

Business Model R&D for New Market Entry

By: Ted London

William Davidson Institute/Stephen M. Ross School of Business
at the University of Michigan
E-mail: tlondon@umich.edu

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ABSTRACT

This study examines how firms enter new markets that require the creation of new capabilities. Exploring this gap in the literature involved opening the “black box” of capability development. A longitudinal analysis of 18 base-of-the-pyramid initiatives in six multinational companies indicates that successful capability development requires an alignment among structure, prioritization metrics, boundary-spanning approaches, and context-specific resources to generate a context-appropriate business model. Together, these results highlight the importance of conceptualizing business model development in terms of architectural and component R&D.

Business Model R&D for New Market Entry

How do firms create new capabilities to enter new markets? While yielding important results in their own right, the existing growth- and change-oriented capabilities literatures appear to offer limited insight when firms are trying to implement an organic growth strategy that involves building new capabilities. Indeed, new market entry, as conceptualized in the growth-oriented capabilities literature, is guided by the idea that firms should focus on entering markets where they can leverage their existing business models and associated capability development trajectories (Mahoney & Pandian, 1992; Peteraf, 1993). Penrose (1959), in her seminal book on the growth of firms, highlighted that firms' existing pool of assets and capabilities influence which new markets they enter. While they may need to overcome a lack of context-specific resources, firms primarily exploit opportunities for expansion by leveraging their existing internal capabilities as "stepping stones" to enter new markets (Andrews, 1971; Wernerfelt, 1984). These findings, however, do not address the challenge of new market entry that requires new capability development.

Similarly, the change-oriented capabilities literature does not shed much light on this issue. The research on new capability development by incumbent firms, much of it based on dynamic capabilities, focuses on exploring how firms can respond to radical, or non-linear, technological changes in their current markets. Research from this line of inquiry emphasizes the importance of component and architecture technology innovation, as well as the value of context-specific complementary assets (Henderson & Cockburn, 1994; Tripsas, 1997). As such, its prescriptions for capability creation do not readily transfer to organic new market entry, where firms are not serving existing customers, may not need to generate radical technological innovation, and typically do not control context-specific resources.

This suggests that the existing growth- and change-oriented capabilities literatures do not directly address the challenge that firms face when trying to enter new markets that require creating

new capabilities. Yet an increasing number of firms are attempting this, suggesting that the conventional wisdom about growth and change in the capabilities literature may need to be extended. One market opportunity gaining increased attention as a potential source of new growth requiring capability creation is lower income markets in developing countries, also known as the base (or bottom) of the pyramid (BoP).

In the original article on the BoP, Prahalad and Hart (2002) divided the global population into three segments based on purchasing power parity (PPP). BoP consumers, estimated to be about 4 billion people (or approximately two-thirds of humanity), are defined as those whose PPP is less than approximately \$5 per day (Prahalad & Hammond, 2002). While these PPP numbers could be viewed as a relatively arbitrary figure, what is unique (and most challenging) about the BoP is that entry into lower income markets requires the creation of new business models and associated new capabilities (Hart & London, 2005; London & Hart, 2004).

As such, studying the capability development process of multinational companies (MNCs) looking to enter lower income markets in the developing world provides a research setting where a theoretical gap in the capabilities literature – building new capabilities to enter new markets – can be examined. Exploring this question required opening the “black box” of business model development and involved an extended tracking of 18 new initiatives in six MNCs that were initially designed to pursue new market opportunities at the base of the pyramid.

A GAP IN THE CAPABILITIES LITERATURE

Growth and change are two dimensions identified as particularly important in understanding capability development (Abernathy & Clark, 1985; Benner & Tushman, 2003; Pettus, 2001). A firm can continue serving an existing market and/or enter a new one, defined as whether or not the firm is serving a new set of customers (Benner & Tushman, 2003). Change can involve either adapting an existing capability or building a new one. For example, as Helfat and Lieberman

(2002: 726) indicated, “When new or existing firms enter a market in which they do not currently participate, almost by definition they must develop new capabilities or alter existing ones.” As discussed below, these dimensions provide a useful framework for mapping the theoretical and empirical developments in capabilities research. Three streams of capabilities literatures, in particular, provide insight into change and growth. These are the evolutionary economics, dynamic capabilities, and capabilities-based “stepping stone” growth.

Existing Markets and Existing Capabilities: Evolutionary Economics

The value of a firm’s assets are context-dependent (Amit & Schoemaker, 1993; Collis, 1994; Miller & Shamsie, 1996; Priem & Butler, 2001). As discussed in the resource-based view (Barney, 1991; Barney, 1986; Conner, 1991), at a particular moment in time, firms may possess certain capabilities that are sources of competitive advantage. That is not to say that these capabilities are static. They can and do evolve over time (Helfat & Peteraf, 2003). Indeed, there is a growing stream of research that explores the adaptation of existing capabilities, much of it based on evolutionary economics (Nelson & Winter, 1982). In this literature, changes to existing capabilities are grounded in a firm’s current routines and structure and occur in a path dependent fashion.

Eisenhardt and Martin (2000) suggested that in competitive environments where change is relatively predictable and linear, capability development is based on the logic of leverage. In these environments, the objective is to enhance current capability development trajectories. Existing routines, business models, resources, and structure influence and channel capability development (Benner & Tushman, 2003; Raff, 2000).

Existing Markets and New Capabilities: Dynamic Capabilities

The dynamic capabilities perspective emerged as an extension of the resource-based view and evolutionary economics to address the issue of non-linear changes in capabilities in a firm’s

current operating environment. As Teece, Pisano and Shuen (1997: 515) indicated in what is probably the foundational piece on this subject, “the term ‘dynamic’ refers to the capacity to renew competences so as to achieve congruence with the changing business environment...” In markets undergoing non-linear technology changes, dynamic capabilities emphasize the logic of opportunity and the need for change (Eisenhardt & Martin, 2000).

Starting with Teece, Pisano and Shuen (1997), dynamic capabilities research has focused on radical technological change in existing markets. What makes the literature on dynamic capabilities distinct from prior evolutionary economics is that it explores how incumbent firms break technological development path dependencies and create new capabilities. Indeed, a key reason that incumbent firms face challenges from discontinuous change in their current markets is the burden of existing mindsets and biases (Henderson & Cockburn, 1994; Tripsas & Gavetti, 2000; Tushman & Smith, 2002). Christensen & Bower (1996) and Christensen (1997), for instance, find that existing resource allocation mechanisms and problem-solving approaches prevented incumbents, such as those in the disk drive industry, from effectively responding to the emergence of a new technological sub-field within the industry.

Exploring technological innovation, Henderson and Clark (1990) show that firms must consider how their existing routines influence the development of both the various components and the overall architecture that integrates the components associated with technology innovation. When radical change occurs and a new technology or industry sub-field emerges, relying on a dominant logic that embraces existing metrics and familiar problem-solving approaches constrains the ability of a firm to effectively respond (Henderson & Cockburn, 1994). Firms must be prepared to alter individual technological components and/or reconfigure the alignment among these assets. This need for architectural innovation can occur across varying units of analysis, ranging from

redesigning products to reconfiguring resources among a corporation's divisions (Galunic & Eisenhardt, 2001; Henderson & Clark, 1990).

Even with these challenges, firms can survive non-linear changes in their existing markets. Successful technology innovation requires spanning the appropriate internal and external boundaries to enhance the diversity of the participants in the problem-solving process (Henderson & Cockburn, 1994; March, 1991; Rosenkopf & Nerkar, 2001). Scholars have also suggested that creating a dual organizational structure or even an entirely new organization is useful in establishing an internal context conducive to generating the needed technological innovation (Benner & Tushman, 2003; Christensen, 1997).

Furthermore, empirical research indicates that context-specific resources, in this case complementary assets, facilitate incumbents' efforts to respond to radical technological change and the emergence of new technology sub-fields within their existing markets (Mitchell, 1989; Tripsas, 1997). Complementary assets reside in different parts of the value chain and are important in commercializing an innovation (Teece, 1986). When the linkages to existing customers are not disrupted (Abernathy & Clark, 1985), complementary assets, including distribution networks and after-sales service, play an important role in the success of technology innovation (Mitchell, 1991; Tripsas, 1997).

Thus in current markets undergoing non-linear technology changes, existing research suggests that firms must generate the appropriate mix of component and architectural innovation and leverage their context-specific resources, particularly complementary assets, to build new capabilities that overcome existing routines and problem-solving approaches.

New Markets and Existing Capabilities: “Stepping Stone” Growth

Some of the earliest work in the capabilities literature focused on firm entry into new markets (Penrose, 1959). Growth by new market entry offers an important context for exploring

capability development (Helfat & Lieberman, 2002). In the strategy literature on capabilities, however, growth typically relies on an implicit “stepping stone” assumption (Andrews, 1971; Wernerfelt, 1984). Growth, as conceptualized in this research, is guided by the idea that firms’ market entry is directed by their existing capability development trajectories (Mahoney & Pandian, 1992). While they may lack certain context-specific assets for this new market, this perspective indicates that firms should “enter markets where the resource requirements match their firm capabilities (Peteraf, 1993: 188).”

Some researchers have examined, for example, the “McDonalds approach” to replication, a growth strategy most recognizably used by chain organizations and franchisers (Knott, 2003; Winter & Szulanski, 2001). While these firms may be highly explorative in developing the initial business model template, once they begin to expand, the orientation shifts to replication. In discussing Wal-Mart’s entry into a new market, Helfat and Lieberman (2002: 737), for instance, indicated that in serving a new set of customers “the company replicates its local distribution network, store operating routines, information systems and personnel policies.” Growth by replication is based on transferring a consistent set of operational routines and complementary assets, and new market entry success is enhanced by implementing the existing business model template as closely as possible (Winter & Szulanski, 2001).

Given the increasing interest in market opportunities across the globe, international expansion should be particularly instructive for exploring growth from a capabilities perspective (Helfat & Lieberman, 2002; Penrose, 1959; Tallman, 2001). As Barlett & Ghoshal (1989) and Tallman (1991) have found, a capabilities-oriented perspective is important to understanding MNC market entry. Similar to the strategy research, however, the logic of replication is also embedded in the international management literature. The prevalent view on international expansion emphasizes that MNCs should look to utilize existing resources, transfer current internal knowledge, and

incrementally modify familiar products when entering new markets where they may lack context-specific complementary assets (Bartlett & Ghoshal, 1989). As Tallman (1991) noted, when entering new international markets, MNCs will tend to rely on proven strategies and familiar structures.

New Markets and New Capabilities: Unexplored Terrain

Firms are continually searching for new sources of long term growth (Bhardwaj, Camillus, & Hounshell, 2006). New capability development associated with this growth can target new market as well as new technology opportunities (Winter, 2003). Indeed, there are new market opportunities, such as serving lower income customers in developing countries (the base of the pyramid), where existing capabilities typically cannot be successfully modified, and firms instead need to build new capabilities (Hart, 2005; Hart & London, 2005; London & Hart, 2004).

When entering these new markets, firms lack context-specific complementary assets that facilitate non-linear change in an existing market. In addition, they must avoid a strategy based on replicating existing business models and associated capabilities found in the “stepping step” approach to growth. To date, there has been almost no work in the capabilities literature (international or domestic) that explores how firms enter markets that require creating new capabilities (Tallman, 2001).¹ What has not been examined in the evolutionary economics, dynamic capabilities, and capabilities-oriented growth literature streams is capability creation for new market entry.

STUDY DESIGN

Research Setting

¹ While important in organizational change and growth, an adjustment to a firm’s capability portfolio via merger or acquisition (M&A) does not typically result in organic growth, nor does it require firms to develop new market entry capabilities internally (Karim & Mitchell, 2000).

Examining how different firms approach similar business opportunities provides a useful context for exploring capability development (Noda & Collis, 2001). In other words, if a set of firms is exploring a similar opportunity (same strategy across the firms, such as entry into a similar new market) and all these firms have a performance goal of creating a similar capability (for example, building the capability to enter this new market), comparing and contrasting their approaches should provide useful insights into capability building. One such context is the development of MNC business ventures targeting entry into base-of-the-pyramid markets.

As suggested by Dawar & Chattopadhyay (2002), rather than identifying growth opportunities at the country level, another way to view new market segments is by socio-economic status. Indeed, instead of an “India” or “Brazil” strategy, the BoP argument suggests that firms should develop different within-country strategies based on which socio-economic level they are targeting (Prahalad & Hart, 2002). This perspective divides the global population into three broad segments based on purchasing power parity.

At the base of the pyramid, located mainly in the developing world, are approximately four billion potential customers with annual purchasing power parity of less than approximately \$2,000 per year (Prahalad & Hammond, 2002).² At the top of the pyramid, with PPP greater than \$20,000 are the 100 million or so wealthy elite, most of whom live in the developed world. In between, at the middle of the pyramid are the remaining two billion people with PPP between \$2,000 and \$20,000 who are primarily the upper and middle class in emerging economies. While the actual PPP levels of segmentation are somewhat arbitrary, what is unique about this perspective is that

² A growing number of MNCs are making commitments to launch ventures in BoP markets. These include ABN AMRO, CEMEX, Coca-Cola, Danone, Dow Chemical, DuPont, Eskom, Hewlett-Packard, Johnson & Johnson, Nike, Philips, Procter & Gamble, S.C. Johnson, Tetra Pak, and Unilever, among others. For more information on BOP markets and organizations pursuing these opportunities, see on-going work at Cornell University (<http://www.johnson.cornell.edu/sge/boplab.html>), Harvard (<http://www.nextbillion.net/harvard05conference>), the University of Michigan (<http://www.wdi.umich.edu/ResearchInitiatives/BasePyramid/>) and the WBCSD’s Sustainable Livelihoods program (<http://www.wbcd.org/templates/TemplateWBCSD5/layout.asp?MenuID=1>).

BoP markets are a socio-economic level that MNCs cannot reach with their traditional business models and capabilities. This is primarily because most of the economic activities in these markets occur in the informal economy where intellectual, contractual, and property rights boundaries are difficult to protect (de Soto, 2000).

Recent empirical research has shown that entering low income markets in developing countries requires a developing a capability in social embeddedness (London & Hart, 2004). Having this capability allows firms to become locally embedded in and learn from the social infrastructure that dominates low income markets (Chambers, 1997; de Soto, 2000; Sen, 1999). This is a fundamentally different capability than global efficiency, national responsiveness or worldwide learning, the core capabilities proposed in the transnational model, the dominant perspective of MNC growth (Bartlett & Ghoshal, 1989). For most MNCs, social embeddedness is a new capability that the firms will have to build. As such, if a sample of companies view entering BoP markets as requiring the development of a new capability, then BoP market entry is a good research setting for this study.

Research Strategy

Given the relatively new and unexplored nature of the phenomenon, a longitudinal inductive approach directed at theory building is most appropriate (Eisenhardt, 1989a; Yin, 2003). The research strategy employed is the development and analysis of case studies, which is a particularly effective when the objective is theory generation. In the design of this research study, each case tracked a specific company initiative that had an initial strategy of entering BoP markets. By affording the opportunity for conducting both within-case and cross-case analysis, a multiple case study research design enabled tentative explanations found in a within-case analysis to be tested across other cases (Miles & Huberman, 1994; Yin, 1981). This provided an important mechanism for enhancing confidence in the findings (Yin, 2003).

Sample

As in most case study research, the sampling was purposive rather than random (Miles & Huberman, 1994). An important goal in selecting the sample was to control for certain variables that could potentially impact the findings (Birkinshaw, 1997; Eisenhardt, 1989a). Together these controls focused the sample search on six large, experienced U.S.-based firms looking to enter BoP markets through corporate-initiated, wholly-owned greenfield investments. Furthermore, these six companies were equally divided into two industries, consumer products and science and technology, providing an opportunity to compare findings across the six companies and their industry sectors. In total, 18 initiatives in the six companies were identified and studied as part of this research program. Background information on the six companies, Designer, Galaxy, Light, Clear, Premium, and Sweet (their names are disguised) is provided in Table 1.

Insert Table 1 about here

Data Collection

A key strength of a qualitative study is the richness, depth, and holistic nature of the data collected. In case studies, the data collected is primarily in the form of observations, interviews, and documents (Miles & Huberman, 1994). In this study, all three sources of data were collected over a period of approximately 18 months. These data collection methods included gathering publicly-available and internal materials, attending company presentations and meetings, visiting company facilities and, most importantly, conducting semi-structured interviews with the MNC and partner organization managers most directly involved with developing BoP-oriented initiatives at these six MNCs.³

³ To facilitate conducting interviews, I developed an interview protocol that included a series of open-ended questions and follow-up probes based on the initial research question and key areas of interest that emerged from my review of the capabilities literature. I asked informants, for example, to discuss the strategic logic, goals, and success criteria for

In total, 84 interviews were conducted with 65 respondents. The managers most centrally involved in each initiative were interviewed multiple times, which enhanced the longitudinal understanding of each initiative. Moreover other key informants were actively involved in the project at different times, which afforded another opportunity to better understand how the initiative evolved over time. These interviews were conducted in person or by pre-scheduled phone calls and typically lasted from 60 to 120 minutes, with the interviews totaling 6,765 minutes, or more than 112 hours. The number of respondents per company ranged from 5-23. For each initiative being launched by the MNCs, 4-15 people were interviewed. Some interviews involved the discussion of more than one initiative, as several respondents were involved in multiple initiatives. All interviews were recorded and subsequently transcribed. These transcriptions totaled more than 1,500 single-spaced pages of data.

Data Reduction and Data Display

Qualitative research results in a large amount of rich and detailed data, and thus data reduction is crucial (Miles & Huberman, 1994). A key step in the data reduction process was the development of interview summaries. Relying on extensive notes taken during the interviews, I summarized the data collected in a condensed and organized form. Data in these summaries were

the venture. From there, I had them provide an overview of the target market and discuss the product development. I then asked them to describe the team involved and the process they went through in moving the venture toward launch. This included discussing internal and external assets involved, intra- and cross-organizational relationships developed, and structure used. Additionally, I asked the informants about funding and metrics.

Furthermore, I asked them about the challenges they faced and if/how they overcame them as well as lessons learned. I also invited the informants to compare these BoP ventures to other ventures they had been evolved in. In addition, I asked them about the current status and perceived success of the venture. The core set of questions were linked to a series of follow-up probes, which were employed to gain a more detailed understanding of specific issues.

In conducting the interviews, I adopted several measures to enhance reliability and validity. First, to encourage greater disclosure of information, I assured the respondents that confidential information would not be attributed to specific initiatives. Second, where possible, I interviewed the respondents individually to reduce pressures toward reporting of only positive information. Only four interviews involved multiple respondents. Third, I asked the respondents to focus on providing information that they had seen and could report firsthand. Fourth, an implicit comparison entered the data collection process as I also asked respondents to reflect on how these BoP-oriented initiatives compared with other ventures they had been involved with (Larson, 1992). Finally, asking all the respondents to discuss the challenges and the lessons learned helped encourage even strong proponents of the initiatives to more deeply explore “warts and trouble spots” (Miles & Huberman, 1994).

coded based on key constructs and areas of interest. To ensure that detailed and accurate information was captured in these summaries, I used the 24-hour rule for writing up this material (Eisenhardt, 1989b; Miles & Huberman, 1994).

All of the summaries were then sent back to the appropriate respondents for verification and additional clarification as soon as they were finished. Nearly half (38 out of 84) of the respondents reviewed their interview summaries, providing an important check on my coding. The respondents often provided additional information and, at times, further clarification. These interview summaries averaged more than seven pages each (yielding approximately 550 pages of text) and still comprised a large amount of data to analyze. As such, the following stage in the data reduction process was to develop separate case studies for each of the initiatives.

Next I developed data displays, which are powerful tools for comparing and contrasting initiatives. My aim was to identify, explain, and validate a pattern of relationships using within- and cross-case analysis. This involved identifying key constructs, looking for relationships among these constructs, and developing a framework that integrates these relationships (Glaser & Strauss, 1967). As recommended by Miles and Huberman (1994), I developed conceptually-ordered data displays to conduct in-depth analysis of within- and cross-case similarities and differences. Identifying contrasts and similarities across different cases led to the clustering of initiatives, in which I examined whether proposed relationships yielded similar or different results across different contexts. Within-case analysis emphasized exploring constructs, relationships, and configurations. If the same constructs and relationships held in cross-case comparisons within the same cluster, this provided what Yin (2003) called literal replication. This is a check for internal validity. Cross-case analysis was then used to subject the within-case relationships and configurations to comparative analysis, thus testing for theoretical replication. If one or two conditions are different in different clusters and the theory being developed predicts these different

results, these supportive findings add confidence to the external validity and generalizability of the theoretical framework being developed.

RESULTS

New Capabilities Required for BoP Entry

For each of the six companies involved, I analyzed the data collected regarding the capability development approach required by each company to enter base of the pyramid markets. These findings, summarized in the last two columns of Table 1, are representative of multiple interviewees, public and confidential reports, and internal presentations. The first of these columns identifies the companies' traditional capability development approach when entering new markets in developing countries, which, as might be expected, was inevitably "stepping stone" growth. The second provides their perspectives on entry into BoP markets.

In particular, I examined whether the informants believed that they could adapt an existing capability or needed to build a new one in order to enter BoP markets. The findings clearly indicated that the firms' perspective was that entering the base of the pyramid required the development of a new market entry capability.⁴ This view on capability building is represented by a senior manager from Premium who, in discussing the BoP, indicated that:

"Premium doesn't know yet how to fully participate in these markets. We have an emerging market initiative that is focused on line extensions of existing product; we are modifying these products to meet local needs. Typically the emphasis is on going down one level, for example, from A to B or B+ or perhaps from B to C. This approach, however, does not include the BoP. A BoP strategy requires a new business model and involves new and different partners."

⁴ Indeed, this was one of the key reasons why these companies wanted to participate in this study. They wanted to learn more about building the capability required to enter BoP markets. In sharing my initial findings back with the participants and other company managers, there was strong support for the perspective of needing a new market entry capability for the BoP.

Capability Development

In this study, as controlled for in the sample selection, the initial strategy for the 18 initiatives in these six companies was to launch a venture at the base of the pyramid. As discussed above, the initiatives also began with a similar performance objective, building a new capability for this new market entry. Variation occurred, however, in the capability building approaches and market entry outcomes. Brief descriptions of each initiative's initial strategy and the actual market entered are provided in Column 2 of Tables 2a, 2b, 2c, and 2d (note that the first letter of each initiatives - D, G, L, C, P and S - corresponds to the first letter of the name of the company).

Insert Tables 2a, 2b, 2c, and 2d about here

In exploring approaches to clustering the data, I examined the performance of the 18 initiatives. As shown in Figure 1, for each initiative, I evaluated two performance outcomes. The first was whether the venture was launched or not. Of the 18 initiatives, 13 were launched. The five that were not launched (L-Housing, C-Health, P-Water (2), S-Water (1), and S-Water (2)) were either abandoned or suspended. For those in suspension, the management team recognized that launch would require a fundamental change in the approach to market entry capability development.

Insert Figure 1 about here

The second performance outcome focused on the market that the 13 launched ventures entered. I examined whether or not these ventures actually achieved their original strategy and were able to launch a venture targeting BoP markets.⁵ The results showed that nine of the 13 launched

⁵ I used several tactics to analyze the alignment between the original strategy and the market actually entered. First, all the ventures were tracked over time. At the earliest stage of the research study, the strategic logic for each venture was identified in discussions with multiple respondents and by reviewing internal documentation. This helped to prevent a retrospective reassessment of the initial strategy at a later date. Then, for the launched ventures, documentation and presentation data was triangulated with responses from at least two, and typically more, managers to determine the

initiatives succeeded in entering BoP markets. Interestingly, these BoP ventures were framed as long-term, research and development (R&D)-oriented investments, as none of the nine was expected to generate substantial economic returns in the short term. The other four (D-Compute, L-Food, C-Beverage (1), and C-Beverage (2)) entered middle-of-the-pyramid markets and had performance expectations that focused on more traditional short-term, business development-oriented metrics.⁶ In addition to containing higher income customers, the middle-of-the-pyramid markets were also considered more familiar and the next logical step for the company to bring its business model one step further down the economic pyramid

One interesting and unexpected finding was that there was a third important performance difference. There were actually two types of ventures, growth-oriented and learning-oriented. This bifurcation was based on a clear difference in the performance expectations and had important impacts on capability development. Growth-oriented initiatives had a prime goal of generating economic returns to the company, either in the short- or long-term. Learning-oriented initiatives, on the other hand, were designed with the primary goal of generating learnings that the company could use in other future growth-oriented endeavors. These learning-oriented initiatives also did incorporate a revenue generating component in their business models to better simulate market conditions, but the economic objective was to break-even or minimize any financial subsidies required.

Four of the five ventures that failed to launch (all except S-Water (2)) were growth-oriented, as were all four of the middle of the pyramid initiatives. In addition, as shown in Figure 1, three of the nine launched ventures that entered BoP markets (D-Technology, L-Farmer, and C-Water (2))

market entered. Because of my colleagues and my own on-going relationship with these companies, the informants in this study were familiar with the terms “base of the pyramid” and “middle of the pyramid” and their definitions.

⁶ In comparing BoP to middle-of-the-pyramid market entry, it should be noted that I was not evaluating which was better or worse for the firm. Rather, I was interested in understanding if the variation in the capability development approach could explain this variation in performance outcomes.

were growth-oriented. The other six (D-Community, D-Credit, G-Farmer, C-Water (1), C-Beverage (3), and P-Water (1)) were learning-oriented.

Business Model Components

A theme consistently repeated across all the initiatives was that a pre-condition for successful capability development was the establishment of a context-appropriate business model. As shown in Tables 2a, 2b, 2c, and 2d, the analysis of different clusters of initiatives (not launched, middle of the pyramid, growth-oriented BoP, and learning-oriented BoP) indicated that metrics, boundary-spanning, structure, and context-specific resources were key assets inside the business model “black box” that influenced variation in capability development. While it is possible that other components could also have generated variation, there was no indication of this in the various data sources.

Metrics. The metrics for each initiative are the resource allocation and measurement systems that are used to evaluate an initiative’s potential performance. Not surprisingly, the companies’ typical resource allocation metrics prioritized short-term growth. Indeed, the influence of traditional short-term metrics was a key factor in explaining an initiative’s transition from initially targeting BoP markets to entry into middle-of-the-pyramid markets. Only by avoiding the imposition of short-term financial returns and relying on long-term growth or learning-oriented performance measures were BoP-oriented ventures able to remain focused on base-of-the-pyramid markets. Of particular interest was that these long-term growth and learning metrics were analogous to performance measures found in evaluating technology research and development (R&D) investments.

Boundary-spanning. In its problem solving, an initiative could incorporate relatively high or low levels of internal and external diversity. Measurement of this diversity was based on boundary-spanning, an approach used by other researchers (Rosenkopf & Nerkar, 2001). Internal

diversity was evaluated based on participation in problem solving by managers who crossed departmental boundaries. In this sample, an initiative either encouraged a diversity of internal participants from different areas of the company or primarily relied on managers within its own departmental silo.

External diversity was measured by the involvement in problem-solving by external partners. External partners either were or were not actively involved in problem-solving. For this study, involvement in problem-solving was based on participation in designing an initiative's strategy and developing a context-appropriate business model. If the problem-solving process had high internal and/or external diversity, then, as indicated by other boundary-spanning research (March, 1991; Rosenkopf & Nerkar, 2001), the initiative had access to the diversity needed to help overcome pre-existing search biases and generate new business models. If both the internal and external boundary-spanning were low, the results showed that the capability development process relied on familiar problem-solving approaches. In particular, this included an emphasis on replicating, as much as possible, existing business models.

Structure. Structure, the third component, can provide a barrier that protects the initiative from traditional metrics and organizational processes (Benner & Tushman, 2003). In this study, having an isolating structure offered an initiative the possibility of a buffer, or internal "white space," in which it could be incubated. Without this structural protection, however, an initiative had difficulty escaping the firm's existing metrics and problem-solving approaches. As reported by the respondents, a structural firewall emerged from two sources. One was a new structure specifically established to protect the initiative from existing metrics and processes. The other was when the initiative was initially housed in a corporate functional department that did not have to show traditional short-term economic returns such as sustainable development, public affairs, R&D, and external relations.

Complementary assets. Variations in gaining access to the fourth component, context-specific resources, also played an important role in capability development. For their complementary assets, the various initiatives relied on three different sources, including leveraging them from traditional partners, such as a local subsidiary, leveraging them from new partners, such as a non-profit organization, or investing in the “commons.” Investment in the “commons” was evaluated based on whether or not the initiative was building complementary assets that were outside of the firm’s or a partner’s boundary or control.⁷

Three other influences were consistently present across all 18 initiatives. These were top management support, slack resources, and an internal culture or set of values that incorporated a sense of societal responsibility for the company. In terms of support, senior management in all six companies was aware and supportive of these corporate-led BoP-oriented initiatives. Indeed, funding was available from senior management if these ventures could demonstrate they had developed a context-appropriate business model. In Designer, Light, and Clear, funding decisions for BoP ventures were made at the level of the CEO’s office. For Clear and Sweet, the CEO’s office was aware of and supported the development of BoP initiatives. In Galaxy, funding and support came from top management one level below the CEO’s office.

The culture in these companies incorporated a strong sense of community and societal responsibility. This is evidenced by, among other things, their respective mission, vision, or value statements that explicitly include reference to “sustainable solutions,” “solutions for society,” “global stewards,” “doing what is right for the long term,” “fulfilling our responsibilities,” and “putting citizenship into action.” As there was limited variation in these components across the 18

⁷ An example of investing in the “commons” is using the initiative’s financial or human capital to build new local capacity. Through a training program, for instance, an initiative can develop the skills of local distributors with whom it does not have exclusive partnerships. While there may be some first mover advantages, building these “commons” skills is not an asset that can be captured and controlled for the exclusive benefit of the sponsoring initiative or one of its partners.

initiatives, top management support, slack, and corporate values that explicitly included a sense of societal responsibility are best viewed as necessary, but not sufficient, conditions for market entry at the base of the pyramid.

Furthermore, industry did not play a critical role in venture performance. Initiatives from both science & technology and consumer goods companies were represented in each of the four clusters. Interestingly, four of the five initiatives that failed to launch were from consumer goods companies, suggesting that this industry may have more trouble creating new business models.

Alignment among Metrics and Boundary-Spanning

Business model breakdown: Not-launched initiatives. A key difference between launched and not-launched ventures was the alignment, or lack thereof, between prioritization metrics and boundary-spanning approaches. Put simply, an initiative's priorities could focus on short-term growth or long-term growth or learning, and its problem-solving could have high or low levels of internal and external boundary-spanning. A venture launch required the proper alignment between metrics and boundary-spanning to develop a context-appropriate business model.

In this study, all of the 13 launched initiatives relied on a combination of either long-term growth or learning metrics and a high level of boundary-spanning or short-term growth measures and a low level of diversity in designing their business models. The five initiatives that were not launched, on the other hand, had long-term metrics matched with low levels of boundary-spanning. This indicates that developing business models with long-term prioritization metrics benefited from a high level of diversity in the problem solving process. Similarly, launched ventures with more traditional short-term performance measures could leverage existing problem-solving approaches, including familiar business models.

Indeed, a misalignment of long-term metrics with low levels of boundary-spanning negatively impacted the development of a context-appropriate business model. The result was a

perception that capability building was not successful and led to a decision not to launch. As a senior manager involved with P-Water (2), which did not launch, explained,

“Premium doesn’t like to mess with success and there is concern about trying a new business model. The existing business model has worked for 120 years. The company is willing to explore white space markets, but is only familiar with using existing business models. Our existing business models may have clouded our vision.”

Business model replication at the middle of the pyramid. The influence of prioritization metrics and boundary-spanning on venture launch is also illustrated by comparing the different clusters of launched initiatives. Alignment for the four ventures that entered the middle of the pyramid, for example, was relatively straightforward. Yielding to the influence of their respective companies’ traditional short-term metrics, these initiatives changed their target markets. By shifting to more familiar middle-of-the-pyramid markets, they did not need to be framed as long-term investments. Furthermore, since these ventures were no longer pursuing BoP market entry, they did not need to develop a new business model. Rather, they could emphasize replicating and incrementally modifying an existing one. As such, they did not require a high level of internal or external diversity in their problem-solving and there was little need for boundary-spanning.

Light’s Food initiative (L-Food) followed this development path. As a project implementer indicated, “The idea has changed over time.” Once this change in target market occurred, traditional problem-solving approaches dominated. As a partner in L-Food noted:

“The original approach was to identify needs and then come up with solutions, a market-oriented approach. However, the actual process was based on leveraging existing solutions and technologies, a technology-oriented approach. The solutions were in pocket already. As a result, the process was biased.”

Business model R&D at the BoP. Ventures that remained focused on BoP market entry, however, needed long-term investment and new problem-solving approaches. A business model design typically emerges based on what standards are used to evaluate performance outcomes and how searches are conducted to solve problems. Unless consciously broken, managers will

instinctively rely on existing prioritization metrics and problem-solving approaches in designing a business model for a new market entry. A senior manager at Galaxy, noting the internal challenges faced in the resource allocation process by initiatives targeting base of the pyramid markets, explained:

“Short term thinking is probably the biggest challenge to supporting base-of-the-pyramid ventures... There is a need for ‘slow money.’ To ensure long term investment, what is needed is a pocket of money that explores business opportunities where there is no clear business case.”

Both types of launched BoP ventures, growth- and learning-oriented, required long-term, R&D-oriented investments in developing a new business model. There was an interesting difference, however, in the type of business model R&D involved in these two initiatives. In the growth-oriented ventures, the objective was to test the viability of the overall business model. All the various components of the business model were incorporated in the design, and the ventures were launched with the expectation of making money over the long term. This holistic approach can be viewed as architectural business model R&D and is analogous to the technology R&D literature on architectural innovation, which involves the overall integration of various technology product components. This perspective on a growth-oriented venture’s need for R&D-oriented business model business metrics is summarized by a project director involved with D-Technology:

“At the meta-level” he indicated, “[the new entity] is measured the same as other [similar R&D entities]: Ambitious projects, looking for big change, adding real value as opposed to just follow-on projects, excellence, and tangible projects. At the more micro-level, the [new entity] does not have specific financial goals. For instance, we are not measured on developing a \$50 million business in the next year or two... We are taking a longer term approach.”

Learning-oriented initiatives had financial objectives of minimizing subsidies, breaking even or delivering a very modest profit. Rather than making money, their focus was on generating learnings about specific components of a business model that the company could later use in future growth-oriented BoP ventures. In that sense, the component business R&D is analogous to a

technology R&D investment in core product components. For these learning-oriented BoP initiatives, though, the laboratory was in the field, and the tested components were the different aspects of the business model. As a key implementer at a learning-oriented venture at Premium explained:

“The objective [of P-Water (1)] was to test two things: If the technology could work in the field and if local community members would be willing to come to a central location for clean water and then carry that water back to their homes.”

A senior manager further emphasized the opportunity for P-Water (1) to be a testing ground for business model components:

“If these models prove successful, Premium could explore greater involvement. This might include a new type of venture...This could lead to new business models for Premium for emerging markets.”

To achieve their long-term performance metrics, both the BoP growth- and learning-oriented ventures needed boundary-spanning to generate diversity in their problem-solving approaches. This boundary-spanning is similar to the approach used to overcome biases toward local searches found in the technology capability development literature. The data showed that launched growth-oriented initiatives relied on high levels of both internal and external diversity, while the learning-oriented ventures appeared to require only high amounts of diversity in their external relationships.

The three growth-oriented ventures that entered BoP markets, for instance, had boundary-spanning relationships with key internal and external partners. This helped them to overcome existing problem-solving approaches. They used this diversity of perspectives to create and test an entirely new business model. Comparing the growth-oriented ventures that entered BoP markets with those that failed to launch (see L-Housing, C-Health, P-Water (2), and S-Water (1) in Table 4a) confirmed the importance of boundary-spanning. Unlike the successfully launched ventures, the failed initiatives targeting the BoP that had long term metrics were unable to access sufficient diversity of expertise. Indeed, all four had limited internal boundary-spanning and only S-Water (1)

achieved a high level of external boundary-spanning. As a result, these initiatives did not establish new problem-solving approaches and could not generate context-appropriate business models.

Unlike the successful BoP growth-oriented initiatives, the six successfully launched learning-oriented ventures had limited internal diversity. They avoided this potential limitation by relying on metrics that prioritized learning over economic returns and that emphasized R&D on specific business model components. The one failed venture that took a learning orientation, S-Water (2), struggled primarily because it could not access the external diversity needed to create a problem-solving approach that generated component business model R&D.

The Importance of Internal “White Space”

Structure, put simply, either did or did not offer internal “white space” that potentially protected the initiative from traditional metrics and problem-solving approaches. As a project director at Clear lamented about C-Beverage (2)’s lack of success in reaching the BoP:

“For success in low income markets, we will need to form a ‘low income market GBU.’ We have to get the right people, [and] isolate them from the rest of the corporation. There should be different expectations, different metrics.”

Structural isolation. The data showed that the three growth-oriented ventures and four of the six learning-oriented initiatives (D-Community, D-Credit, C-Water (1), and C-Beverage (3)) benefited substantially from being housed in a structure that provided a barrier to the transfer of existing metrics and problem-solving approaches. This isolating structure afforded these BoP ventures the opportunity to implement new priorities and problem-solving processes.⁸ A project director with D-Technology noted the importance of structural protection for a BoP venture:

⁸ Interestingly, a comparison of the BoP growth-oriented ventures to the middle-of-the-pyramid and not-launched initiatives showed that structural isolation was a necessary, but not sufficient, condition for architectural business model innovation. In addition to internal “white space,” these initiatives also needed to long-term metrics and boundary-spanning. Two of the failed growth-oriented initiatives targeting BoP markets (L-Housing and C-Health) and two ventures that ended up entering middle-of-the-pyramid markets (D-Compute and L-Food) were located in a structure that provided a buffer but did not break away from existing metric and/or problem-solving biases. While they utilized long-term metrics, what was missing in the cases of L-Housing and C-Health was the external boundary-spanning that

“To be successful, this business model needs to be nurtured in a different way. There should be a firewall, and [the venture] should be protected from metrics looking for growth in the early stages. In the end, [we] will have to prove that the opportunity can be huge.”

Subsidizes. As was noted earlier, three types of ventures were identified in this study based on the market entered and performance metrics. These were middle of the pyramid initiatives focused on short-term growth, BoP initiatives focused on long-term growth, and BoP initiatives focused on learning. Interestingly, exploring the influence of structure showed that there was actually variation within the learning-oriented initiatives.

Indeed, all six of the launched learning-oriented ventures had strong external boundary-spanning relationships, but only those protected by an isolating structure were fully able to leverage these partnerships. In particular, the four learning-oriented initiatives that were provided an internal “white space” were able to capture external subsidies.

Due to the protection afforded by their structure, the internal teams developing these initiatives had the time, space, and flexibility to work together with their external partners to secure a substantial portion of their financial support from external grants. These grants came from organizations like the U.S. Agency for International Development’s Global Development Alliance program and could be seen as being similar to US-government support for basic technology R&D research.

An isolating structure, however, did not guarantee that a learning-oriented initiative would be able to access external subsidies. Again, boundary-spanning mattered. The one learning-oriented initiative that did not launch, S-Water (2), was protected by an isolating structure but had low levels of internal and external diversity and was not able to access funding.

could inspire architectural business model R&D. Managers in D-Compute and L-Food, on the other hand, chose not to resist traditional short-term performance metrics, as they saw interesting opportunities at the middle of the pyramid.

The two remaining learning-oriented ventures, G-Farmer and P-Water (1), were not protected by an isolating structure and, therefore, did not have the “white space” needed to effectively pursue external funding options. Without this isolation, their management teams decided fairly early on to use internal grant funding (money that was not expected to generate a return to the company) to launch the venture

Context-Specific Resources

Complementary assets. The launched ventures differed in the ways they approached the development of new complementary assets, especially creating and building distribution networks. As they were serving familiar markets where sufficient complementary assets already existed, the four ventures that entered middle-of-the-pyramid markets looked to minimize their investments in these assets. Instead, they preferred to leverage either the local subsidiary’s or a traditional partner’s existing complementary assets. Here the partners were traditional in the sense that they were large host-country companies that the ventures’ parents had worked with before.

In BoP markets, however, complementary assets are typically insufficient or inefficient. Thus both BoP growth- and learning-oriented ventures had to invest in building these assets, but their approaches were different. Learning-oriented ventures emphasized building and leveraging their non-traditional partners’ existing context-specific complementary assets. These partners were organizations that the firms’ parents had not worked with before and were also non-traditional in terms of the sectors they came from (often non-profit organizations) and/or the markets they served (low income markets).

Alternatively, the primary emphasis for the growth-oriented BoP initiatives was on building new complementary assets in the “commons.” This was likely due to the desire to have some influence over these assets in the future. Indeed, the growth-oriented initiatives preferred to invest

in the “commons” (which no one controlled directly) as opposed to a specific partner’s assets (of which they could later lose complete control).

Context-specific expertise. As my results on boundary-spanning showed, complementary assets were not the only important context-specific resources. Indeed, the key context-specific resource in developing new business models appears to be access to external diversity and the associated inclusion of this context-specific expertise in the problem-solving process.

New business model development required overturning existing routines and involved a high level of external diversity in the problem-solving process. Only by leveraging external partners’ expertise on market conditions and connections to local networks were BoP-oriented ventures able to design new context-appropriate business models. Thus, creating capabilities for new market entry required gaining access to two types of context-specific resources, complementary assets and externally-controlled context-specific knowledge.

DISCUSSION AND CONCLUSION

Opening the “Black Box”: A Mutually Reinforcing Configuration

This study was motivated by the lack of existing research on creating capabilities for new market entry and looked to open the business model “black box” associated with capability development. My extended tracking of 18 MNC ventures initially targeting base of the pyramid markets indicated that success, measured by new venture launch, required a mutually reinforcing alignment of metrics, boundary-spanning, structure, and context-specific resources.

Indeed, in this study, the results indicated that the critical components in explaining the development of an initiative’s business model included the standards used to evaluate performance outcomes, how searches are conducted to solve problems, access to internal “white space”, and the types of context-specific resources leveraged. A key signal that the necessary pre-conditions were

in place for successful capability development was the perception that a context-appropriate business model existed.

Extensions to the Existing Capabilities Literatures

An important objective of this study was to examine how my findings might provide important insights for extending the existing growth- and change-oriented capabilities literatures (Bartlett & Ghoshal, 1989; Eisenhardt & Martin, 2000; Nelson & Winter, 1982; Penrose, 1959; Teece et al., 1997; Wernerfelt, 1984). While all 18 ventures initially targeted creating new capabilities for entry into a base of the pyramid market, data displays that compared and contrasted these initiatives pointed to important differences in the success in launching, the actual markets entered, the types of ventures launched, and the various role of the components involved in business model development.

Market entry as business model R&D. As noted in the research on replication as a growth strategy, a business model explains how an initiative operates (Winter & Szulanski, 2001). Unless given special attention, business models for new initiatives are based on historical experiences and dominant logics, with managers instinctively relying on existing prioritization metrics and problem-solving approaches (Tripsas & Gavetti, 2000).

The differences between the logic of replication (market entry at the middle of the pyramid) and the logic of R&D (market entry at the base of the pyramid) are summarized in Figure 2 and highlight the important and understudied role of business model R&D in capability development. Indeed, conceptualizing business model development as architectural or component R&D appears to be the lynchpin needed to integrate and extend the capabilities literatures in order to incorporate capability creation for new market entry.

Insert Figure 2 about here

Reconsidering growth. The results from this study provide important insights into extending the current growth-oriented capabilities literatures. Growth, in capabilities research, has been conceptualized as using existing assets in new markets (Bartlett & Ghoshal, 1989; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). As such, new locations for existing assets are seen as being outside of firm boundaries.

However, as my findings indicate, the inclusion of internal diversity in the problem-solving process was the central factor in explaining whether base of the pyramid ventures were growth- or learning-oriented. Growth-oriented ventures, which accessed high levels of internal diversity, were launched into new markets with the expectation of potentially generating substantial economic returns over the long term. However, rather than directly placing existing assets into new markets (external “white space”), these ventures first needed to put them in new internal structures that provided isolation from existing routines (internal “white space”). Similar to the technology R&D literature, when these assets were then combined with diverse sources of external problem-solving approaches and new prioritization metrics, new business models emerged that supported new capability development (Henderson & Cockburn, 1994; Henderson & Clark, 1990; Rosenkopf & Nerkar, 2001).

Interestingly, learning-oriented ventures, while not providing a direct avenue to new growth, also offered a new way to conceptualize “stepping stone” market entry (Wernerfelt, 1984). A prime objective of these initiatives was to provide component R&D learnings that could later be used by growth-oriented initiatives looking to generate architectural business model R&D.

Reconsidering change. Incorporating a perspective of business model R&D in capability creation extends the current wisdom of dynamic capabilities (Teece et al., 1997). As my results show, the most striking differences between the nine ventures that targeted BoP markets and the four that ended up entering more familiar middle-of-the-pyramid markets were the long-term

metrics and the external diversity needed to generate the new business model. The dynamic capabilities literature indicates the importance of context-specific resources in facilitating change. In this literature, however, the key context-specific resource is control over complementary assets (Teece, 1986; Tripsas, 1997). Yet as the growth-oriented capabilities literature suggests, when entering new markets, firms are unlikely to have control over complementary assets. Rather, the crucial context-specific resource in creating a new business model is access to external diversity and the associated inclusion of this context-specific expertise in the problem-solving process.

Together this suggests that creating new capabilities for new market entry involves an integration and extension of the growth- and change-oriented capabilities literatures. Launching growth-oriented ventures into new markets, in particular, requires leveraging a firm's existing assets, but focusing them on achieving new priorities and enabling them to interact with new sources of context-specific assets to generate change. In other words, this means putting existing assets in new internal "white spaces," allowing them to interface with context-specific and externally-diverse sources of new problem-solving expertise, and directing them toward new prioritization objectives.

Implications for practice. This line of research also has important managerial implications. An increasing number of MNCs are exploring capability creation for new market entry, including those targeting opportunities at the base of the pyramid. Successfully launching a new venture requires understanding the differences between growth- and learning-oriented initiatives and creating the right alignment among priorities, problem-solving, structure, and context-specific resources.

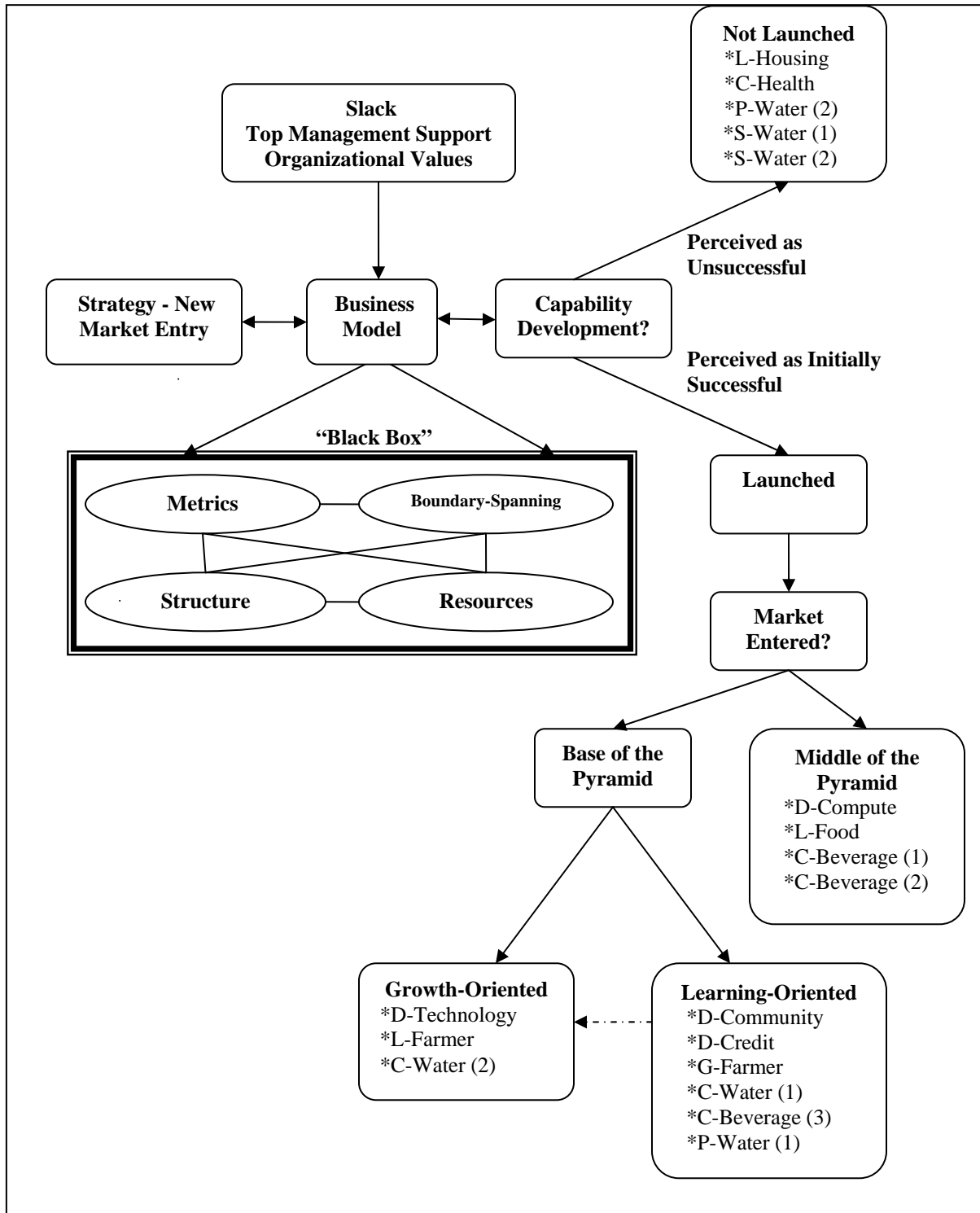
In particular, managers must recognize the importance of facilitating business model R&D. This requires recognizing the unique benefits of and requirement for architectural and component business model R&D, and strategize accordingly. Given the resistance to change typically found

within organizations, generating a business model R&D-orientation is clearly not an easy task. Yet for firms looking to expand organically, this is likely to become an increasingly important approach to new market entry.

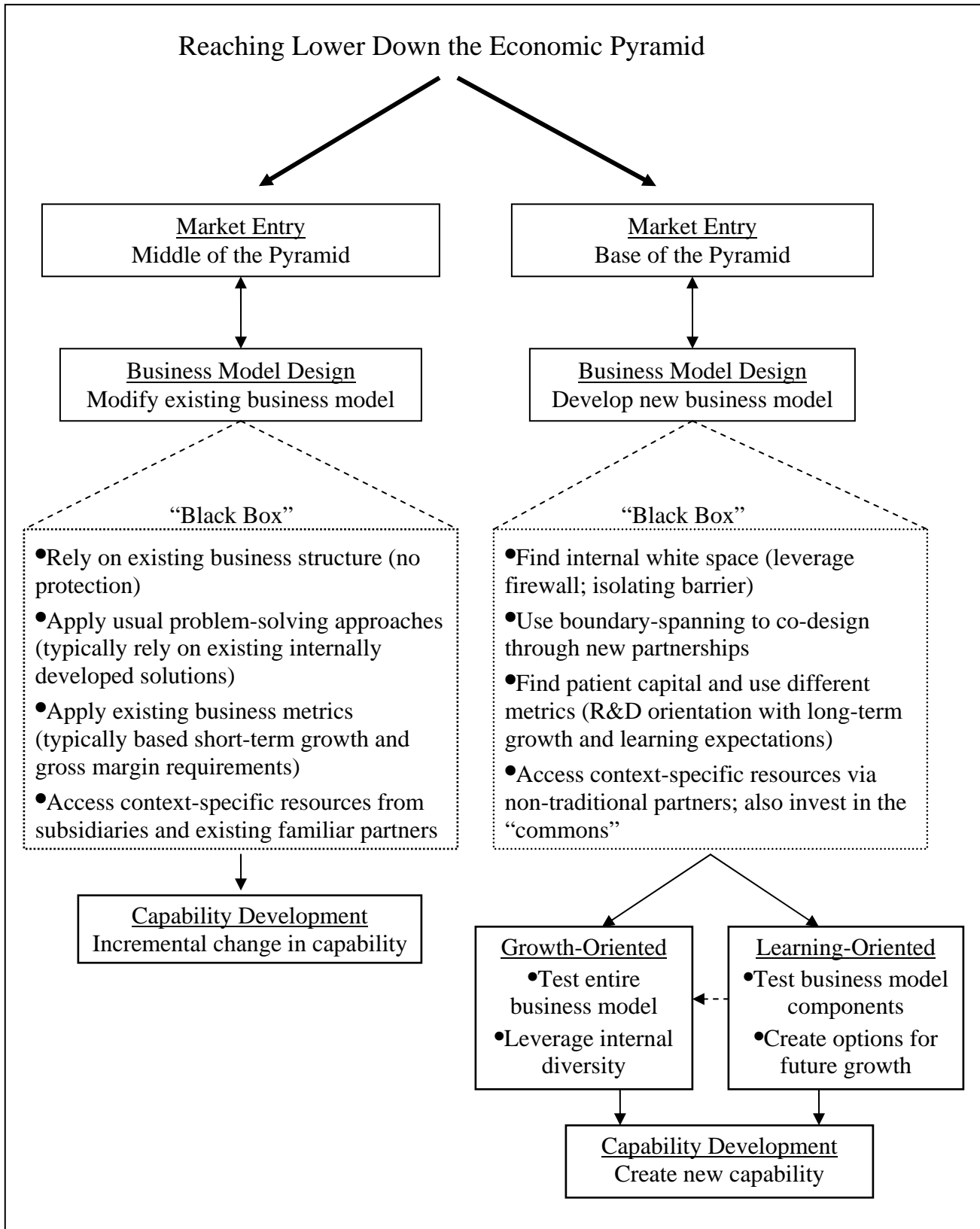
In conclusion, the results from this study are encouraging and show the promise of exploring the base-of-the-pyramid markets as a source for enhancing our understanding of the creation of new capabilities. As this was an inductive study, there are limitations to the conclusions that can be drawn. While exploratory research using purposive sampling is a powerful approach for opening the business model “black box” and conducting inductive theory building (Miles & Huberman, 1994; Yin, 2003), it does not provide the opportunity for hypotheses testing found in large sample quantitative analyses.

I anticipate further research in this area will provide both additional insights and a refinement of these results that benefits academic research and practicing managers. This will allow for a better understanding of how firms can build new capabilities to enter new markets and further address an important gap in our understanding of capability development.

Figure 1:
Capability Development for New Market Entry



**Figure 2:
Two Capability Development Approaches**



**Table 1:
Company Background and Market Entry Capability**

Company (Disguised) and Names of Initiatives	Size (Revenues and Employees), Age, International Experience and Industry	Traditional Developing Country Strategy	View of Entry into Base of the Pyramid Markets
Designer <u>21 interviews</u> D-Technology D-Compute D-Community D-Credit	Revenues: Over \$70 billion Employees: Approximately 145,000 More than 60 years old Operating in over 170 countries Industry: Science & Technology	Strategy in emerging economies is to incrementally adapt existing developed country products to serve top 2% in these markets	While it is possible to reach the next layer down by moving your current model one step down, this does not effectively get you to the bottom of the pyramid
Light <u>15 interviews</u> L-Housing L-Food L-Farmer	Revenues: Over \$25 billion Employees: Approximately 50,000 More than 200 years old Operating in over 70 countries Industry: Science & Technology	Bulk of the research is conducted in Western countries; trickle down approach to serving emerging economies	Entering base of the pyramid markets requires business model innovation
Galaxy <u>5 interviews</u> G-Farmer	Revenues: Over \$30 billion Employees: Approximately 45,000 More than 100 years old Operating in over 180 countries Industry: Science & Technology	Default strategy – looking for growth that company already knows how to do; looking to build inter-galactic scale, low cost facilities across globe	The base of the pyramid is a challenging business environment that requires a different business model
Clear <u>23 interviews</u> C-Beverage (1) C-Beverage (2) C-Beverage (3) C-Water (1) C-Water (2) C-Health	Revenues: Over \$50 billion Employees: Approximately 100,000 More than 10 years old Operating in over 75 countries Industry: Consumer Goods	Top down, local adaptation that efficiently manages resources	The company has no capabilities to enter to the low income markets
Premium <u>15 interviews</u> P-Water (1) P-Water (2)	Revenues: Over \$40 billion Employees: Approximately 110,000 More than 110 years old Operating in over 55 countries Industry: Consumer Goods	For vertical growth, moderate innovation of existing penetration strategy; leverage of existing infrastructure to find next significant level of consumer	A BoP strategy requires a new business model
Sweet <u>5 interviews</u> S-Water (1) S-Water (2)	Revenues: Over \$20 billion Employees: Approximately 50,000 More than 80 years old Operating in over 200 countries Industry: Consumer Goods	Incremental adjustments to model and products	The big difference in this is a new model; adjusting to, and accepting, this model will require a dramatic mind shift

Note: The interviews were conducted from May 2003 - June 2004; several respondents were involved in more than one initiative, so some of the interviews involved the discussion of multiple ventures.

Table 2a
Capability Development of “Not Launched” Initiatives

Initiative	Initial Strategy	Structure	Influence from Existing Prioritization Routines	Influence from Existing Problem-Solving Routines	Source of Context-Specific Resources
L-Housing	Address housing needs at the base of the pyramid	Incubated in a new structure located in a developing country	Structure provided firewall; relied on growth-oriented metrics	Limited diversity in partners and lack of connections to other internal operations restricted development of new routines	Not able to access existing or make investment to build new assets
C-Health	Provide hygiene-related product to base of the pyramid markets	Incubated within a relatively new department at corporate headquarters	Structure provided firewall; relied on growth-oriented metrics	Limited internal and external diversity; strong influence from U.S.-based department and partner managers	Would have leveraged those of in-country partner
P-Water (2)	Provide clean water to base of the pyramid markets	Incubated in department at corporate headquarters	Only able to avoid existing routines by seeking funding directly from CEO	Limited internal and external diversity; strong influence from U.S.-based department managers	Would have leveraged those of in-country partner
S-Water (1)	Provide clean water to base of the pyramid markets	Initially incubated in a new structure, then became part of an existing department located within corporate headquarters	Once in corporate department, not able to avoid existing routines	Incorporated a high level of external diversity but lacked relationships with internal experts and advocates outside of department	Would have leveraged those of in-country operations
S-Water (2)	Provide clean water to base of the pyramid markets	Initially incubated in a new structure, then became part of an existing department located within corporate headquarters	Only able to avoid existing routines by seeking funding as a learning-oriented initiative	Limited internal and external diversity; decided not to engage local subsidiary in initiative; strong influence from U.S.-based department managers	Would have leveraged those of in-country operations

Table 2b
Capability Development of “Middle of the Pyramid” Initiatives

Initiative	Initial Strategy	Structure	Influence from Existing Prioritization Routines	Influence from Existing Problem-Solving Routines	Source of Context-Specific Resources
D-Compute	Develop low cost computing solutions for the base of the pyramid	Incubated in new department at company headquarters	Structure provided potential firewall, but relied on short-term, growth-oriented metrics	Limited diversity in partners, strong influence from corporate offices, and high turnover of staff restricted development of new routines	Leveraged those of existing in-country operations
L-Food	Provide affordable, tasty, and healthy products to the base of the pyramid	Incubated in a new structure located in a developing country	Structure provided firewall, but relied on short-term, growth-oriented metrics	Limited diversity in partners and reliance on existing internal team restricted development of new routines	Used traditional approach of leveraging assets of a large in-country partner
C-Beverage (1)	Provide micro-nutrients in beverage form to base of the pyramid markets	Incubated in corporate office, launched in collaboration with a local subsidiary	Not able to avoid existing routines; emphasized short-term, growth-oriented returns	Limited diversity in partners and strong influence from subsidiary and GBU management restricted development of new routines	Leveraged those of existing in-country operations
C-Beverage (2)	Provide micro-nutrients in beverage form to base of the pyramid markets	Incubated in corporate office, launched in collaboration with a local subsidiary	Not able to avoid existing routines; emphasized short-term, growth-oriented returns	Limited diversity in partners and strong influence from subsidiary and GBU management restricted development of new routines	Used traditional approach of leveraging assets of a large in-country partner

Table 2c
Capability Development of “Growth-Oriented” BoP Initiatives

Initiative	Initial Strategy	Structure	Influence from Existing Prioritization Routines	Influence from Existing Problem-Solving Routines	Source of Context-Specific Resources
D-Technology	Serving base of the pyramid clients with limitations in literacy with voice-based services	Incubated in a new structure located in a developing country	Structure provided firewall; developed long-term growth-oriented metrics	Firewall from structure and diversity in staffing enhanced creation of new routines	Made investment in building these assets; also accessed resources from internal and external partners
L-Farmer	Serve farmers in base of the pyramid markets	Incubated in a new structure located in a developing country	Structure provided firewall; developed long-term growth-oriented metrics	Incorporated a high level of diversity by limiting internal and encouraging external input and by working with new internal partners	Made investment in building these assets; also accessed resources from internal partners
C-Water (2)	Provide clean water in base of the pyramid markets	Incubated in a GBU’s corporate offices; launched from a local subsidiary	Structure and location provided firewall; developed long-term growth-oriented metrics	Incorporated a high level of diversity by working with governmental and NGO partners in conducting local research and creating awareness	Made investment in building these assets; also accessed resources from external partners

Table 2d – Capability Development of “Learning-Oriented” BoP Initiatives

Initiative	Initial Strategy	Structure	Influence from Existing Prioritization Routines	Influence from Existing Problem-Solving Routines	Source of Context-Specific Resources
D-Community	Provide convenient and low cost images to base of the pyramid clients	Incubated in developing country-based project; part of a new dep’t at company headquarters	Structure provided firewall; initiative was funded based on learning; substantial funding from an external grant	High level of diversity in external relations but lack of internal connections limited support for initiative	Leveraged partners’ existing assets and used operating funds to build new ones
D-Credit	Develop ways to better serve microfinance clients at the BOP	Incubated in new department at company headquarters	Structure provided firewall; initiative was funded based on learning; substantial funding from an external grant	High level of diversity in partners but lack of internal connections limited support for initiative	Leveraged partners’ existing assets and used non-operating funds to build new ones
G-Farmer	Serve farmers in base of the pyramid markets	Incubated in corporate headquarters; launched in collaboration with a local partner	To avoid existing routines, initiative was funded from an internal grant	High level of diversity in partners but lack of internal support limited relevance and dissemination of new routines	Leveraged partners’ existing assets and used non-operating funds to build new ones
C-Water (1)	Provide clean water in base of the pyramid markets	Incubated in GBU; launched from an existing department within corporate headquarters	Structure provided potential firewall; initiative was funded based on learning; substantial funding from an external grant	High level of diversity in partners but lack of internal connections limited support for initiative	Leveraged partners’ existing assets and used non-operating funds to build new ones
C-Beverage (3)	Provide micro-nutrients in beverage form to base of the pyramid markets	Developed in corporate office; used licensing arrangement in country where no local subsidiary	Structure provided potential firewall; initiative was funded based on learning; substantial funding from an external grant	High level of diversity in partners but lack of internal connections limited support for initiative	Leveraging assets of a local partner familiar with low income markets
P-Water (1)	Provide clean water to base of the pyramid markets	Incubated in dep’t at corporate headquarters; launched in collaboration with a local partner	To avoid existing routines, initiative was funded from an internal grant	High level of diversity in partners but lack of internal support limited relevance and dissemination of new routines	Leveraged partners’ existing assets and used non-operating funds to build new ones

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