

## Building Partnerships to Create Social and Economic Value at the Base of the Global Development Pyramid

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Received: 31 May 2012 / Accepted: 5 April 2013 / Published online: 30 April 2013  
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**Abstract** This paper builds on London and Hart’s critique that Prahalad’s best-selling book prompted a unilateral effort to find a fortune at the bottom of the pyramid (BoP). Prahalad’s instrumental, firm-centered construction suggests, perhaps unintentionally, a buccaneering style of business enterprise devoted to capturing markets rather than enabling new socially entrepreneurial ventures for those otherwise trapped in conditions of extreme poverty. London and Hart reframe Prahalad’s insight into direct global business enterprise toward “creating a fortune *with* the base of the pyramid” (p. xi) rather than *at* the BoP. This shift in language requires a recalibration of strategic focus, we argue, and will necessitate implementation of “moral imagination” to formulate new mental models that can frame the possibility of local entrepreneurs working collaboratively and discursively with development partners

drawn from civil society, corporate, and government sectors. Successful partnerships will arise from interactive processes of emergent, co-creative learning within a shared problem domain or “community of practice”. We call attention to three related pluralist framings of situated learning within such communities of practice: (1) decentered stakeholder networks; (2) global action networks; and (3) a focus on “faces and places” as a cognitive lens to humanize and locally situate diverse inhabitants within base of the pyramid partnership projects.

**Keywords** Base of pyramid · Community of practice · Decentered stakeholder network · Global action network · Social entrepreneurship

Many multinational managers and marketers responded to Prahalad’s (2005) clarion call for “eradicating poverty through profits” by launching unilateral efforts to find a fortune at the base of the global development pyramid (Fig. 1). Prahalad’s instrumental, firm-centered construction suggests, perhaps unintentionally, a buccaneering style of business enterprise devoted to capturing markets rather than creating new socially entrepreneurial partnership ventures for those otherwise trapped in conditions of extreme poverty. London and Hart (2011) reframe Prahalad’s insight into direct global business enterprise toward “creating a fortune *with* the base of the pyramid” (BoP) (p. xi) rather than *at* the *bottom* of the pyramid. This shift in language requires a recalibration of strategic focus, we argue, and will necessitate implementation of “moral imagination” (Werhane 1999) to formulate new mental models (Senge 1990) of social business enterprise (Yunus and Weber 2010) that frame efforts by development partners drawn from civil society, corporate, and government

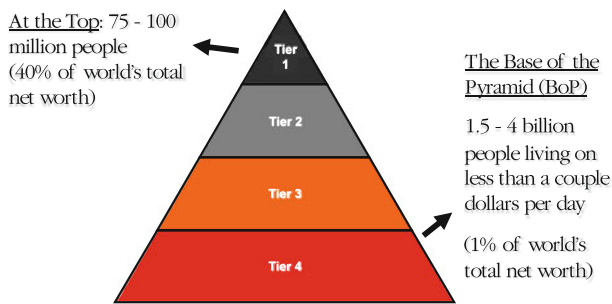
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**Fig. 1** The economic pyramid. *Source* Adapted from Prahalad and Hart (2002)

sectors to work collaboratively and discursively with local BoP actors.

Such acts of moral imagination may be encouraged by building on related pluralist, multi-sector, system-centered mental maps for framing thought and action within “communities of practice” (Wenger 1998, 2000). A community of practice encompasses multiple actors (or stakeholders) with different value orientations and local understandings who share a common problem. This shared problem forces them to uncover or create “boundary objects” (artifacts, symbols, shared stories) to guide their search for practices that can define and justify their interconnected search for shared value.

The broad outlines of this alternative mental map are suggested by Gates (2008) call for a new form of “creative capitalism” whereby global poverty will be alleviated, he contends, not so much by expanding public and private philanthropy as by reconfiguring the drive for global profits. This vision is fleshed out in the appeal by Hartman et al. (2008) and Werhane et al. (2010) for creation of “profitable partnerships” between global corporations and local communities that remain stagnant at the base of the pyramid. They point to the example of Cemex, a Mexico-based multinational manufacturer of cement that established a program to help families with incomes of less than \$5 a day to expand their homes. This program, called *Patrimonio Hoy*, offered these families technical assistance, educational programs, and storage and delivery of high-quality building materials at guaranteed low prices. Sales of cement to people in poverty expanded significantly, housing (and quality of life) for these communities improved, while profits for Cemex grew, as well. Cemex has extended *Patrimonio Hoy* into other developing countries.

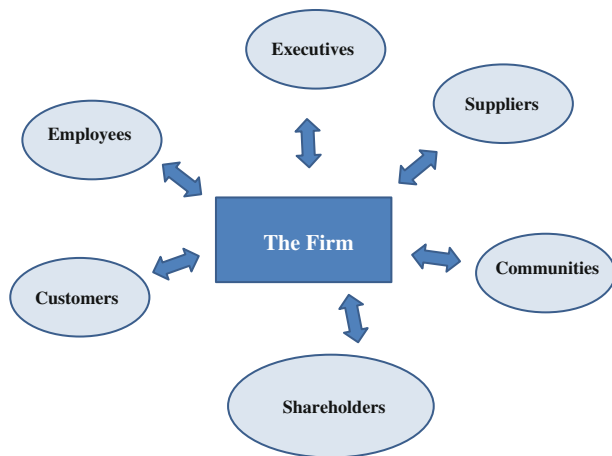
This “win-win” story may tempt other multinational managers to embark on similar profitable partnerships to enhance their corporate brands and to garner legitimacy as paragons of global corporate citizenship (Scherer and Palazzo 2007; Waddock 2006). These sorts of approaches

are often based on “triple-bottom-line” performance expectations, where companies evaluate their social and environmental impact equally with financial viability (Elkington 1998; Zadek 2007). While we commend this growing corporate receptivity to triple-bottom-line accountability and to new explorations of social entrepreneurship, we must caution that creating a fortune *with* rather than *at* the base of the pyramid requires more than merely changing a turn of phrase. It requires the adoption of entirely different mental maps to guide new ways of doing business with myriad disparate stakeholders. Attention must shift away from identifying which market niches to exploit and toward nurturing the capability of a community in poverty (via economic, cultural and infrastructure development) for a mutually advantageous advantage.

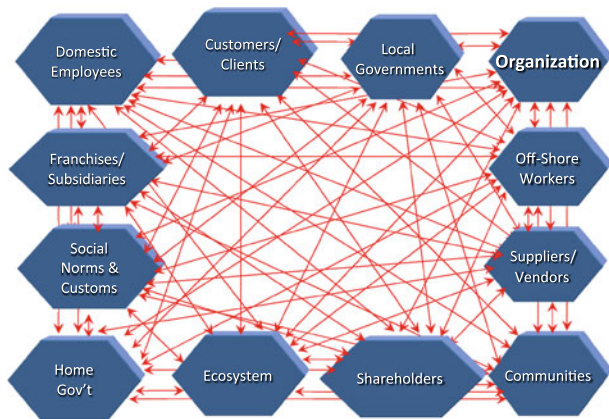
For example, the history of microfinance lending in Bangladesh and elsewhere suggests that loans are not repaid and small ventures do not prosper unless the community (often embodied in a core group of local women) has sufficient social capital to hold borrowers accountable to community norms (Yunus and Weber 2010). Accumulating social capital requires investing in long-term relationships to build trust within social networks. Conventional bankers whose mental maps do not support the idea of “partnering” with people living in poverty find that they make little headway in micro-lending. To the contrary, the Grameen Bank, for example, has enjoyed greater success in engaging with this community because it embeds itself in (or helps to create) a social network that brings together enthusiastic, empathetic supporters with people in poverty who aspire to move beyond those conditions. It embraces multiple goals and respects multiple perspectives, values, and interests. In other words, it is attuned to work *within* or in solidarity with value-based social networks where differences are respected and community dialog and engagement are encouraged.

Our paper points to three emerging conceptual frameworks that corporate managers (as well as management scholars) should investigate further before entering markets at the base of the pyramid. These conceptual frameworks are grounded in an effort to address the challenge of making sense of myriad, contested values and claims within complex, multi-layered stakeholder networks. By creating alignment among these often competing interests, the alternative mental maps offer the possibility of resolving tensions while simultaneously serving social and economic objectives. In so doing, not only do they have significant strategic potential but also do they have the possibility for high profitability.

The first theory frames the emergence of multi-stakeholder dialogs by decentering the firm as the locus of organizational thinking (Fig. 2) in for-profit, non-profit, and governmental organizations. This simple, reframed



**Fig. 2** Standard stakeholder map (Freeman and Phillips 2002)



**Fig. 3** Decentered stakeholder map. Source Werhane (2008)

graphic (Fig. 3) realigns stakeholder networks as equal players in complex multinational situations (Calton and Payne 2003; Scherer and Palazzo 2007; Werhane 2008, 2011; Bevan and Werhane 2011). The second, related conceptual framework is the global action network (GAN), as described by global development consultant, Waddell (2011). Since it is oriented toward action-learning experimentation, a GAN is particularly appropriate for bringing together and scaling up multi-sector partnerships to work on BoP social entrepreneurship ventures. The third pluralist mental map is a “faces and places” cognitive lens through which to humanize and locally situate BoP participants within partnership projects (Bevan and Werhane 2011). This mental map enhances empathetic understanding of situations experienced by particular others at the base of the pyramid, thereby enriching the dialogic search for common ground needed to work together effectively. We will demonstrate below how these complementary framings can inform and shape pluralist sense-making processes.

These frameworks highlight and explain emergent learning processes that arise from open-system interactions. Our paper will further show how these frameworks can stimulate the moral imaginations of organizational managers who must move from a unilateral, firm-centered mental map toward a cognitive and affective capability to engage dialogically with plural voices and contested narratives to find common ground within decentered networks. Normative rules of dialogic engagement based on inclusiveness in community conversations, respect for and openness to different perspectives, and a sense of fair play can create the conditions necessary to create local social and economic value in profitable partnerships.

### Contextualizing the Base of the Pyramid

To begin, let us consider some defining features of life at the base of the pyramid (BoP) (see Fig. 1). While recognizing some controversies surrounding definition and measurement of the dimensions of the BoP, we adopt the London and Hart (2011, p. 9) characterization:

- Occupants are often heterogeneous across multiple dimensions.
- They usually earn per capita income equivalent to US\$3,000 per year, *or less*.
- Local enterprises are not always well integrated into the formal global economy.
- These enterprises may operate primarily in the informal economy (i.e., black or gray market).
- Individuals at the BoP constitute the *majority* of humanity (over 4 billion people!)

The challenges of these communities, even by their own standards for a sustainable life, include at least some of the following characteristics:

- Severely limited income.
- Poor nutrition.
- Scarcity of potable water.
- Lack of public sanitation facilities.
- Limited access to basic health services.
- Poor housing stock (what would be considered by developed economies to be “shanties” or slum dwellings).
- Inadequate energy sources and technology for household cooking, heating, and lighting.
- Limited education and work or entrepreneurial opportunities.
- Dependence on cash or informal (high cost) sources of credit.
- Poor infrastructure and lack of a “market ecology” to nurture entrepreneurial innovations.

- Lack of “patient capital” to support the longer gestation period of innovative BoP business ventures.
- Rampant public and private corruption.

Keeping these characteristics front of mind, we now consider models for operating in, and raising the living standards for, various communities who are living on conditions of extreme poverty by their own community definitions.

### **Mental Models and Mind Sets: Lessons from an Unsuccessful Example**

The recent scandal in the Indian microfinance sector demonstrates how one mental model, a short-term strategic approach and concurrent methods, can backfire in developing countries such as India. Many Indian banks, while probably well-meaning, loaned money without accounting for the fact that their new borrowers had no capital, knew nothing about banking or loans, and scarcely little about business. These banks entered into the microfinance environment with the presupposition that they were bringing value to borrowers in poverty simply by virtue of offering loans and therefore treated their new customers in the same way they treated people with assets, who had familiarity with financial practices.

While these banks had a responsibility to make decisions based on profitability in order to meet the interests of a large number of their stakeholders, they failed to create value for these new clients living in poverty. By causing resulting harm to these clients, they also damaged their own bottom line and thereby failed to meet any stakeholder interests at all.

Eighty-eight suicides in one South Indian province, a community revolt against forcing the poor to repay microloans, and a tough government crackdown on abusive microlending practices represent just some of the negative consequences of ignoring the more personalized and nurturing Grameen model for microlending. A number of large Indian banks that entered the microlending market are now experiencing poor financial as well as social returns from these narrow assumptions and practices (Bajaj 2011; Chandavakar 2011). Although these highly publicized events have created a degraded perception of microfinance from outsiders, the Indian experiment was simply a misapplication of Grameen’s very specific and non-traditional banking mental model, and the indictment of the microlending industry as a whole is a misinformed generalization. We will return shortly to a clear comparison of the two models which, when viewed side by side, demonstrates why application of the Grameen approach has been more successful.

### **Mental Models**

The notion of a mental model is the idea that each of us perceives, frames, orders, and organizes the data of our experiences through a lens, from a point of view or with a set of frames, each of which, a social constructivist will argue, is socially acquired and developed. These lenses, perspectives, and frames are conceptual schemes or mental models that serve as selective organizing, filtering, and focusing *technologies* through which we construct meaning. In the social constructivist paradigm, such mental models frame all our experiences. How we define the world is dependent on such schemes; and thus, all realities are socially structured. In the socially constructed paradigm, multivariate conceptual schemes are the means and mode through which we (re)constitute our experiences. Because these schemes are socially learned, fragile, transient, and changeable, each is incomplete or unfinished, such that one can never get a totally holistic world view. Each of the three frameworks we will analyze—a decentered stakeholder model, GANs, and a “faces and places approach”—is a socially constructed paradigm that can provide a valuable mental model to frame the manner in which one might approach work with individuals living in conditions of extreme poverty in a variety of cultural environments. While every framework or mental model is incomplete, thus limiting our perceptions and understandings—and these are no exception—it is valuable to examine the three presented in this analysis to avoid some of the mistakes made by organizations working at or with the base of the pyramid, such as the example of the Indian banking microlending failures.

Because of the incomplete nature of mental maps, sometimes one misses important data that might be critical to decision-making, as demonstrated by the Indian microlending failure. Some commentators have blamed the fiasco on what they perceived to be a single-bottom-line focus by the banks involved on profitability to the diminishment of other social and environmental goals. Though this may be true, one should keep in mind that Grameen is a for-profit bank, although its first priority is poverty reduction, not profitability. That difference in priority frames decision-making involved in this form of development banking differently from traditional banks; and that mental model was misperceived by the now-battered Indian banks.

### **The Grameen Model**

The Grameen model entails a number of key elements. First, money is lent predominantly to women because, globally, data shows that women are more likely to repay their loans. Second, this is particularly true of married



women with children who have no capital or collateral. (Note that this specific claim is in contradiction to many bank “best practices,” which would instead mandate lending only to people with assets to back up those loans. Due to a narrowly defined mindset, most banks would be extremely unlikely to lend to women, and even less likely to women in poverty with children.) Third, the loans are offered to *groups* of women in the same village so that, if one fails to repay, the others can step into exert pressure or to offer assistance. Fourth, these loans are given *only* to support projects that will generate income. In India, on the other hand, many loans were used for new saris or house repairs, and thus, they generated no income with which to repay the loans. Fifth, all loans are micromanaged. Every two weeks a bank manager appears, not merely to collect interest on the loans, but also to check on the progress of the project, assist when there are difficulties with project development, with the goal that every loan will be successfully paid back, and to ensure that each loan will create income for the borrower’s family. Sixth, every borrower is given a savings account; and part of the pay-back must include a small amount for that account. This element creates an ownership commitment on the part of the borrower so that she sees that she is invested not merely in earnings but also in savings (Yunus and Weber 2010).

Each of these steps is critical if microlending is to be successful; but most of these steps were missed by many Indian microlenders. Some misconstrued the Grameen microlending model, applying the model only half-heartedly, reverting to a traditional banking model that loaned only to borrowers who held assets, ignoring the edicts to micromanage the loans, failing to lend to groups of women who reinforce each other, and omitting to think of these loans as development opportunities not as short-term profit-centers. In other words, those Indian banks that failed due to microlending practices had a narrowly focused mental model that only saw banking profitability through a single lens. They ignored the economic context of their new customers, who had no assets, and misunderstood the integrative approach of successful development banks such as Grameen in creating other forms of value—forms that included profitability in a more holistic manner. Instead, loans were made without a commitment to how they were to be used and without micro-oversight by bank managers. As a result, the downfall was not with profitability, *per se*, but rather with a mindset through which these banks construed profitability as short-term returns from borrowers with assets.

Perhaps the Indian banks’ mindsets were too short-term bottom-line oriented, or perhaps they thought that these borrowers were like the middle-class male borrowers who had collateral for their loans, people with whom they dealt with regularly at the bank. Their narrow focus, however,

construed, neglected key elements for success both for the lenders and the borrowers. Their failure suggests the importance of examining one’s business assumptions and practices and rethinking them in the special contextual circumstances that prevail at the base of the global development pyramid.

#### A Decentered Stakeholder Network Model

The failed Indian banks described above exemplify the adaption of a stakeholder model that places the firm in the center of their thinking (Fig. 2). This model is worthwhile to visualize a firm’s relationships to its various stakeholders in a traditional mold. However, it also perpetuates the mindset that the firm is the most valued stakeholder, leading to egocentric or firm-centric thinking where, particularly in a multicultural context, decision-makers over-emphasize the firm and deemphasize the various stakeholders affected by firm decision-making (Bevan and Werhane 2011, pp. 37–60). As R. E. Freeman, the “father” of stakeholder theory, admits, “[o]rganizations are complex phenomena and to analyze them as ‘black boxes’ with the organization in the middle of a complex world of external forces and pressures, does not do justice to the subtlety of the flavors of organizational life” (Freeman 1984 [2010], p. 216). On the other hand, we contend, a decentered stakeholder model, one that takes a system-centered rather than a firm-centered approach to framing stakeholder relationships (Kaeslin et al. 2007; Werhane 2011), places the firm as one of the many participants in a global system (see Fig. 3). In this mental map, the firm is recast as an equal participant in an unfolding, multilateral pattern of firm/stakeholder interactions. This model is particularly appropriate in multicultural settings and particularly when one engages in public–private partnerships.

For example, the lack of clean, potable water negatively impacts the health and productivity of over a billion people in the world, most living at the base of the pyramid. This distressing circumstance would seem to create a clear opportunity for top of the pyramid companies to extend and adapt their product lines to meet these needs. Proctor & Gamble (P&G), working in concert with the Centers for Disease Control and Prevention (CDC), spent \$10 million to develop a powder-based packet that could purify ten liters of water at a nominal cost of US\$0.10. This PUR product would appear to offer an attractive value proposition. Yet, it flopped in urban Indian slums and rural villages; even today, its adoption rates have never exceeded 5%. Simanis (2011) at Cornell University’s Center for Sustainable Global Enterprise attributes this failure to P&G’s assumption that a real BoP need could be met through a “market entry” strategy. Even this well-intended and needed project failed to recognize that BoP markets

have to be *created* before they can be entered and developed.

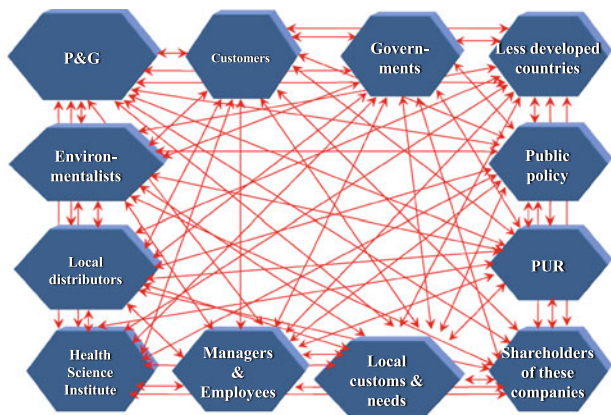
What went wrong with this venture involved differing mind sets that created misunderstandings. First, by placing their thinking parochially at the center of P&G, the firm naively assumed that everyone around the world desired clean water. This may be true; but what P&G did not take into account was that water in different communities has a unique taste, and often people do not like the taste of water from other regions. In the case of PUR, the purified water has no taste, and this was not acceptable to many communities despite its alleged purity. Second, the packets were initially marketed by P&G managers, most of whom were strangers in these villages. There was a fear, in many of these villages, to put anything in their beloved water, especially an unknown powder distributed by strangers allegedly to clean up something the strangers called “bacteria.”

After recognizing the mind set disconnects, P&G realigned their thinking (Fig. 4), converted its PUR venture into a philanthropic initiative, donated hundreds of millions of packets to NGO and government relief and children’s health programs, and refocused their PUR distribution efforts on Sub-Saharan Africa. Today, P&G, through its philanthropic arm, the Health Science Institute, distributes the packets through local vendors who sell the packets at a favorable price and also earn money from these sales. Although these vendors cannot solve the taste problem, because they are local people, they are often convincing as to the purity and safety of the powder, and the reduced evidence of waterborne diseases has helped to “sell” its widespread usage, particularly in Sub-Saharan Africa (Werhane et al. 2010, pp. 112–113).

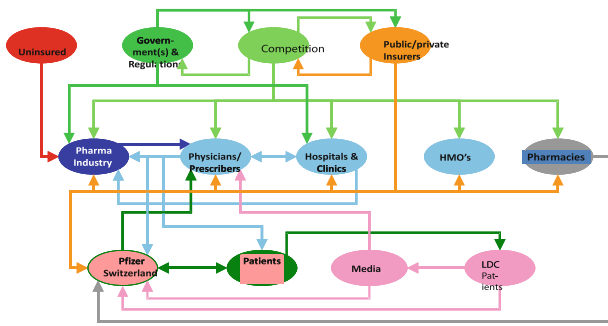
The boundary of the network is determined by the demands of the shared “messy” (i.e., complex, interdependent) problem and how different participants define the

problem and perceive how it impacts them separately, as well as jointly. The interests, values, or perspectives of any one participant in the network are subject to scrutiny and challenge by others who also occupy the contested problem domain or community of practice. Thus, to operate systematically, corporate managers must develop a capability for listening respectfully and engaging empathetically in dialog with multiple stakeholders to negotiate tradeoffs among conflicting expectations and to move toward a collaborative response to the system problem, derived from an emergent, co-created “sense of the whole” (Isaacs 1999; Senge 1990). This co-creative learning process requires the development of new ways to frame network governance responsibilities and new institutional forms that nurture and legitimize dialogic interactions and collaborative problem-solving processes. Collaboration arises from a learned history of trust-based interactions over time. Thus, a critical component of institutional innovation is the development of normative rules that govern an on-going process of stakeholder engagement and dialog (Benhabib 1992; Calton 2006; Scherer and Palazzo 2007). O’Connell et al. (2005) show how corporate decision-makers are shifting from firm-centered to system-centered governance assumptions and institutions as pressures from stakeholder activists force them to address shared problems within pluralist community conversations. A decentered stakeholder network model has sometimes been dismissed as a “utopian” extension of normative stakeholder theory that characterizes how managers and companies “ought” to treat stakeholders. Such criticism assumes that a more firm-centered stakeholder model is more useful to help practical managers address “real world” organizational problems. This criticism misses the point that due to globalization of free enterprise, the world is evolving in ways that single-sector business assumptions and methods must be reformulated. Pfizer Switzerland, for example, has adopted a decentered stakeholder model (Fig. 5) with great success in its thinking and profitability (see Sachs and Rühl 2011).

Let us take another specific example to see how a decentered stakeholder model might broaden one’s perspective in a multi-cultural setting. Solae is a division of DuPont that makes soy protein for food products. Eric Simanis at Cornell University’s Center for Sustainable Global Enterprise worked with Solae and helped to introduce Solae’s soy powder food supplement into India. Simanis makes the point that a documented need is not necessarily a market; a consumer market is a “lifestyle built around a product” (Simanis 2011, p. 105). Consumers must “embed” a product and its value proposition into the fabric of their lives before they will adopt it. This value proposition should be “open” rather than “closed” so that consumers can participate in the value-creation process. Solae saw themselves as partners, not as the center, of this project.



**Fig. 4** Decentered stakeholder systems networks



**Fig. 5** A systems model. From Sybille Sachs, University of Zurich

Simanis and his field team entered into the lives of several Indian families in poor rural villages for several weeks. In each community, they recruited twenty women as business partners to market the soy powder. This bland food supplement is not inherently exciting and it required learning new cooking habits and skills to incorporate the product into the Indian diet. Over a period of a month, they worked with the local women to develop a business concept that would help them enhance their local livelihoods and sense of well-being. Each woman aspired to gain social recognition as a great cook. They came up with a plan to offer direct home cooking consulting services in the community, which employed a number of prepackaged meals that incorporated the soy powder. They also hosted “home cookery days” to attract friends and neighbors. Recipes were tested, new partners were recruited, and a cookbook was developed based on the community’s shared experience (Simanis 2011).

While the Solae soy powder story is a great example of successful local market creation and development, the firm experienced some difficulties in “scaling up” because BoP markets even within India are quite diverse. This local venture needed more “patient capital,” that is, a long-term, not quarterly, expectation of return on investment, and national or global management, that is, a public–private partnership with local government and/or corporate support to overcome the obstacles to expanding local market development to other communities.

### Global Action Networks (GANs)

A second conceptual framework involves the idea of GANs. GANs are networks that bring together business, civil society (through NGO participation), and occasionally government actors—stakeholders often with objectives at odds with one another—to address a shared problem or problems. Countries with large segments of their populations living in conditions of extreme poverty at the base of the global development pyramid are emerging as critical

incubators of institutional innovation with which to shape hybrid multi-sector organizational forms that can address system-wide problems at both local and global levels. GANs are a complementary extension of the mental map of decentered stakeholder networks, now expanded to include multiple kinds of organizations. Steve Waddell, a global social activist and inter-organizational change consultant who advocates for collaborative multi-sector “societal learning and change” processes (2005), points to the emergence of GANs as a pragmatic effort to address messy, systemic global problems (2011). Such problems are particularly pressing in the BoP world. Waddell notes that single-sector approaches to intertwined economic, social, and environmental problems, including government and philanthropic aid efforts, generally have been fragmented and ineffective. Moreover, he argues that GANs are an institutional amalgam—essentially achieving *different* solutions from any single-sector participant. Waddell portrays the core work of GANs as “creating *processes* that bring together diverse people to be productive as a network that *spurs development and implementation* of solutions” (2011, p. xvi). These processes in turn require a change in mind sets among leaders of these public and private organizations, many of whom do not trust each other. Global corporations are often fearful of “meddling” non-government organizations, and many governments fear meddling and loss of sovereignty from both these parties.

The distinguishing features of GANs include, or should include, the following:

1. They are global and multi-level in scope. Their global reach is driven by the scope of systemic challenges demanding concerted action, particularly those mentioned above that are found most pervasively at the base of the pyramid. Their regional, national, and local dimensions are defined by the diverse stakeholders who must be engaged to grapple with the shared problem. Given the diversity of problem manifestations, as well as of stakeholders involved, the GAN approach to problem-solving draws upon local initiatives under an action-learning umbrella.
2. Coping with such diversity requires the embrace of boundary-spanning roles, processes, and structures. Linguistic, geographic, cultural, demographic, and income diversity challenge the search for common ground. Central to the GAN, strategy and structure is a multi-stakeholder approach to convening an on-going “community conversation” that brings together diverse voices caught up in the shared problem domain. This conversation must be open and inclusive, while cutting across the boundaries of business, government, and civil society. While the conversation may begin at the global level, it must span multiple boundaries to make a

difference locally. Emerging boundary-spanning roles include “philanthro-capitalists” like Bill Gates and committed social entrepreneurs who strive to develop ventures that enable the venture and its social partners to earn a profit, while simultaneously realizing social development or environmental objectives (see Bornstein and Davis 2010; Elkington and Hartigan 2008; Yunus and Weber 2010).

3. GANs are inter-organizational networks. Waddell (2011, pp. 21–23) draws upon Powell’s (1991) classic definition of a network as a coordinating mechanism “typified by reciprocal patterns of communication and exchange.” Since network forms of exchange “entail indefinite, sequential transactions within the context of a general pattern of interaction,” enforcement of obligations relies on the creation of trust and recognition of mutual interest in pooling resources to achieve complementary ends within a pattern of trust-based interactions. Sanctions arise from peer pressure grounded in a normative social contract, rather than legal contractual compliance mechanisms. Networks accommodate diversity, while promoting a search for common ground to address a shared problem.
4. GANs are systemic change agents. Patterns of change range from incremental (changing parts) to reform (changing the way parts interact) to transformation (changing the system). The ultimate intent of GANs is a transformational change based on Einstein’s insight that problems created by one level of organization (corporations, nations, markets, and hierarchies) must be addressed by network strategies, structures, and processes at the higher level of system interactions. This (still contestable) insight is grounded in the open systems’ thinking of Maturana and Varela (1980), as extended by Senge (1990), and Wilber (1996), among others. Open systems are adaptive learning processes bounded by shared issues or problems. They enable diverse participants (co-learners) to grapple with different framings of a shared problem, reflect on the limitations of preconceptions brought to the table, and potentially to enter a co-creative space of “generative dialog” where participants can learn how to work together based on an appreciation of the “primacy of the whole.” System-based learning is *emergent* and *self-organizing* in that it unfolds in often unanticipated ways (the “butterfly effect”) as the pattern of interaction evolves. An emergent network system for addressing “messes” may supplant or overlay national, sector, market, or hierarchical approaches to coordination and control (see Fig. 6).
5. GANs engage in entrepreneurial action learning. GANs are entrepreneurial in that they work to better

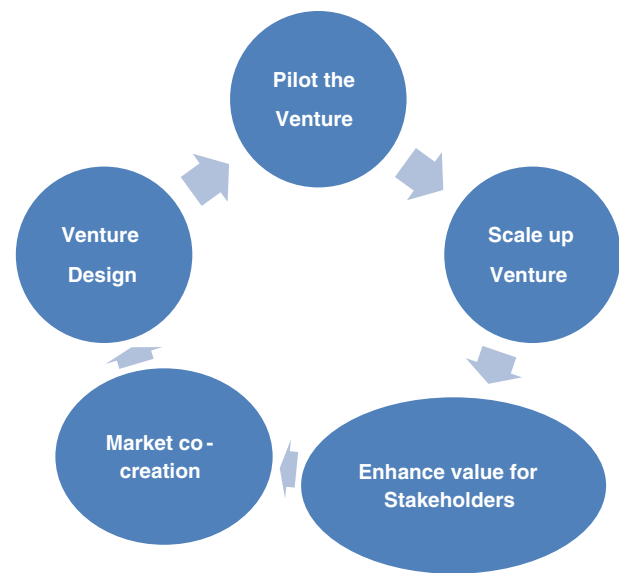


Fig. 6 Principles of venture development with the BoP

articulate the need for global public goods as well as private economic development while seeking to develop innovative local, cross-sector, and multi-stakeholder means to expand access to global public goods. Waddell points to the role of “action learning” as the preferred methodology of institutional change. He observes that many GAN leaders are more focused on action than on learning. One of the primary goals of his most recent book is to highlight the need to apply action-learning methods, such as the hands-on *planning > experiencing > reviewing > concluding* cycle (pp. 47–49). In this way, GAN leaders can take advantage of feedback loops to learn from their mistakes as well as their successes, share developmental insights, augment their collective memory, and stop reinventing the wheel. Waddell points to the need for GANs to advance through developmental stages from *exploration, initiation, infrastructure development, to realizing the potential* for system change.

6. Another important GAN characteristic is the voluntary basis of their leadership. As issue or problem-based networks, they lack the coercive sovereign jurisdiction and taxing power of state agencies and the financial clout of market-based corporate hierarchies. GAN values and purposes are most closely aligned to NGOs in civil society, even though GANs are typically not as well-funded—often with a budget limited to a few million dollars a year. GAN development depends on their success in forging voluntary cross-sector linkages among governmental, corporate, and NGO actors. GAN leaders indicate that a capability for dealing with



power and politics is one of their greatest developmental challenges. They lack coercive power and remunerative power, so they must depend primarily on normative power to persuade multiple stakeholders across national and sectorial boundaries to come together in response to the urgency and legitimacy of their global cause. Waddell argues that effective GAN mobilization of normative power will require “a fundamental change in power and political arrangements” (2011, p. 191). He makes some intriguing suggestions as to how this transformational change in institutions of network governance might unfold, although his assumption of emergent co-learning from a self-organizing system allows him to assume (perhaps too conveniently) that the new network governance institutions will arise from an unfolding action-learning process.

7. Another characteristic of GANs is that they can be global public goods producers. At least some GANs seek not so much private profit from new organizational forms as improved access to global “public goods”. Public goods, such as a public–private interface free of corrupt bargaining, access to health care, clean air or water, or a healthy and sustainable food supply, cannot be rationed by price or privilege. Public goods are non-excludable and non-rivalrous, in that they should be available to all.
8. GANs can also prevent systems failures that biologist Garrett Hardin characterized as the “tragedy of the commons.” Public goods occupy a commons which lacks clearly defined and enforceable property rights. Therefore, selfishly, rational market participants (like goat herders) might utilize the common resource until the grass (or fish, or atmosphere) has been seriously depleted. Ostrom (1990), a 2009 Nobel Prize winner in economics, has proposed an alternative to government regulation or privatization to govern the commons: She would prevent the tragedy of the commons by “bringing together stakeholders in a resource or issue to establish rules through mutual agreement and collective enforcement” (Waddell 2011, p. 27). This is, in effect, a community of practice. Thus, GANs have emerged as an institutional response to the need to govern an ever more threatened and chaotic commons.

An example of a successful GANs project is a Mexican water initiative. Availability of clean water would provide a tremendous boost to global public health, particularly for children. However, the typical approach to water treatment is a large centralized plant with an extensive distribution system of water mains. In Mexico, for example, only 2 % of this water is actually used for drinking. The rest is used

for less critical purposes such as laundry, bathing, the flush toilet, and watering the lawn. More than half of the centrally processed water leaks out of rusty pipes and runs the risk of recontamination. A point-of-use water treatment system makes sense both economically and environmentally, particularly at the base of the pyramid where public infrastructure investment is lacking.

Rather than imposing an existing treatment technology, the World Resources Institute, a non-profit organization, created a market by engaging local community partners in a shared learning process. They determined that it was important to remove excessive chlorine from public water supplies to improve taste and to remove arsenic for health reasons, even though it was tasteless. WRI engaged with community-based Health Dialog Groups to promote greater understanding of the need for clean water to promote a healthy lifestyle. The community partners also brainstormed new local enterprise opportunities, such as healthy fruit drink concentrates, that could be mixed with the point-of-use WATERCURA system.

Although targeted to enhance the lifestyles of the poor, the WATERCURA system is attracting the interest of more affluent households in Mexico. The hope is that these innovations can then be scaled up to provide exemplars of sustainable solutions for all levels of the global development pyramid (see Hart 2011).

### “Faces and Places”

A third crucial conceptual framework in thinking about co-creating value with BoP partners is the exercise of context-oriented individualized rather than generalized practices. For example, while pure water should be a global ideal, how one operationalizes that, in particular, cultures is neither transparent nor generalizable, as P&G discovered with PUR. Each individual community is unique and defines these challenges differently. This is an important insight. As Banerjee and Duflo state it in their book, *Poor Economics*, “...it is really helpful to think in terms of concrete problems, which can have specific answers...” (2011, p. 6), or in terms of this essay, to think of people living in poverty as individual faces living in particular cultural and social contexts, rather than to aggregate them together as the four billion people in poverty who dwell across countries in what we have called the “BoP.” McVea and Freeman contend that “the current [stakeholder] theory that defines stakeholders solely through traditional roles may be not very useful...., In particular...if we come to see stakeholders as individuals *with names and faces*, we have a better chance of putting business and ethics together” (2005, pp. 58–59, emphasis added).

This rethinking changes our mental models from conglomerating stakeholders in groups to regarding them as individuals, which of course they are. We revise McVea and Freeman's important insight into two ways. First, it is important to ground our thinking about poverty and poverty alleviation initiatives into a context, to give them local "places." In all of the foregoing examples, the context was important. What works in one setting may fail in another, as concerning the ineffective marketing efforts of PUR. As Kirk Davidson suggests, understanding "context" includes considering at least six elements: history, political structures, religion, social customs, civil society, openness to outside influences, and level of economic development (Davidson 2011). Moreover, in thinking about those who live in the base of the pyramid, although we seldom know names, we must be careful to think of these people in poverty as individual "faces" living in particular cultural and social contexts, rather than gather them together as an anonymous set of "poor people" or "the poor." Notice that all the examples we have cited are regionally specific. Whether these solutions could be successful in other contexts, one should be very cautious before imagining that one solution fits all circumstances. "The lack of a grand universal answer might sound vaguely disappointing" (Banerjee and Duflo 2011, p. 13). But by focusing on particular individuals or groups of individuals in their locale, we respect their dignity as individuals. This particular focus brings their specific plights to the forefront and helps to develop customized solutions fitting to those diverse settings.

An example of a "faces and places" approach is Husk Power Systems. Husk Power was founded by four graduate students from engineering schools in India and the Darden School at the University of Virginia. Three of the four students came from small villages in the state of Bihar in the Eastern part of India, two from a village that had no electricity. That village, and others in the surrounding area grow rice, and the husks from the rice are virtually inedible and thought to be useless. The engineering students, Ratnesh Yadav and Gyanesh Pandey, developed what they called a "gasifier" that produces electricity by using rice husks as fuel and is less polluting and cheaper than kerosene, the traditional fuel in these communities. The two MBA students from Darden, Chip Ransler, and Manoy Sinha, raised money to start the entrepreneurial venture, "Husk Power Systems." Beginning in their home village, the four men experimented with the gasifier and discovered that it was cheap to run, produced much less pollution than traditionally used kerosene or wood, and that one plant could serve one to two villages in the region. By starting with a single village and a problem familiar to these men—the lack of electricity—these social entrepreneurs gave faces and context to this issue, and thus, they were able to

convince investors of the importance and viability of this project. Today, Husk Power is a public–private partnership supported by foundations and profits from the plants and serves over 130 villages in Bihar. It sells the electricity at a price below cost to villagers and hires local people to manage the plants. Its aim is to provide electricity sustainably to all the villages in Bihar, who have never had power (Husk Power Systems 2011).

### **Applying Multi-Sector Context-Driven Mental Maps to Frame BoP Innovations**

Business ventures designed to "create a fortune *with* the base of the pyramid" necessarily require new ways of thinking about and doing business, as the example of failed microlending projects in India illustrates. Moreover, different mental maps outlined above have somewhat different audiences. The decentered stakeholder network framework is oriented to helping corporate managers rethink their relationships and responsibilities to different stakeholder groups. The GAN framework is designed primarily to help NGO leaders and others to broaden the scope of their interactions with business and governments leaders to more effectively address multi-sector problems. Localizing these approaches, giving the participants faces and places, remind us that there is not one type of poverty defined by the use of the term, "base of the pyramid." Rather, poverty, even abject poverty by anyone's standards, is a localized phenomenon that affects individuals specifically and differently in different locales. If one neglects this dimension of operating with the very poor, we will commit errors of imagining that particular sets of products, rules, and behaviors can be globalized. They cannot.

All of this rethinking requires what Werhane has called "moral imagination," "the ability to discover, evaluate, and act upon possibilities not merely determined by a particular circumstance, or limited by a set of operating mental models, or merely framed by a set of rules or rule-governed concerns." (Werhane 1999, p. 93). For example, a product design and development team at Godrej & Boyce (G&B), an Indian conglomerate at Mumbai, originally conceived a small, cheap refrigerator, called the Chotu-Kool, that could be sold in local markets. But local feedback from the process of embedding the product prompted a remarkable reframing of the product concept. Whitney (2011) of the Institute of Design at the Illinois Institute of Technology introduces the concept of "strategic design" which enables companies like Apple to challenge the industry standard, while creating great products that surpass what users could anticipate. He shows how this concept could be applied to BoP markets to overcome the

“innovation gap.” This gap could be closed by juxtaposing patterns of daily life with conventional product technologies and business models. The G&B team embedded themselves with the local Indian family to consider how a small cheap refrigerator could be marketed to the poor. They found that poor Indian women who managed the household did not need a freezer. They bought small quantities of food to meet their daily needs. Thus, a small food cooler that did not take up much space was portable and could cool vegetables and drinks by 20 or 30° below the ambient temperature offered a better match for this particular lifestyle. The ChotuKool was reframed as a product that could help the venture and its local partners realize a “3-L” vision of enhanced living standard, lifestyle, and livelihood. Women who had helped reframe the socially embedded product design were also enlisted as a sales force to demonstrate how the ChotuKool could create a co-mingled competitive advantage for the venture and its local partners, thereby enhancing mutual value (see Whitney 2011, pp. 185–190).

## Conclusion

We have argued in this paper that pragmatic solutions to messy system problems require co-creative acts of moral imagination to encourage shared reflection and dialog to overcome conceptual “blindness” that keep us from developing context-appropriate solutions to poverty. Realizing this holistic grasp of the systemic dimensions of a shared problem domain is difficult, since most of our mental maps are specific to discipline (economics, political science, ethics, etc.) and sector (business, government, or civil society). We have pointed to three promising mental maps, *decentered stakeholder networks*, *GANs*, and a *faces and places approach*, all of which address the context of cognitive complexity and institutional malleability within which the growing number of diverse, innovative, multi-sector responses to global system challenges are emerging.

A decentered stakeholder network mental map is designed to encourage organizational managers, particularly of global business enterprises, to rethink and redefine their responsibilities toward stakeholders who share with the firm a pluralist, contested problem domain. The triple-bottom-line is one such conceptual framework for sorting competing stakeholder claims and legitimizing a search for a more complementary, pluralist set of performance measures. The collaborative, multi-sector thrust of the effort to define, measure, and enforce global standards of corporate citizenship necessarily implies that improved social and environmental performance cannot be legitimized solely by reference to “long-term strategic advantage” to the firm. This is a sophisticated instrumental refinement of the

traditional firm-centered stakeholder map, which retains the distinction between peripheral stakeholders and firm-centered ends. Value within decentered stakeholder networks, increasingly configured as global networks, must be perceived as jointly created and equitably shared.

Many of the successful BoP ventures we have discussed were initiated by social entrepreneurs who wanted not only to make a profit, but also to “make a difference” in the lives of BoP families. They learned that their business concept would fail unless local social partners with faces and places were brought into the market creation and product development/distribution process. Single-bottom-line thinking was alien to this holistic social context. Market creation and development in these local contexts required a community-building process that accumulates and leverages social capital invested in networks of relationships. Such networks are governed by voluntary compliance to norms of reciprocity (i.e., trust). A co-mingled competitive advantage is reinforced by expectations that mutual value can be derived from the relationship.

The GAN mental map is intended primarily to help government, corporate, and NGO leaders form public-private partnerships aimed to broaden their perspectives to reach across organizational and sector boundaries and acquire partners and resources needed to improve access to public goods, such as social justice, control of corruption, public health, or environmental sustainability. The decentered GAN framework also provides a rationale for cooperative outreach and an action-learning path to develop new institutional linkages and scale up collaborative processes and outcomes.

An on-going problem with these innovative local ventures is that they eventually encounter difficulty “scaling up” to a size needed to really make a difference on a regional or global stage. In effect, they encounter problems getting from local to global. A global response requires that more “patient capital” from government or philanthropic aid sources be linked to the technological and organizational competencies of global corporations. It is here that the mental maps of decentered stakeholder networks, GANs, and the reminder that one is dealing with faces and places may prove useful in framing multi-sector initiatives that marry local and global perspectives to address shared challenges, such as improving social justice and environmental sustainability.

Ironically, the base of the pyramid has become an incubator for institutional and technological innovations, as many of our cases illustrate. Closer attention to the challenges of improving livelihoods at the base of the pyramid may provide clues as to how institutional innovations based on cross-sector collaboration can be developed to overcome the limitations of single-bottom-line thinking at the top of the pyramid. By working with the less fortunate who

occupy the base of the global development pyramid, we can learn how to create new forms of value-added for ourselves, as well as for our developmental partners.

**Acknowledgments** This paper has benefitted greatly from an anonymous reviewer's comments and suggestions, and we are most grateful.

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