

Chapter 3

Unintended Consequences of Business with 4 Billion: Lessons Learned from First Generation BOP Strategies

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ABSTRACT

In the past, there has historically been a pursuit of profit as the motive for multinational corporation (MNC) international strategies in emerging economies. We have long known of some of the unintended and controversial consequences of MNC international strategies on emerging economies. By contrast, base of the pyramid strategies (BOP) are aimed at the poorest residents in emerging economies and seek to improve social, environmental, and economic conditions for all, ideally addressing many of the problems encountered with more traditional MNC international strategies. Anecdotal examples continue to accumulate of businesses with success in the base of the pyramid, fueled by innovation in new products, services, and/or business models. However, academic research is emerging that does not support this image of BOP success. This chapter will discuss unintended consequences or outcomes of BOP strategies which may not always result in environmental sustainability, improved lives in the BOP, and improved economic conditions. This presentation focuses specifically on the unintended consequences of base of the pyramid strategies within emerging economies. Even with the recent interest in BOP strategies, closer scrutiny of current examples of BOP successes still reveal some of the same negative unintended consequences as MNC international strategies; that is, there is still an emphasis on profit ahead of responsibility and sustainability. Literature and research reviewed in this chapter reveals that BOP strategies have resulted in the promotion of stereotypes, an anticipated increase in e-waste under already hazardous recycling conditions in India and Africa, a loss of social capital, and worsened economic conditions.

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INTRODUCTION

In today's age of globalization, multinational corporations (MNC) have operations and supplier relationships worldwide. We have long known of some of the unintended consequences of international strategies within emerging economies, such as exploitation of labor and contributions to environmental degradation. As base of the pyramid strategies have gained in popularity, they have sought to address some of these problems. Yet research is beginning to reveal that base of the pyramid strategies, too, can have negative unintended consequences, often resulting in the very same problems already encountered in previous MNC strategies in emerging economies. This chapter seeks to raise awareness of those unintended consequences of base of the pyramid strategies within emerging economies.

This chapter begins with a review of the concept of base of the pyramid (BOP) strategies, first articulated by Prahalad and Hart in 2002 and defined with a special emphasis on the anticipated outcomes of this unique strategic approach. We reframe those outcomes of BOP strategies as triple bottom line outcomes related to social, environmental, and economic impacts of corporate strategic behavior. This chapter will then discuss specific instances of MNC BOP strategies and the real unintended social, environmental, and economic outcomes of those strategies. We conclude with a discussion of the second edition of the Base of the Pyramid Protocol and its promise for helping BOP strategies achieve their potential.

BASE OF THE PYRAMID STRATEGY

Companies have expanded outside their home country boundaries in search of increased profits by way of sales in new markets and reductions in manufacturing costs. International strategic approaches traditionally used by companies include mergers, acquisitions, direct foreign investment,

exports, licensing, and joint ventures. These approaches allow companies to exploit market imperfections through factor inputs (such as labor and capital) or raw materials (such as natural resources) that can be obtained cheaper in foreign markets. However, companies have been criticized because these approaches allow for the extraction and exploitation of human, political, natural, and economic resources during their conversion to finished goods.

In response to the criticisms of globalization and the problems stemming from traditional international strategies, Prahalad and Hart (2002) envisioned an alternative approach that would provide mutual benefit to the multinational corporation and to those most exploited and negatively affected by globalization. In their seminal work, Prahalad and Hart (2002) define base of the pyramid strategies as "selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable, and economically profitable ways" (p. 2). In theory, BOP strategies achieve environmental sustainability as well as improved lives and economic conditions for residents in the BOP. Subsequent work by Prahalad (2005), Hart (2005), and others have further refined the base of the pyramid strategy and interest in BOP strategies has grown in both the business school curriculum (Damast, 2007; The Aspen Institute, 2007) and the business world.

Examples continue to accumulate of businesses with success in the base of the pyramid (BOP), fueled by innovation in new products, services, and/or business models. However, this chapter will discuss unintended consequences or outcomes of BOP strategies which may not always result in environmental sustainability, improved lives in the BOP, and improved economic conditions. In the past, there has historically been a pursuit of profit as the motive for MNC international strategies in emerging economies. The focus on profit maximization and shareholder wealth has resulted in negative consequences associated with interna-

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