed to their competitive advantage in a very competitive
market.

Barclays Bank is the traditional bank that many of the people at the bottom of the pyramid
shy away from. Therefore the bank used two NGOs as an entry point and developed a
product particular based on these people needs. The Kenya Uwezo account, the group-
saving account, has free withdrawals and free deposits, no maintenance fee but a single
monthly fee, low opening balance (Ksh 2,000), and interest paid monthly. The account is
easily opened by the group’s constitution, national identification card, and minutes from
the group stating the purpose of the account. A challenge that has not been solved but
maybe eased is the physical access to a bank branch. As understood from the respondents,
the groups sponsor one or two persons in the group to physical visit the bank. On the other
hand, the respondents argued that Banking on Change is one step on the path of financial
inclusion.

4.5.3 Invest to Remove Market Constraints
Lack of knowledge and skills were identified in both case studies as a market constraint
and both companies invested in training. Another market constraint mentioned of
Vodafone Group was the lack of banking license. Therefore, the Central Bank of Kenya
(CBK) was engaged and when CBK gave their clearance, they launched the product
nationally.
4.5.4 Policy Dialogue

Also the respondents explained that at that time, there were no regulations for e-money products such as M-PESA, however, Vodafone Group indicated at an early stage that they were interested to be involved in a policy dialogue.

Barclays Bank is also involved in policy dialogue. As an example given was a report written on behalf of the Banking on Change Partnership, *Banking on Change: Breaking the Barriers of Financial Inclusion*. The report discusses barriers to financial inclusion for the poor and what can be done to break these barriers. Both companies emphasized their role in policy dialogue.

4.5.5 Opportunities

Vodafone Group respondents said that when M-PESA’s trial project came to an end they realized that they might be onto something big. Figures from shared reports indicate that after 9 months after launch, M-PESA had registered one million customers. After two years, there were five million customers. Therefore, the respondents agreed that it is a big commercial opportunities for them at the bottom of the pyramid which they have further explored in other countries as well. Also, it has contributed to Safaricom Limited’s growth. M-PESA brings in more than 30 per cent of the overall revenues and had in the end of 2012, 17.1 million users.

Barclays Bank respondents are well aware of that there are millions of people who are excluded from the formal financial sector. If the bank will be able to build on that is another question, but they mean that it is very important to diminish the barriers for excluded groupings. As the initiative is within their Citizenship agenda the bank don’t expect to break-even on this particular model.

4.6 Chapter Summary

The chapter has captured the key findings of the material collected via conversations with key respondents from the companies. The findings established that the companies implement inclusive business models and the models that had been recognized by the Business Call to Action were M-PESA for Vodafone Group and Banking on Change for Barclays Bank.
The companies have some of the key features of multinational companies that pursue inclusive business models. The findings crystalized particular features such as an entrepreneurial outlook, support from the senior management, knowledge within the organizational structures, open for partnership with other actors, and localizing the value chain.

Further, the challenges that the companies faced at this particular market were overcome by the kind of partnership that they had established. Finally, both companies have involved themselves in policy dialogue to the benefit of their customers. The next chapter will present a discussion on the findings of the research, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings of the research as compared to the findings of the literature review. The chapter starts with a summary of the study, thereafter a discussion of the major findings and conclusions of research questions. The chapter ends with overall recommendations to companies interested to explore inclusive business models and recommendations for further studies in the field.

5.2 Summary of the Study

The purpose of the study was to investigate the motivations behind multinational companies’ development of inclusive business models and commitment to Business Call to Action. The study was guided by three research questions which tried to answer what the key features are of multinational companies focusing on inclusive business models, what kind of challenges the companies face when working with the bottom of the pyramid, and what are the strategies and opportunities at the BoP market.

The research adopted an exploratory multiple-case design. The total population in the study comprised of 63 companies that were members of the Business Call to Action initiative. Out of the 63 companies, 13 companies were active in Kenya and out of the 13, 6 were identified as multinational companies. The sampling frame was drawn from the Business Call to Action’s website guided by the Business Call to Action annual review of the year 2012. The sampling technique used was judgmental sampling. The study used two case studies, Vodafone Group (and in extension Safaricom Limited) and Barclays Bank. The researcher did an initial literature review to get a better understanding of inclusive business models and the two cases. Thereafter, the study used a primary source of data; open-ended interviews also called “non-structured interviews”. The second source of data was documentation and publications that the respondents referred the researcher to. The material was coded and particular themes were identified in the material and presented descriptive.
The findings established that the companies implement inclusive business models and the models that had been recognized by the Business Call to Action were M-PESA for Vodafone Group and Banking on Change for Barclays Bank. For Barclays Bank the inclusive business model was within their core competency, while Vodafone Group entered a new field. Even though, both companies perceived the models to be successful and contribute to further product development and growth. Both models initiated within the companies department of corporate social responsibility. In the case of Vodafone Group, it became a mainstream business for Safaricom Limited in Kenya. Further, Vodafone Group got external funding while Barclays Bank invested own funds.

The companies have some of the key features of multinational companies that pursue inclusive business models. The findings crystalized particular features such as an entrepreneurial outlook, support from the senior management, knowledge within the organizational structures, open for partnership with other actors, and localizing the value chain. Further, the challenges that the companies faced at this particular market were overcome by the kind of partnership that they had established. Barclays Bank benefited from the partnership with two NGOs that have extensive knowledge of the poor and could further benefit from their previous work. Their willingness to go to the ground to establish trustful relationships and the insight gained further contributed to new product development. Vodafone Group that entered a new field took advantage of their partnership with microfinance institutions but also the mobile operator and close partner Safaricom Limited. Vodafone Group could further build on Safaricom Limited’s strong corporate brand in Kenya. Notwithstanding, the companies invested a lot of money in training and to build the skills of the customers.

Vodafone Group has offered a solution to an identified gap, a product which is both affordable to the poor and profitable for the company. Barclays Bank developed a product for a specific need within the segment market which has contributed to their product development. Finally, both companies have involved themselves in policy dialogue to the benefit of their customers.
5.3 Discussion

5.3.1 Key Features of Companies Focusing on Inclusive Business Models
The investigation questions in this part tried to find out if the two companies had some of the key features that among others Kanter and Bonnell (2007), Veglio (2011) and Corporate Citizenship (2012) discuss. The findings revealed that the two cases in this study have some of the features that the literature review had identified as key among companies adopting inclusive business models. Kanter (2007) and Bonnell and Veglio (2011) identified that companies have an entrepreneurial outlook towards exploring new markets, ventures, products and services. Both companies had these characteristics. Vodafone Group introduced a new service in a market that was not a main market for the company. The service was not within their core business line but it was still pursued. Barclays Bank entered the BoP market, a segment that had earlier been ignored. Also, the bank was not foreign to develop new products and services based on the knowledge gained from the venture.

The models were initiated under the companies’ corporate social responsibility agenda. In the case of Vodafone Group, the idea started in the corporate department and Kenya was not a main market for the company, but there was a need of addressing financial exclusion and based on that and the high penetration of mobile phones in Kenya, made the country a perfect place to pilot the new innovation. For Barclays Bank the model is within the banks corporate social responsibility agenda – citizenship. As Corporate Citizenship (2012) noted, companies that have a strong sustainability agenda and which have been very active in corporate social responsibility seem to be more prone to try inclusive business models which also the findings confirmed. Further this finding also confirms the entrepreneurial outlooks of the companies. Bonnell and Veglio (2011) mean that a company with an entrepreneurial outlook is not foremost driven by profit.

An interesting finding that is contravening the literature review is the success of Vodafone Group’s model. The literature with reference to Bonnel and Veglio (2011) established that companies that focus their inclusive business models on their core competencies and activities have a higher success factor. This is not the case for Vodafone Group. The M-PESA product, a financial service, is not within the company’s core competence and core
business activities. The reason to the success can probably be traced to the trust customers already had in the Safaricom brand and the already established distribution channels of credit resellers. Vodafone Group and Safaricom were able to use the credit-reseller and train them to become M-PESA agents as well and at the same time attracting customers. When the customers signed up for the service, there were already many M-PESA agents, and the M-PESA agents grew in the same pace as the customers signed up for the service. Also, the service filled a gap in the market.

The findings also established that both companies senior management supports the models today and have invested in human resources to be successful in implementation. In the case of Vodafone Group, external investment was a key to get the senior management support. This particular part of the findings is in accordance with Marc van Ameringen proposition, one of the panelists at the Eudevdays (2012), organized by CSR Europe. He meant that these models usually need external funding. The reason can be that companies do not believe that they will be profitable and also as White (2009) argues, it takes time before the company experiences the fruit of the investment, therefore, it can be a safe card with external seed funding. For Barclays Bank the Citizenship agenda seem to be the driving force for the senior management. Either way, the findings are in line with the literature review. Corporate Citizenship (2012) means that the top leadership in the companies are committed to inclusive business models. Further, Kanter (2007) argues that the companies have a strong internal culture to further explore BoP markets. However, Barclays Bank Citizenship agenda is arguable very strong because of the confidence crisis the bank has experienced the last couple of years. As already noted, the initiative is within the bank’s corporate social responsibility agenda which is many times used to restore or to build up the public confidence in multinational companies.

Openness to new and non-traditional partnerships is a feature highlighted in most of the literature about inclusive business models. The two cases demonstrated that partnership with non-governmental organizations (Care International UK and Plan UK and Faulu Kenya) made the models feasible. In the case of Barclays Bank, they could build on the unique expertise and experience of the partners. For Vodafone Group that entered a new sector, partners with complementary expertise were crucial. The findings confirm the
literature review. Both Bonnell and Veglio (2011) and Prahalad (2010) highlights that successful inclusive business models have included partnership with other actors as NGOs. At the same time, the partnership with the microfinance institution cannot be confirmed to be the success factor behind M-PESA, though; it probably helped the people at the BoP to trust the system. Prahalad (2010) focuses on particular this, the complementary part of the partnerships, and how the companies can benefit from the NGOs on-the-ground expertise and that they are already trusted by the communities.

5.3.2 The Challenges Companies Face when Working with the BoP

The investigating questions in this part of the questionnaire tried to identify the challenges the two companies had experienced at the BoP market. The literature review identified three broad areas: power of dominant logic, operation reality, and profitability and internal support. The first area, the power of dominant logic, the respondents did not want to discuss. The questions asked were a number of common assumptions that according to the literature review are common among MNCs. The researcher believes that the respondents did not feel eligible to answer based on becoming too subjective.

When asked about challenges the companies had experienced, the main challenges identified by the companies were lack of market information and in the case of Barclays Bank, the needs of the poor. This is in line with the literature. For instance, UNDP (2008) argues that it is often a challenge for companies to get a real understanding of the market and Prahalad (2010) mentions that companies and institutions usually have a pre-set understanding of the needs of the poor. A parallel based on this can be drawn from the experiences of the Vodafone Group. When developing M-PESA, a stakeholders meeting was organized to identify the specific needs of this market. In the meeting it was only institutions that said they were representing the poor, meaning no poor was participating. The outcome of the meeting was that a product was needed to ease loan pay-back for beneficiaries of micro-loans from microfinance institutions. However, Vodafone Group learnt at an early stage that this was not the main need of this market.

The findings did not confirm the challenges of lack of roads and supporting infrastructure. The reason could be that in the case of Barclays Bank they partnered with two NGOs that were well versed with the context. Vodafone Group took advantage of Safaricom Limited that had already developed strong networks of credit re-sellers that was further built upon.
On the other hand, Vodafone Group experienced the customers’ limited knowledge and educational background. First of all, many customers were skeptical to the technology and if their money would be safe. The researcher notes that many of them have never used any kind of traditional financial services before, so therefore it is an understandable concern. Further, the users needed to be trained. Vodafone Group had to invest a lot of money to train both customers and agents. Prahalad (2010), UNDP (2008) and DI (2007) highlight this operation challenge and hence the finding is in line with the literature in the case of Vodafone Group. As DI Service (2007) notes, many times the people do not understand the relationship between the products introduced and how it can benefit them. Similar to what Barclays Bank learnt when they interacted with the saving and loan groups. These groups had developed simplified informal financial services but did not understand the connection to established banking institutions.

Another challenge based on the literature review is the lack of a regulatory framework. However, as any company would face when introducing a new innovation to a market, Vodafone Group faced this challenge. Therefore, it is not sure based on the findings that this was a challenge based on the particular market.

The two inclusive business models of Vodafone Group and Barclays Bank tackle the lack of financial services for this segment of the market. Therefore, indirectly the findings confirmed the challenge of access to credit and other financial services which Kacou (2010) and Prahalad (2010) highlight in the literature review.

The last area, profitability, was discussed with the respondents when elaborating their inclusive business models during the general part of the interview. The findings confirmed that in the case of Vodafone Group, it was a lack of internal support from the company when the project started. The company was skeptical to invest money in a product which was not within their core business line. It was not until external funding was secured that the senior management supported the idea. White (2009) discusses this and based on his study, it seems to be a common challenge. On the other hand, Barclays Bank which has introduced the model within their corporate social responsibility agenda had never the same concern. Further, the literature highlights that there is usually hard to gather enough information about the particular market. However, the findings from Barclays Bank contravene this assumption. The strategy the bank used, to partner with two NGOs, made them less vulnerable to this challenge.
5.3.3 Multinational Companies Strategies and Opportunities at the BoP

The next part of the interview focused on strategies adopted by the two companies to overcome the challenges. Further, indirectly the questions about opportunities at this market were captured.

The literature put a lot of emphasis on building trust with the people at the BoP market to be successful. Particular Kacou (2010) and Prahalad (2010) emphasized this proposition. One of the questions asked was if the company had tried to build trust with the people at BoP. The findings showed that Barclays Bank’s employees directly interacted with the poor and this gesture translated into relationship building. Further, the bank was able to encourage the group members of the group-savings account to visit the bank. This apparently broke down the wall of mistrust between the poor and the bank. In the case of Vodafone Group, they built on the trust that customers had in Safaricom Limited, but it did not work the whole way. For people to gain trust in the financial service offered, a lot of money was invested in marketing.

The findings in this section did not particular bring out the advantage of building partnership. However, it was elaborated upon when discussing the challenges. What came out strong from the overall findings was the ability of the two companies to use their partnership to diminish the challenges and use the partnership strategically. For instance, Barclays Bank benefited from the non-governmental organizations’ market knowledge and the Vodafone Group benefitted from Faulu Kenya. Also, Vodafone Group could to a great extent build on Safaricom Limited’s knowledge and distribution networks. The findings are in line with the literature review. Austin, Márquez, Reficco, Berger, Fedato, Fisher … Prado (2007) argue in Building New Business Value Chains with Low-Income Sectors in Latin America that when implementing inclusive business models companies usually partner and collaborate with other institutions as non-profit organizations and public service providers. The partnerships need to be mutually beneficial for both parties and should build on their complementary strengths.

The next questions within this part of the interview tried to indirectly find out if the companies operated efficiently and sustainable. Questions focused on knowing the needs of the poor, involving them in the process and what kind of solutions the companies were offering. Further, if the products were sustainable and affordable for the poor. From the
findings it emerged that Vodafone Group developed a product that would ease microloan repayment. The need had been identified together with other stakeholders. However, in the trial period of the service, the company noticed that the poor used the service for other financial service needs as well and when the product was finally launched nationally, the company took advantage of the “solutions” that the initial customers had discovered. If Vodafone Group had been experienced in inclusive business models they would have involved the poor at an earlier stage. The literature, for instance Jackman and Breeze (2010), emphasizes the need of including the poor even in the innovation stage. Another finding is that M-PESA is a sustainable product. The product is first of all affordable for the poor and with millions of users and a small profit margins, it has become a profitable business stream for Safaricom Limited. The findings are in line with Prahalad and Hammond (2002) who argue that the poor’s individual purchasing power is low but with a focus on high volumes and low profit margins it is possible to generate a profit.

With reference to Jackman and Breeze (2010) who not only emphasize the need to include the poor in the innovation stage, but also develop product particular for them. Not only adopt product for other segments of the market. The findings showed that this was exactly what Barclays Bank did. The bank has introduced group-saving accounts which a saving group can easily open.

The companies were asked if they had experienced any market constraints. According to the literature review, one strategy is to invest to remove market constraints. Jackman and Breeze (2010) identified that lack of vocational and technical skills are a major challenge when companies try to recruit people from excluded groups in the society. Both companies experienced this market constraint and therefore invested in training. Without this investment the products would not have been successful and therefore as Allan et al. (2007) state that to remove market constraints can be cost-effective for the company.

A final strategy used by the companies was to engage in policy dialogue. The question asked was if the company engaged in policy dialogue with the government. The findings showed that both companies engaged in policy dialogue. For instance, at the time M-PESA was introduced to the market there were no regulations for e-money products. Therefore, Vodafone Group indicated at an early stage that they were interested to be involved in policy dialogue. Barclays Bank is engaged on an international level to raise awareness to the barriers for poor people to be included in the financial system. As UNDP (2008) notes,
it can be controversial for companies to engage in policy dialogue because the agenda may be driven by internal interest. In the case of Vodafone Group that is probably the reason, at the same time, Vodafone Group is not the only actor on the e-money market, so the dialogue has benefitted other companies as well.

The final questions were concerned about the commercial opportunities for the two companies. Safaricom Limited indicated a high revenue growth from the M-PESA service which is in accordance with the literature. However, it does not seem like the company had to be patient before breaking-even as Prahalad and Hammond (2002) argue. Instead, it seems that Vodafone Group was surprised by the rapid adoption of the new product. Barclays Bank seems to have taken a more patient approach to their model and does not expect that the investment in the model will pay back anytime soon.

5.4 Conclusions

5.4.1 Key Features of Companies Focusing on Inclusive Business Models

The two cases in this multiply-case study have some of the key features identified among companies embracing inclusive business models. The features being an entrepreneurial outlook towards exploring new markets, ventures, products and services; strong sustainability agenda; a senior management supporting the models; taking advantage of local networks and knowledge; and openness to new and non-traditional partnerships. Based on the findings and the literature review it can be concluded that these features are important for successful inclusive business models. However, notable is that one company saw the inclusive business model to be part of the company’s corporate social responsibility agenda and for the other company the initiative started and took off in the corporate social responsibility department.

5.4.2 The Challenges Companies Face when Working with the BoP

In any new venture a company is faced with challenges. The challenges the two cases faced when working with the BoP market are lack of market information and knowing the needs of the market, the consumer’s limited knowledge and educational background, profitability and lack of internal support from the company. If a company does not like to take risks and face challenges it will in the long-run lose it competitiveness. Therefore, it is more about acknowledging the challenges at the BoP market and focus on how to
overcome these challenges. New and innovative business strategies need to be considered, particular strategies to gain more specific knowledge about the market.

5.4.3 Multinational companies Strategies and Opportunities at the BoP
It is essential to have innovative business strategies to be able to penetrate the BoP market and some of the strategies applied are trust-building, non-traditional partnership, investing to remove market constraints, and engaging in policy dialogue. Efficiency and sustainability are important for profitability and is a strategy that needs to be adopted if the company wants the model to be one of its main business streams. Further, the inclusive business models need to be implemented outside the corporate social responsibility agenda for the company to be able to benefit from the opportunities at this particular market.

5.4.4 Conclusion of the Purpose of the Study
The purpose of this study was to investigate motivations behind multinational companies’ development of inclusive business models and commitment to Business Call to Action. Based on the findings it seems that the main motivating factors behind inclusive business models and commitment to Business Call to Action are corporate social responsibility. The company feels responsible to also contribute to the society and development agenda. At the same time, the relative un-explored BoP market is an enticing factor, but not a main motivating factor. Growth and profitability seems to be factors that are explored at a later stage when the models have been proved feasible. A final factor seems to be external funding that can encourage the company to do initial research of the needs of the market and further idea development.

5.5 Recommendations

5.5.1 Recommendations based on Purpose of Study
For companies exploring the BoP market there are great opportunities and benefits for both the companies and the poor. However, it is important that the company focus on profitability and understand that inclusive business models are more challenging than traditional models. Also, the companies need to invest in both research and development with the anticipation that the models will break-even and be profitable when a critical mass has been reached. To cooperate with non-traditional partners as NGOs can be a cost-saving
and a strategic move. Many NGOs work directly with the poor and possess a lot of market information that companies are looking for. Further, for the benefit of human development and achievement of the MDGs also NGOs should approach the business community to explore joint ventures.

It is also recommended to move the inclusive business models from the corporate social responsibility department to the business development department. Otherwise, these initiatives will probably not get proper internal support from the company and the focus on profitability will be neglected. Finally, companies exploring inclusive business models still need to be focused on commercially-viable business ventures and not get lost in the development agenda.

5.5.2 Recommendations for further Studies

For future research in the field the researcher would recommend to investigate if an initiative as Banking for Change can achieve profitability. Barclays Bank has invested a lot of money in the initiative and it would be interesting to find out if it can generate any actual return to the bank. Further, to look at the role of external funding in inclusive business models and the willingness of companies to invest own capital to develop inclusive business models within their core business stream.
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APPENDICES

APPENDIX A: PANELIST

Valeria Budinich, Global Head, Full Economic Citizenship Program, Ashoka;

Etienne Davignon, President of the European Network for Corporate Social Responsibility – CSR Europe;

Philippe Loop, Head of Unit, Private Sector Development, Trade, Regional Integration, Directorate-General for Development and Cooperation – EuropeAid, European Commission;

Bruno Bensasson, Member of the Executive Committee in charge of Strategy and Sustainable Development, GDF Suez;

Franz von Roenne, Head of Health, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (German Development Cooperation);

Michel Doucin, Ambassador responsible for Bioethics and Corporate Social Responsibility, French Ministry of Foreign Affairs, and;

Marc van Ameringen, Executive Director, Global Alliance for Improved Nutrition
APPENDIX B: INTERVIEW GUIDE

Vodafone Group/Safaricom Limited/Barclays Bank

Part A. General Information about the Company and the Inclusive Business Model

1. I have understood that the company implements inclusive business models, could you tell me more about these?
2. How successful are the models for the company?
3. What kind of impact do they have on the people at the bottom of the pyramid?
4. Are the models’ self-sustaining?
5. Have you received external funding from donors or social investment funds?
6. If external funding, would the company have pursued without external support?

Part B. Features

Entrepreneurial Outlook and Focus on Core Competencies

7. How open is the company to explore:
   a) New markets
   b) New ventures
   c) Affordable products and services
8. What do you think is the driving force of the company to explore these areas?

9. What would you say is the core competencies of your company?
   a) Is the inclusive business model focusing on the company’s core competencies?
   b) Is the inclusive business model consistent with the company’s portfolio of activities?

Leadership and Organizational Structure

10. Who initiated the idea of exploring inclusive business models?
11. Is the top leadership committed to the inclusive business models? Who drives the initiative? How is this experienced?
12. Does the company in general have the knowledge of inclusive business models?
13. Are the models in line with the company’s existing values?

Sustainability Agenda
13. Does your company have a sustainability strategy? For instance, do you have a strong CSR agenda?

**Partnership with other Actors**

14. Do you have any partners in this inclusive business model?
15. Would you generally agree that the company is open to partnership with other actors?
Tell me more about your partnership? Are you partnering with any other actor?

**Localize the value creation**

16. How has the company localized the value chain?
17. Have you taken advantage local networks and local knowledge? How?

**Part C. Challenges for Multinational Companies Working with BoP**

**Power of Dominant Logic**

18. I will give you a number of assumptions and I wonder if you could confirm if these assumptions were, from your perspective, are right or wrong, or if the company has ever had these assumptions:

- The poor are not our target customers; they cannot afford our products or services.
- The poor do not have use for products sold in developed countries.
- Only developed countries appreciate and pay for technological innovations.
- The BoP market is not critical for long-term growth and vitality of MNCs.
- Intellectual excitement is in developed markets; it is very hard to recruit managers for BoP markets.

19. How do you perceive these assumptions today?

**Operation Reality at the BoP**

20. Before the company pursued this venture, how much did you know about the target market?
21. Was it difficult to get information about the target market? Please elaborate
22. What other operation challenges have you faced?
Part D. Multinational Companies Strategies and Opportunities at the BoP

Build Trust and Enable Prosperity Partnerships
23. How have you tried to build trust with the people at the bottom of the pyramid?
24. Have you tried to build on the social networks among the poor?
25. How have you worked with the people at the BoP in terms of benefitting from their strengths?

Focus on Solutions and Operate Efficiently and Sustainably
26. How did you find out the needs of this particular market?
27. Did you include the poor in the process?
28. What kind of solutions are you offering to the BoP?
29. In which way are your products affordable for the BoP? How does the company make profit on these products?
30. Would you say that your operations are efficient and sustainable? Can you please elaborate?

Invest to Remove Market Constraints
31. What kind of market constraints have you experienced?
32. What have you done to overcome these market constraints?

Engage in Police Dialogue and Utilize Social Networks
33. Do you engage in policy dialogue with the government? What is the motivation behind?

Commercial Opportunities at the Bottom of the Pyramid
34. What are the commercial opportunities for the company at the bottom of the pyramid?