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# Marketing to the Base of the Pyramid: A Corporate Responsibility Approach with Case Inspired Strategies

Nicholas J.C. Santos and Gene R. Laczniak

**Abstract**

The economic and political outcomes of market globalization continue to be complex. As international corporations engage developing markets, they increasingly find consumers who lack market sophistication, meaningful purchasing options and economic leverage. Such conditions are ripe for the exploitation of these market segments but also can be mitigated by enlightened managers willing to thoughtfully consider their ethical and professional obligations to vulnerable consumers. This paper builds on a normative ethical framework, labeled the integrative justice model (IJM) for impoverished markets that was introduced in the marketing and public policy literature. Specifically, the paper will extend the normative ethics of the IJM by proposing logically reasoned decision principles for managers, particularly in MNC subsidiaries, that might better shape ethical business strategy when targeting impoverished segments. Additionally, numerous case examples are given to illustrate how a number of these decision principles are already being applied by companies around the world. Such an approach can serve as a counterweight to the difficulty of crafting global regulations for market development.

**KEYWORDS:** base-of-the-pyramid, corporate responsibility, distributive justice, ethical marketing, sustainability, vulnerable markets

**Author Notes:** The authors thank the anonymous reviewers for their helpful comments and suggestions.

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## Introduction

A major trend that unfolded in the business world during the first decade of the new millennium was that of an increased commercial engagement with low-income markets. Abundant evidence of such development was contained in a report released at the annual meeting of the World Economic Forum in 2009 titled, "The Next Billions: Unleashing Business Potential in Untapped Markets."[1] While the interest of multinational corporations (MNCs) in low-income markets, often characterized as the base (or bottom) of the pyramid (BoP), may be driven by the profit motive, it also affords companies the opportunity of demonstrating an integrated corporate responsibility (CR) strategy. Such an approach allows the company to utilize its core competencies and resources by addressing a social ill, such as poverty, and its various dimensions, in ways that are mutually beneficial to both the company and society.[2]

The involvement of MNCs in low-income markets offers the hope of empowering market segments that were previously kept at the periphery of development.[3] At the same time, it also presents the danger of greater exploitation of poor and disadvantaged populations. Davidson warns that a casual reading of Prahalad makes it easy to ignore the corporate responsibility dimensions of working with impoverished consumers and instead for firms to be captivated by the aggregate market potential of this segment—thereby adding to possible exploitation.[4] By "exploitation" we mean situations where organizations having greater economic power and leverage take advantage of a consumer segment for short-term, high margin pay-offs. For example, Epstein and Grow document cases in which many BoP customers of big banks in Mexico got caught in a maze of debt due to the micro-lending practices adopted by these institutions.[5] Similarly, former *New York Times* reporter Gary Rivlin, in his book *Broke, USA,* chronicles cases of exploitation of the American working poor by companies some of which are publicly traded.[6] The recent global recession, its precipitating subprime mortgage crisis in the U.S., and the associated financial meltdowns and corporate implosions across the international economic spectrum all convincingly illustrate how obsession with short-term profits can result in unethical and irresponsible business behavior.[7]

[1] Available from http://www.weforum.org/pdf/BSSFP/NextBillionsUnleashingBusinessPotentialUntappedMarkets.pdf (accessed February 16, 2009).
[2] Porter and Kramer 2006, 2011.
[3] Prahalad 2005.
[4] Davidson 2009.
[5] BusinessWeek, 24 December 2007, pp. 39-46.
[6] Gary Rivlin 2010.
[7] Financial Times, 12 May 2009, pp. 6-9.



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If business engagement with low-income consumers is to fit into the realm of CR, then it is imperative that such initiatives be grounded in a strong ethical framework aimed at creating a "win-win" situation for both the company and its impoverished consumers. This is increasingly critical as power shifts to MNCs and away from national governments.[8] One of the few papers that base their recommendations on a strong ethical premise is Hahn, where the author delineates an ethical mandate that requires serving BoP consumers with a concomitant need to preserve the physical environment for future generations.[9]

In order to enhance fairness when marketing to low-income consumers, we have proposed a normative ethical model labeled the *integrative justice model* (IJM) for business with impoverished customers.[10] It is essential to understand that the normative ethical approach posits what ideal or aspirational business behaviors *should be* based on reference to some moral standards; this approach is in distinct contrast to polling business practitioners as to what their approaches pragmatically *are* or by referencing what they legally are obligated to include. Instead, we begin with a synopsis of the IJM ideals and their theoretical foundations. With our normative theory based principles in mind, the focus of this paper is to take the IJM ideals to the next level of specificity.

To this end, the IJM ideals that we have derived elsewhere are expanded so that managers might have a road map for implementation that charts out how such ideals might play out in the global marketplace. In other words, this paper provides an answer to the question: *What does it pragmatically mean to conduct business ethically when engaging impoverished market segments?* While one of the essential lessons of the IJM approach is that these aspirational elements should be used synergistically in order to insure "fair and ethical" exchange with impoverished consumers, it is also important to understand that such ideals, or at least a single dimension of them, have already been utilized by business organizations with apparent effectiveness and profitability. Thus, this paper will elaborate each of the IJM ideals using real world case examples to illustrate how companies already implement some of these ideals. As called for by Brown, Vetterlein and Roemer-Mahler in their analysis of why transnational corporations function as social actors, we try to "systematically bridge the disciplinary and theoretical divides" and show how "moral imperatives" might be connected to real world actions.[11] Further, the paper will extend the normative theory building exercise by proposing logically reasoned decision *principles* for each of the IJM ideals so that managers can better shape ethical business strategy when targeting impoverished segments. The motivation here is to take general theoretical

[8] Fuchs and Lederer 2007.
[9] Hahn 2009.
[10] Santos and Laczniak 2009.
[11] Brown, Vetterlein, and Roemer-Mahler 2010.



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principles of the IJM and break them down into more usable decision rules that can be applied by managers or systematically tested in practice by researchers in the field. This effort is directed to counter the often heard criticism that normative ethical theory—especially when applied to CR applications—is too general to be of practical use to most managers.[12] Additionally, our thesis also responds to the tension that MNCs face between globalization and localization. The normative principles of the IJM are those that can be horizontally integrated across subsidiaries while the possible managerial decision rules, the focus of this paper, are those that permit vertical application in local communities and contexts.

## The Integrative Justice Model (IJM)

As mentioned in the preceding section, the IJM is a normative model for ethically marketing to consumers at the BoP.[13] The IJM is constructed using a normative theory building process from the discipline of philosophy and is comprised of ethical elements that ought to be present when fairly and justly marketing to the poor.[14] The IJM does not blend different theories or types of justice such as legal justice or procedural justice. Instead, it integrates the notion of "fairness" or "equity" in marketing transactions, as developed from an examination of moral philosophy theories, corporate social responsibility frameworks, and religious doctrine. The perspectives considered were: (i) Catholic social teaching; (ii) Habermas' discourse theory; (iii) Kant's categorical imperative; (iv) Rawls' difference principle; (v) Ross' theory of duties; (vi) Sen's capability approach; (vii) Virtue ethics; (viii) Classical utilitarianism; (ix) Service-dominant logic of marketing; (x) Socially responsible investing; (xi) Stakeholder theory; (xii) Sustainability; and (xiii) the triple bottom line (see **Table 1** for a brief synopsis of these theories).[15] These perspectives, when examined together, reveal certain ethical requirements that, in general, should guide the fair allocation of income, wealth and power in the market economy. In this fashion, the elements put forward below are more than a list of "feel good" ethical mandates but rather a highly plausible extension of careful theoretical justification. Based on these pertinent streams of thought, we identified five key elements which form the value inputs of the model (see **Figure 1**).[16] These elements are:

A. Authentic engagement with impoverished consumers and with nonexploitative intent;

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[12] Marcoux 2000.
[13] Santos and Laczniak 2009.
[14] See Bishop 2000 for the normative theory building framework.
[15] Laczniak and Santos 2011.
[16] Santos and Laczniak 2009, 6.



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B. Cocreation of value with customers, especially those who are impoverished or disadvantaged;
C. Investment in future consumption without endangering the environment;
D. Interest representation of all stakeholders, particularly impoverished customers; and
E. Focus on long-term profit management rather than on short-term profit maximization.

The theoretical support for each of the above elements is illustrated in Table 2.[17] For example, the theories that provide the normative foundation for IJM element A are Catholic Social Teaching, Immanuel Kant's categorical imperative, Sir William Ross' theory of duties, Service-Dominant logic (S-D logic) of marketing, and Virtue ethics. Catholic social teaching emphasizes the dignity of the human person. The 2nd formulation of Kant's categorical imperative decrees never to treat persons as *merely* means to an end. One of Ross' "prima facie" duties is *beneficence*, which suggests rendering aid to those in need whenever reasonable. S-D logic places a considerable focus on the centrality of the customer as an active participant in the exchange process. And, virtue ethics emphasizes the role that values play in shaping behavior. All of these frameworks are suggestive of treating customers, particularly impoverished and vulnerable ones, with fairness and without exploitation.

While the key elements of the IJM are not intended to be an exhaustive list of "just" market situations, they can be seen as both distinct and symbiotic dimensions of what constitutes a just marketplace. These dimensions are not fragmented, isolated ones, but rather are to be considered in their entirety, as interdependent and related characteristics. In a market atmosphere that is too often characterized by greed and exploitation, the IJM suggests an alternative way of proceeding that has the potential of transforming the market system to one in which there is a baseline of fairness that can be both perceived and experienced by all participants in the marketplace. The five defining features of the IJM are meant to guide the relationship between the business corporation and the impoverished market segment so as to achieve fairness in the marketplace thereby leading subsequently to a sustainable, and perhaps even more profitable, business enterprise.

The usefulness of a theory, to a large extent, lies in its ability to be applied to practical situations. According to Bishop, "a normative theory of business ethics would be useless if it did not specify how business people ought to act in various circumstances."[18] In order to enhance the usefulness of the IJM to

[17] Laczniak and Santos 2011.
[18] Bishop 2000, 565.



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executives in business corporations and to provide regulators with a list of tactics they may wish to incentivize, each of the key characteristics is further elaborated upon in the following sections and mid-range principles that can guide business decision making are provided. Further, a number of case examples are also given. The use of real world case examples is the result of an exercise in which we sought to see if the normative, idealized IJM elements could be found piecemeal in the extant marketplace already, *albeit in a theoretical form*.

Put another way, the intention of the narrative below is grounded in the following logic chain. Ethical guidelines for conducting exchange with impoverished market segments can be derived—and we have done so with the IJM approach.[19] But to be actionable to CR motivated firms and managers, these IJM elements should have doable, pragmatic implications if they are to be utilized by front line managers. This paper attempts to specify some of these managerial implications for companies concerned about conducting BoP marketing in an ethical manner. The short case examples that we select are put forward mainly to illustrate that essential manifestations of our approach have already been adopted piecemeal by some firms, although we don't claim to know the precise motivation for their so doing, nor do we claim that these particular companies are necessarily ethical exemplars for doing so.

**IJM element A: Authentic engagement with consumers, particularly impoverished ones, with non-exploitative intent**

An authentic engagement is one that should possess the *intrinsic quality* of being trustworthy as well as be a *process* that aims at winning the trust of the constituents engaged, in this case, the impoverished customers. The corporate scandals in the earlier half of this decade, the subprime mortgage crisis, and more recently, the disturbing 2008 meltdown of the financial markets have contributed to a fundamental breakdown of trust.[20] This is unfortunate as the value of trust in business functioning cannot be overemphasized. Thomas points out that "trust is a central part of stakeholder society."[21] According to Murphy, "trust" is one of the five core virtues that an ethical business organization should possess.[22] Murphy, Laczniak, and Wood further envision trust to be one of the three key virtues in relationship marketing and likely the primary one.[23] The notion of trust has assumed such significance that the *European Journal of Marketing* devoted an entire issue to this concept (2007, vol. 41, iss. 9/10). In the context of

[19] Santos and Laczniak 2009.
[20] Wall Street Journal, 7 October 2008, pp. A1-2.
[21] Thomas 2002, 14.
[22] Murphy 1999.
[23] Murphy, Laczniak, and Wood 2007.



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impoverished consumers, Ekici and Peterson argue that "trust for market-related institutions matters for the QOL [quality of life] of the poor."[24] One important means of developing trust with impoverished consumers is of engaging them with non-exploitative intent.

A recently published book by Samli, *Globalization from the Bottom Up* is particularly illumining with regard to understanding the meaning of business engagement with non-exploitative intent.[25] A basic theme of Samli's book is the distinction between greed and ambition.[26] A company motivated by greed will attempt "to win in any way, shape or form"; get as much for themselves as they can and move as fast as they can get it, paying little heed to the external environment. In contrast, a merely ambitious company realizes that working and collaborating with others increases opportunities for progress and benefits a larger number of people. Further, such a firm takes a long-term perspective and holds that improving the quality of society and the environment is to the benefit of all.

According to Neville Williams, the founder of SELCO, India's largest supplier of solar electric home systems, the key to success in base-of-the-pyramid operations is trust and not technology.[27] Thus, the lever for SELCO's growth has been its reputation for fair dealing, dependability, and continuous care. In similar vein, SKS Microfinance, India's largest microfinancier refused to raise its interest rates as it wanted to maintain a loyal customer base.[28] Recent events in India, after SKS became more broadly owned in the share market, suggest that their focus on corporate responsibility may have become corrupted.[29]

A number of companies encourage employee volunteering in impoverished neighborhoods. Employee volunteering serves many purposes. For one, it demonstrates an active role that the company plays in its surrounding community. Additionally, employees who volunteer for programs in impoverished neighborhoods get a first-hand experience of the lives of these customers. Therefore, they are able to more easily engage with these customers with non-exploitative intent. For example, IBM set up its Corporate Service Corps for employees to voluntarily work on problems in the developing world such as income generation and access to education.[30] IBM employee volunteers were sent in groups to work with non-governmental, charity, and not-for-profit organizations in markets where IBM did business such as Brazil, Russia, India,

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[24] Ekici and Peterson 2008, 290.
[25] Samli 2008.
[26] See Samli 2008, 11-13.
[27] Cited in Hart 2007, 213.
[28] Time, 5 June 2008. Available from http://www.time.com/time/magazine/article/0,9171,1812051,00.html (accessed June 18, 2008).
[29] Financial Times, 18 November 2010, p. 4.
[30] Financial Times, 10 December 2007. Available from http://www.ft.com/cms/s/2/bb0d1b72-a70b-11dc-a25a-0000779fd2ac.html (accessed February 17, 2009).



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China, South Africa, and Chile. This effort was a win-win for all. IBM was able to equip its leaders with a range of skills to function more effectively in the global world. The individuals got a unique set of leadership opportunities and training experience. And, the local communities were helped in their development with the best that IBM could offer. Another company that has an impressive record of community volunteering worldwide is Cummins Inc. One of their newer initiatives is called "Every Employee, Every Community" (EEEC). This initiative allows employees to be involved in community service on company time. In 2007, over 9,000 employees contributed more than 38,000 hours of community service through the EEEC program.[31] In a thoughtful conceptual article, Berger, Choi, and Kim contend that the ultimate in BoP market leadership is to systematically train and develop local managers for the community and social capital insights that they will naturally reflect.[32]

There are several examples of companies that instead of focusing on short run profit hurdles, concentrate on the "good" that the investment is doing for the impoverished consumer with an eye to seeing that "cash in" exceeds "cash out" in the long run. Sánchez, Rodríguez, and Ricart point out that "one of the main aims of business models in low-income markets is to foster sustainability, especially social sustainability, while ensuring profitability."[33] They analyze the example of the DISHA (Distance Healthcare Advancement) project initiated by Philips, India. This project which is a strategic partnership between Philips, ISRO (a government agency), Apollo Hospitals (Asia's largest health care service provider), and DHAN (a NGO) is aimed at providing essential health services to low-income markets and at the same time being beneficial to all the parties involved. Another example is that of the Aravind Eye Care System in India whose mission is "to eradicate needless blindness by providing appropriate, compassionate, and high-quality eye care for all."[34] Though it charges a modest \$50-\$330 fee for cataract operations and even performs free surgeries for the very poor, it has been financially self-supporting from the very beginning. It does not depend on government grants or donations and refrains from taking loans from banks to fund expansion.[35]

Companies that support formalization of consumer rights that guarantee safety, redress, sufficient information, and other basic requirements of exchange fairness also demonstrate their willingness to engage customers without desiring

[31] See Cummins Inc.'s 2007 Sustainability Report. Available from http://www.cummins.com/cmiweb/attachments/public/Global%20Citizenship/SustReport-Online-RevApril2009-v2.pdf (accessed April 21, 2009).
[32] Berger, Choi, and Kim 2011.
[33] Sánchez, Rodríguez, and Ricart 2007, 89.
[34] Prahalad 2005, 266.
[35] Prahalad 2005, 265-86.



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to exploit them. Frederik Philips, the former President of Philips Electronics, Netherlands was a co-founder of the Caux Round Table (CRT) in 1986. The CRT Principles, which articulate ethical norms for responsible business conduct, were launched in 1994 and presented to the UN World Summit on Social Development in 1995. In March 2009, the principles were reformatted. In the sub-section on customers, the Principles call upon businesses to treat all their customers with respect and dignity, providing them with the highest quality products and services, treating them fairly and providing remedies for their dissatisfaction, and ensuring their health and safety.[36]

From the above discussion, the following decision principles based on an authentic engagement with customers with non-exploitative intent can be proposed:

(a) A business firm should strive to develop trust with its customers at all levels.
(b) A business firm ought to develop its competitive advantage through a process of collaboration rather than focusing on eliminating competition.
(c) A business firm ought to take a long-term perspective that holds that improving the quality of society and the environment is to the benefit of all.
(d) A business firm ought never to take advantage of the relative weaknesses of its customers. Instead, it should make maximum efforts, using its own relative strengths to relieve these shortcomings, so that the consumer experience is enhanced. In effect, companies ought to build a trustworthy reputation for fair dealing, dependability, and continuous care.
(e) A business firm ought to encourage employee volunteering particularly in impoverished neighborhoods.
(f) A business firm should foster social sustainability while ensuring profitability in the long run.
(g) A business firm should support the formalization of consumer rights that guarantee safety, redress, sufficient information and other basic requirements of exchange fairness.

**IJM element B: Co-creation of value with customers, especially those who are impoverished or disadvantaged**

Co-creation of value is an emerging approach in marketing which holds that, instead of autonomously positing what constitutes value for consumers, a business

[36] Caux Round Table "Principles of Business." Available from http://www.cauxroundtable.org/index.cfm?&menuid=8 (accessed April 23, 2009).



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firm ought to involve such consumers in the value-creation process itself since value is "uniquely and phenomenologically determined by the beneficiary."[37] This value creation does not take place only at the point of exchange but, as Prahalad and Ramaswamy indicate in their treatises on joint value creation, it occurs at all points of interaction between the firm and the consumer.[38] This position is in contrast to that of traditional marketing where the value of the marketing transaction has been largely determined by the business firm alone, even though marketing historically has prided itself on being customer-focused.

It should be noted, however, that Prahalad and Ramaswamy's position on joint value creation is based on their perception of "informed, connected, empowered, and active communities of consumers."[39] Therefore, they posit that "the firm and the consumer are both collaborators and competitors—collaborators in co-creating value and competitors for the extraction of economic value."[40] However, as Karnani, points out, "the poor are vulnerable by virtue of lack of education (often they are illiterate), lack of information, and economic, cultural, and social deprivations."[41] In the context of impoverished market segments, the notion of the firm and the consumer being competitors for the extraction of economic value can in fact lead to exploitative situations. Therefore, co-creation of value should not in any way imply that the business firm and the impoverished consumer compete to extract economic value. Instead, the company ought to use its resources to ensure that its fairly priced offering (i.e. still allowing for long-term profit to the firm) proposes what is of best economic value for its targeted impoverished customers.

Value creation can have a long-term consequence especially in the case of impoverished customers. An assumption made in the co-creation of value is that because the customer is involved in the co-creation process, there is automatically going to be a series of benefits that accrue to the customer. Unfortunately, this is not always the case. Information asymmetries, lack of alternatives, and other disadvantages that impoverished customers in particular face can result in value creation that might not really result in long-term value for the impoverished customer. Consider how impoverished customers of big banks in Mexico who avail of microloans get further trapped in a maze of debt.[42] Laczniak rightly points out that, "in some instances, a *higher* social responsibility falls to the (more informed) marketer participant concerning areas of the exchange where they hold

[37] Vargo and Lusch 2004, 2006, and 2008.
[38] Prahalad and Ramaswamy 2002, 2004a, and 2004b.
[39] Prahalad and Ramaswamy 2004a, 12.
[40] Prahalad and Ramaswamy 2004a, 11.
[41] Karnani 2007, 97.
[42] BusinessWeek, 24 December 2007, pp. 39-46.



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greater expertise [and knowledge]."[43] In co-creating value with impoverished customers, firms should not make the assumption that just because the customer is involved in the process of co-creation there is going to be resultant value or benefit for the customer. In fact, there is a greater responsibility on firms to engage in a co-creation process that fosters partnerships with impoverished customers and develops mutual trust that extends beyond the consumption of the product or service (i.e. value-after-use).[44] For example, the aptitudes gleaned from counsel and facilitation received by the recipients of some micro loans continue to benefit their personal skill set long after the loan has been repaid.

Instead of top-down R&D, the concept of co-creation might imply leveraging local innovativeness. Anil Gupta, a professor at the Indian Institute of Management, Ahmedabad, India, says that the "elite often fail to recognize that the poor are knowledge-rich."[45] In order to foster grassroots innovation, Gupta set up the Honey Bee Network in 1988, the Society for Research and Initiatives for Sustainable Technologies and Institutions (SRISTI) in 1993, the Grassroots Innovation Augmentation Network (GIAN) in 1997, and convinced the Indian Government to establish the National Innovations Foundation in 2000. As of 2005, the foundation had documented 51,000 mechanical, technical, and herbal inventions and practices in more than 300 Indian districts. These efforts reveal that people at the grassroots do have insights and innovations that can be leveraged to deliver products and services better suited for impoverished markets. For instance, a local Nigerian teacher, Mohammed Bah Abba, developed a pot-in-pot cooling system that does not require any external energy supply to preserve fruit, vegetables, and other perishables in hot, arid climates.[46] Besides Nigeria, this innovation has expanded to other African countries such as Chad, Cameroon, and Niger.

Co-creation can also take place by seeking input from impoverished customers either directly or through observation. For instance, Proctor and Gamble (P&G) had researchers spend time in rural villages in India observing the everyday behavior of impoverished consumers.[47] This enabled P&G to develop products that are better suited to the impoverished customers. In similar vein, the successful Patrimonio Hoy program of CEMEX (Mexico) was the result of a group of CEMEX managers spending about six months living in the shantytowns of Mexico to better understand the constraints and problems faced by do-it-yourself homebuilders.[48]

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[43] Laczniak 2006, 281, emphasis in original.
[44] See Murphy, Laczniak, and Wood 2007.
[45] Chronicle of Higher Education, 30 September 2005, p. A43.
[46] Hart 2007, 198-99.
[47] Financial Times, 4/5 February 2006, pp. W1-2.
[48] Hart 2007, 146-48, 197.



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In the context of initiatives involving impoverished customers, if the impoverished customers are given an ownership stake in those initiatives there is a greater likelihood of success for the initiative itself, as well as an assured improvement in the lives of the impoverished customers. For instance, borrowers of Grameen Bank, who are mostly women, own about 95 percent of the Bank's equity.[49] This might explain why Grameen's repayment rate is an extremely high ninety seven percent. Similarly, the Indian rural IT provider, N-Logue uses local micro-entrepreneurs who establish and own village-level kiosk franchises that provide internet and VOIP access to the local population.[50]

One of the constraints to entering impoverished markets is the lack of knowledge of these markets.[51] These constraints can be overcome by partnering with local NGOs. An example is Danone's joint venture with Grameen Bank to manufacture and sell nutritional dairy products for low-income consumers in Bangladesh.[52] Other examples of partnering with local NGOs include SC Johnson (USA) with Kickstart (Kenya), Bata (India) with Care (Bangladesh), and Microsoft (USA) with Pratham (India).[53] Such partnerships are advantageous to the multinational corporation as they enable the MNC to leverage the goodwill and network of the local NGO. For example, Bata, India through its partnership with Care, Bangladesh is able to tap into the extensive network of rural micro-entrepreneurs that Care has helped develop over a period of 50 years.[54]

Besides partnering with NGOs, companies can also collaborate with local communities. Communities do not just consist of individuals but also constitute a social network that can be a resource in itself.[55] This social network can be of tremendous benefit in reaching impoverished consumers. For instance, the Health Store Foundation in Kenya designed a for-profit franchise model of micro-drug shops and clinics also known as Child and Wellness Shops.[56] The franchisees are members of the local community who enable the foundation indirectly to provide basic healthcare services and to distribute affordable drugs to the community.

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[49] Information about Grameen Bank is available from http://www.grameen-info.org/index.php?option=com_content&task=view&id=26&Itemid=175 (accessed November 4, 2011).
[50] See Hart 2007, 202.
[51] Gradl, Sobhani, Bootsman, and Gasnier 2008.
[52] Brugmann and Prahalad 2007.
[53] See Hart 2007; Brugmann and Prahalad 2007.
[54] Hart 2007, 209.
[55] Gradl et al. 2008.
[56] Karugu 2007; Gradl et al. 2008.



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From the above discussion, the following decision principles based on co-creation of value can be proposed:

(a) Instead of autonomously positing what constitutes value for impoverished consumers, a business firm ought to involve such consumers in the value-creation process itself.
(b) A business firm ought to use its resources to ensure that its fairly priced offering proposes what is of best economic value for its targeted impoverished customers.
(c) A business firm should engage in a co-creation process that fosters sustained partnerships and develops mutual trust with impoverished customers that extends beyond the consumption of the product or service.
(d) A business firm ought to leverage local innovativeness and actively seek ways in which its impoverished customers can participate in the value co-creation process.
(e) A business firm should constantly seek input from its impoverished customers either directly or through observation and should incorporate this feedback into its decision making processes.
(f) A business firm should consider ways in which its impoverished customers can be given an ownership stake in the company.
(g) A business firm ought to partner with local NGOs so as to leverage the expertise, goodwill, and network of the NGO in a mutually advantageous manner.
(h) A business firm ought to collaborate with the local communities in which it operates so as to tap into the social network they constitute.

## IJM element C: Investment in future consumption without endangering the environment

One of the fears of expanded marketing to impoverished market segments, particularly in developing countries, is that an exponential increase in overall consumption could have dire consequences on an already battered planet. Arundhati Roy, the Indian writer and activist who won the Booker prize in 1997, remarks that "the idea of turning one billion people into consumers is terrifying."[57] When Tata Motors announced in early 2008 the launch of its $2500

[57] Financial Express, 9 June 2005. Available from http://www.financialexpress.com/old/latest_full_story.php?content_id=93316 (accessed November 19, 2008).



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Nano car, there was considerable opposition.[58] Environmentalists were of the opinion that the Nano would increase pollution in a country that already had high pollution levels as well as increase congestion in most cities of India, where travel as it is, is a problem.[59] A major assumption made by those who oppose an increase in consumption is that present production patterns will also be used in future to support such an increase. However, this need not be the case. For example, biotechnology can be effectively used towards more sustainable agricultural practices.[60] The use of disruptive innovations could enable more people to have access to the fruits of development while in fact helping to preserve the environment.[61] An example of a disruptive innovation is the leg-operated Moneymaker Micro-irrigation pump of Kickstart, Kenya.[62] These simple, relatively cheap, yet effective water pumps enable poor farmers to grow high-value fruits and vegetables all year round. Another example of a disruptive innovation is that of mobile telephony in rural areas. Mobile telephony enables poor consumers in rural areas to have access to a modern technology and eliminates the need to set up phone cables.

One of the perspectives that the authors use to arrive at the ideal of "investment in future consumption" is that of the capabilities approach of the Nobel laureate in Economics, Amartya Sen.[63] In line with Sen's idea of expanding the capabilities and freedoms of people, an investment in future consumption is an attempt at procuring a better participation of the impoverished in the market system. This participation can be as producers, innovators, employees, distributors, customers, consultants, etc. In order to enhance such participation it is important that the capabilities of impoverished customers be developed and the freedoms they enjoy be expanded. Consider for example, the training university that Toyota set up in India.[64] Toyota, in training these young teens from rural India, develops their capabilities, in terms of high-quality technical training. Further, their freedom is also expanded as they now are better poised in the job market. In addition, this strategy is also helpful to Toyota as it is creating a future skilled labor pool for its own expansion efforts. Another example of investing in

[58] Time, 10 January 2008. Available from http://www.time.com/time/magazine/article/0,9171,1702264,00.html (accessed November 5, 2011).
[59] See Friedman 2008.
[60] See Hart 2007, 49.
[61] Christensen, Raynor, and Anthony 2003; Hart and Christensen 2002; Hart 1997 and 2007.
[62] See Hart 2007, 150.
[63] Sen 1999.
[64] BusinessWeek, 23 January 2008. Available from http://www.businessweek.com/globalbiz/content/jan2008/gb20080123_960639.htm (accessed January 23, 2008).



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future consumption is that of Investec in South Africa.[65] Investec supports the CIDA City Campus which imparts training in English and Math to disadvantaged young, mainly rural, South Africans, before launching them into a three-year business degree. Investec is also the founding sponsor of The Business Place, a network of organizations that provide a one-stop information and advice shop for aspiring entrepreneurs. These efforts help create an educated and entrepreneurial population that Investec also benefits from.

Strategies aimed at increasing the capabilities of impoverished segments create enabling conditions that contribute to the long-term functioning of the business enterprise. In addition to the examples of Toyota University in India and Investec in South Africa mentioned above, there is the example of Barclays Bank in Ghana. Barclays as part of its microbanking initiative is attempting to connect modern finance with informal financial systems such as Susu collection in Ghana.[66] The Susu collection system is an informal daily deposit collecting system aimed at mobilizing savings deposits from clients. Barclays offers training programs for the Susu collectors in areas such as delinquency management, financial management, and credit/risk management. These courses are offered with input from the Susu collectors and their Association. Additionally, Barclays also provides clients of microfinance institutions and Susu collectors with a financial awareness program that is aimed at promoting knowledge of basic financial skills and the effective use of money. Another example of increasing the capabilities of impoverished segments is that of Nestlé's milk business in India.[67] When Nestlé first set up its dairy in the northern region of Moga in India, poverty was very rampant in the area. By increasing the capabilities of the impoverished farmers, Nestlé has been instrumental in increasing the standard of living of the impoverished populations in the Moga area while at the same time ensuring a steady supply of high-quality milk for itself.

It is also important for companies to pay their employees a living wage. Unfortunately, many companies pay their employees low salaries in an attempt to cut costs. For example, Peter Edelman, a Georgetown law professor and co-chairman of the Center for American Progress' task force on poverty points out that "[a]n astonishing number of people are working as hard as they possibly can but are still in poverty or have incomes that are not much above the poverty line."[68] It is only by paying a living wage to one's employees that a company can ensure that its employees/partners can contribute to the overall economy of which it is a part. For instance, the Fair-Trade Labeling Organizations International in Mali assures Malian cotton farmers a guaranteed minimum price for their cotton

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[65] Financial Times, 14 September 2005, p. 12 [Business and Development].
[66] Osei 2007.
[67] Porter and Kramer 2006.
[68] New York Times, 12 May 2007, p. A25.



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which safeguards the farmers when the price is lowest. Additionally, as the farmers are supported in producing high-quality cotton, they in fact earn much higher revenues. For instance, during the harvest season of 2005/2006, the farmers were able to increase their revenues by seventy percent.[69] With surplus revenues, the farmers create a demand for other products and services which benefits other companies as well.

A report released by the World Economic Forum at its Annual Meeting in January 2009 points out that one of the new perspectives that businesses wishing to engage the BoP should embrace is that of affording access rather than stressing ownership.[70] For example, the phone-sharing services promoted by Celtelin Congo and Grameen Telecom in Bangladesh enable rural populations to have access to a phone without having to own one.[71] Similarly, the internet kiosks operated by women entrepreneurs as part of the i–Shakti program of Unilever, India which was initiated in August 2003 allow rural populations to have access to information on health & hygiene, e-governance, education, agriculture, employment, legal services, and veterinary services.[72]

From the above discussion, the following decision principles based on an investment in future consumption can be proposed:

(a) A business firm ought to invest in research and development that is aimed at developing innovations for impoverished markets that are both socially beneficial and environmentally friendly.
(b) A business firm should strive to increase the capabilities of impoverished segments so as to ensure that these impoverished segments can better participate in the market economy.
(c) A business firm ought to pay its employees a living wage so as to ensure that they can contribute to the overall economy of which the firm is also a part.
(d) In the conception, production, and delivery of goods or services, a company should strive to ensure that the ecological footprint is minimized.
(e) In keeping with an emerging perspective in impoverished markets, a business firm ought to afford access to products and services (e.g., leasing or sharing) rather than focusing on ownership of these.

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[69] Gaye 2007.
[70] Available from http://www.weforum.org/pdf/BSSFP/NextBillionsUnleashingBusinessPotentialUntappedMarkets.pdf (accessed February 16, 2009).
[71] See De Catheu 2007; Hart 2007, 123-27.
[72] See i-Shakti: The Pilot Project 2009. Available from http://www.hllshakti.com/sbcms/temp1.asp?pid=46802256 (accessed February 16, 2009).



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**IJM element D: Interest representation of all stakeholders, particularly impoverished customers**

The phrase "interest representation of all stakeholders," raises three pertinent questions: (1) what does interest representation mean? (2) who are the stakeholders? and (3) how does a company represent the interests of all its stakeholders? The term "interest representation" is often associated with lobbying. Lobbyists influence lawmakers to enact legislation that is in the interest of their [lobbyists'] clients. The word "interest" in this context means advantage, benefit, or gain. Interest can also mean what is of concern or relevance. In the case of the marketing to impoverished customers, the term "interest" could contain both these meanings, namely, advantage, benefit, or gain as well as being concerned or relevant. "Representation" likewise can mean considering as well as demonstrating. "Interest representation" of all stakeholders therefore can mean *considering* what matters to the stakeholders and is to their advantage or benefit. Further, it can also mean *demonstrating* through business policies and ethical audits that this consideration has indeed taken place.[73]

The next question, "Who are the stakeholders?" is one that continues to be debated upon especially in the context of stakeholder management. Freeman defines a stakeholder as "any group or individual who can affect or is affected by the achievement of a firm's objectives."[74] By extension, such categorization can indeed be very broad. From a managerial perspective, it becomes important to identify the stakeholders with whom the firm engages for value creation.[75] Such identification determines the level of engagement with particular stakeholders. For instance, Freeman et al. distinguish between *primary stakeholders* who are vital to the growth and survival of the business and *secondary stakeholders* who can affect the relationships with the primary stakeholders.[76] Depending on whether a particular stakeholder is considered primary or secondary has a bearing on the level and extent of the firm's engagement and commitment to that stakeholder. Murphy, Laczniak, Bowie, and Klein add a third level, namely, indirect stakeholders.[77] According to Murphy et al., "primary stakeholders have a formal, official or contractual relationship with the firm; indirect stakeholders have an ongoing or abiding interest in the firm but no direct transactional contract; and all others are classified as secondary stakeholders."[78] The classification of stakeholders has ethical implications. If a particular stakeholder

[73] See Kaptein 1998.
[74] Freeman 1984, 25.
[75] Freeman, Harrison, and Wicks 2007.
[76] Freeman et al. 2007.
[77] Murphy, Laczniak, Bowie, and Klein 2005.
[78] Murphy et al. 2005, 6.



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group is classified as 'primary,' by definition, this group gets greater weight in the representation of its interests no matter what trade-off protocol is used. The authors appropriately add the phrase "especially the impoverished consumers" to the statement "interest representation of all stakeholders." The addition of this phrase likely indicates that impoverished consumers ought to be considered as primary stakeholders because they have a continuing and essential interest in the firm and are also vital to the growth and survival of the business initiative once a commitment to target this segment is made.

The final question "How should a company represent the interests of its stakeholders?" is not an easy one to answer. In order that the interests of the stakeholders are better served Freeman et al. recommend that the managers should "put themselves in the stakeholder's place and try to empathize with that stakeholder's position."[79] In the context of significant, developmental or infrastructure projects in developing countries, Rangan and McCaffrey propose "a market engagement process that brings the voice and interests of poor customers to be included and represented at the table of policy planning and debate."[80] In place of the traditional "Market Operation Model," Rangan and McCaffrey suggest a "Market Construction Model" in which the manager becomes the surrogate voice of the unrepresented poor client.[81] However, a manager who has always lived an affluent lifestyle and has never had to face many disadvantages in life is likely to misrepresent what she or he perceives to be the interests of the poor client. The voice of the poor client represented through such a process commonly will be an unreliable one. In order to have a first-hand experience of the real world of low-income consumers, P&G developed in 2001 a consumer closeness program called "Living It." This program enabled "employees to live with lower-income consumers for several days in their homes, to eat meals with the family, and to go along on shopping trips."[82] Such programs ensure a better representation of the interests of the impoverished consumer. A company could also use a Rawlsian strategy.[83] Now, it might be unrealistic to expect that for every decision process the managers go behind a "veil of ignorance" to determine the decision that would be fair to all parties. However, it may not be so unrealistic to establish conformity with the Rawlsian difference principle. That is, decisions, actions, procedures should not be promulgated that further disadvantage those least well-off, in this instance the impoverished consumer. Again, it is important to consider the long-term ramifications of the decision protocol rather than its immediate consequences. For instance, the big Mexican banks who lend to the

[79] Freeman et al. 2007, 112.
[80] Rangan and McCaffrey 2004, 357.
[81] Rangan and McCaffrey 2004 and 2006.
[82] Fortune, 17 March 2008, pp. 121-26.
[83] Rawls 1971, 1999.



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impoverished consumers at rates ranging from 50-120 percent might justify their high rates on the basis that these are better than what the impoverished were being charged by loan sharks (typically 300-1000 percent). However, the condition of the impoverished did not improve over time and in fact, the impoverished consumers were driven further into debt.[84] A company could also use a Habermasian perspective by engaging in dialogue with the impoverished consumers.[85] The proposition of co-creation of value perhaps points in this direction. If the impoverished consumers are better immersed in the co-creation process, there is a greater likelihood of their interests being taken into account.

Rosa, Viswanathan, and Ruth point out that "to win and enhance customer loyalty in developing markets, manufacturers and retailers need to understand the difficulties faced by low-literacy consumers and create shopping environments that make them feel less vulnerable."[86] Some of the ways they suggest include: displaying prices and price reductions graphically; posting unit prices in common formats across stores, brands, and product categories; including illustrations of product categories on store signs; putting the ingredients required for the preparation of popular local dishes in the same section of the store; incorporating familiar visual elements into new store concepts or redesigned brand logos; and creating a friendly store environment. Companies that heed this advice would be concretely demonstrating that they have indeed attempted to represent the interests of low-literacy, and likely impoverished, consumers in their business functioning.

A potential danger of increasing credit access to impoverished customers is that these consumers might indulge in buying beyond their budget, and thus get caught in a debt trap. Therefore, in order to better represent the long-term interests of the impoverished customers, a company engaging such customers should include consumer education and counseling as part of its marketing strategy. The Brazilian retailer, Casas Bahia, for instance, requires its salespeople to teach consumers to buy according to their budget.[87] While this might result in a potential short-term loss for Casas Bahia as a customer might buy a cheaper or smaller product, there is a long-term gain in terms of lower default rates and more loyal customers.

Interest representation of impoverished customers also entails that the company develop or promote products and services that are especially relevant to the impoverished market segment. Microsoft, for instance, is working on projects such as a visual interface that will enable illiterate or semiliterate people to use a computer with minimal training and allowing an entire classroom full of students

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[84] BusinessWeek, 24 December 2007, pp. 39-46.
[85] Habermas 1990; McCarthy 2001.
[86] Wall Street Journal, 20 October 2008, p. R12.
[87] Prahalad 2005, 127.



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to use a single computer.[88] Other examples of especially relevant products and services for the impoverished market segment include affordable and highly nutritious milk porridge by Danone in Poland;[89] long-lasting anti-malaria bed nets by A to Z Textile Mills in Tanzania;[90] low-cost and safe sanitation systems by Sulabh International in India;[91] an early warning method for monitoring children's health by Pésinet in Mali;[92] and supply of water and electricity to shantytowns by LYDEC in Morocco.[93]

Enabling better access of the impoverished to the market helps impoverished consumers to participate more fully in the market economy. For example, the e-Choupal initiative of ITC, India enables a greater linkage of the local farmers to global markets.[94] Kelley, Werhane, and Hartman note that "by placing a computer with an Internet connection in a *choupal*, a traditional village gathering place, ITC gives farmers access to many different *mandis* (government mandated marketplaces)."[95] Another example is that of DCM Shriram Consolidated Limited (DSCL), a multinational Indian corporation that set up the HariyaliKisaan Bazaar chain which provides farmers with a range of solutions under one roof.[96]

Companies should also make products and services affordable, accessible, and available. According to South African entrepreneur Brian Richardson, the three A's for successful initiatives in the developing world are: affordability, accessibility, and availability. These are the three A's that WIZZIT, a division of the South African Bank of Athens, aspires to in its attempt at extending banking services to the unbanked and under-banked in South Africa.[97] An example of making mobile communications in low-income rural communities available, affordable, and usable is that of the Village Connection Project of Nokia Siemens Networks which was launched in May 2007 and made commercially available in India since December 2008.[98]

Finally, the company should ensure that information about its products or services is easily understood by the impoverished customers. In the case of the Shakti program of Unilever in India, the female entrepreneur educates the rural

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[88] Time, 31 July 2008. Available from http://www.time.com/time/business/article/0,8599,1828069,00.html (accessed August 28, 2008).
[89] Rok 2007.
[90] Karugu and Mwendwa 2007.
[91] Kothandaraman and Vishwanathan 2007.
[92] Gaye and Moreau 2007.
[93] Hatem 2007.
[94] Anupindi and Sivakumar 2007.
[95] Kelley, Werhane, and Hartman 2008, 23, emphasis in original.
[96] Vermeulen, Bertisen, and Geurts 2008, 375.
[97] Richardson and Callegari 2008.
[98] Skarp, Bansal, Lovio, and Halme 2008.



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customers about hygiene and also explains to them Unilever's products. As many people in the rural areas are illiterate, oral communication is an effective way to ensure that the impoverished customers understand the information about a company's offerings. Another way of making products easily understood is through the use of pictorial or graphical representation. For example, the Swedish retailer IKEA uses a pictorial depiction of the assembly instructions for its products.[99] Such a depiction makes assembling IKEA products relatively easy.

From the discussion above, the following decision principles based on an interest representation of all stakeholders can be proposed:

(a) A business firm ought to consider what matters to its stakeholders and is to their advantage. Further, the firm ought to demonstrate through business policies and ethical audits that such accommodations have indeed taken place.
(b) A business firm ought to consider its impoverished customers as primary stakeholders as these customers have a continuing and essential interest in the firm and are also vital to the growth and survival of the business initiative once a commitment to target this segment is made.
(c) A business firm should encourage its employees to have a first-hand experience of the real world of low-income consumers.
(d) A business firm should ensure that decisions, actions, procedures, that are promulgated do not further disadvantage impoverished customers.
(e) A business firm ought to engage in dialogue with impoverished customers regarding its products and services so as to ensure a greater likelihood of the customers' interests being taken into account.
(f) A business firm ought to make efforts to understand the difficulties and constraints faced by impoverished customers and try to alleviate these so as to enhance the overall consumer experience. This strategy might involve investing in education, health care, sanitation, and access to credit which expand the capabilities of the impoverished consumers and enable a richer firm-consumer relationship.
(g) A business firm ought to include consumer education and counseling as part of its marketing strategy to ensure better representation of the long-term interests of its impoverished customers and to enable the customers to make better informed choices.
(h) A business firm ought to develop and promote products and services that are especially relevant to the impoverished market segment.

[99] See http://www.ikea.com. Although this is not a base of the pyramid (BoP) example, it is included to illustrate the possibility of making instructions easier to understand for BoP customers.



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(i) A business firm ought to enable better access of impoverished customers to the market to enable them to better participate in the market economy.
(j) A business firm should make its products and services affordable, accessible, and available.
(k) A business firm should ensure that the information about its products and services are easily understood by its impoverished customers.

**IJM element E: Focus on long-term profit management rather than short-term profit maximization**

Financial returns undoubtedly play an important role in the functioning of a business enterprise and are a central indicator that the company is performing efficiently. However, an obsession with immediate financial rewards, ironically, can act against the long-term interests of the business firm and its stakeholders. There is no dearth of examples to illustrate this point. The instances of Enron and WorldCom in the turn-of-the-century corporate scandals and now more recently, AIG, Lehman Brothers, and Merrill-Lynch in the recent financial crisis indicate how top executives keen on maximizing financial returns in the short run can put not only their company but also the entire market at risk. In the context of marketing to impoverished segments, the authors suggest that instead of aiming at profit maximization, a company should concentrate on long-term profit management. This proposition is intended as a better long long-view strategy for the organization because if impoverished segments are developed for their sustainability, their eventual profit stream might also prove to be superior. The question naturally arises as to the difference between profit maximization and profit management. This distinction shall be briefly elaborated on below.

The word “profit” is often equated with financial returns or rewards or surplus of income over expenditure. However, this usage which is in a specific sense of money making came into existence only in c1758.[100] Its earlier usage (c1325) was of yielding benefit or being useful. The distinction between profit maximization and profit management can therefore be understood in terms of the difference between the later and earlier usage of the word “profit.” The notion of profit management reverts back to the earlier understanding of profit. As religious traditions often point out, “the *individual profit* [italics in original] of an economic enterprise, although legitimate, must never become the sole objective. Together with this objective there is another, equally fundamental but of a higher order: *social usefulness*.”[101] At the Stakeholder Marketing Consortium held at the Aspen

[100] See the Online Etymology Dictionary. Available from http://www.etymonline.com/index.php?term=profit (accessed October 20, 2008).
[101] Catholic Church 2004, 151.



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Institute in September 2007, "it was suggested that a company's contribution to social good be framed as an end in itself rather than simply a means to enhancing financial performance."[102] If a business organization considers itself to be only a money-making enterprise, it is likely to base all its decisions in terms of financial value; a focus that increases the likelihood of unethical behavior. However, a business firm is more than just a money spinning endeavor. It is an economic institution that plays a central social function. For example, companies provide much needed employment which, while providing a livelihood for employees and their families, also fuels the economy. Unfortunately, many companies in a downturn, despite their common claims that employees are primary stakeholders, immediately resort to laying off employees. Consistent with the first formulation of Kant's categorical imperative, for such an action to be morally acceptable, companies would have to will that such an action can be universalized as a primary coping strategy.[103] That is, when a company is recording losses it is morally permissible to lay off employees. In a global financial crisis, such as the one we just witnessed, since most companies are incurring losses, this would mean that most companies would lay off employees. If the number of unemployed increases dramatically, the spending capability of the population goes down. This is turn impacts sales of the companies, who then procure more losses and lay off more employees indulging in a vicious cycle that could destroy the entire capitalistic system. Such a scenario would more easily play out in the case of a company that aims at profit maximization. Instead, a company that aims at profit management is more careful about the risks it takes and, if there is a financial downturn, it does not immediately resort to laying off employees. In times of recession, job loss is an economic reality, however, it should not be the knee knee-jerk first strategy considered when times get tough. Instead, long-term profit management tries to use these employees to co-create innovative adaptations and solutions to the challenges at hand.

While profit maximization aims at increasing financial returns, often in the short-term, profit management strives at increasing business success with a long-term perspective. The notion of profit management is on lines of the 3BL (triple bottom line—people, planet, profits).[104] In other words, the measure of business success is based on social, environmental and financial *returns*. Corporate social responsibility (CSR), 3BL, and socially responsible investing (SRI) have drawn attention to the fact that companies have a responsibility towards social and environmental issues. However, these responsibilities are often looked at as costs or constraints. As mentioned earlier, Porter and Kramer point out that if "corporations were to analyze their prospects for social responsibility using the

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[102] Bhattacharya and Korshun 2008, 115.
[103] Kant 1785[1981 trans.].
[104] Elkington 1998.



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same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed—it can be a source of opportunity, innovation, and competitive advantage."[105] A company that has been successful at incorporating a triple bottom line approach in its functioning is the Whole Foods Market, which has shown a commitment to natural and environmentally friendly operating practices as well as distinguished itself with the social dimensions of its value proposition.[106]

In the context of the impoverished market segment, long-term profit management is a necessary and strategic choice. If companies are intent merely on short-term profit maximization, they will be, first and foremost, reluctant to enter impoverished markets on account of the low-purchasing power of these consumers, and various barriers to entry such as inadequate infrastructure, lack of knowledge of these markets, etc. Secondly, if they do enter this market, because so many in impoverished segments have low literacy and minimal economic choices and education, corporations will be tempted to indulge in exploitative practices that will further disadvantage the impoverished customers. Instead, if companies take a long-term profit management perspective, they will view these markets as "a source of opportunity, innovation, and competitive advantage." Further, they will be less prone towards being exploitative as it makes little sense to exploit a segment whose growth is vital to the company's own long-term success.

Taking the long-term view also enables a company to support local communities in their holistic development, as such development is beneficial to the company in the long run. Consider for example, the case of the District Telephone Cooperative (DTC) Tyczyn, an independent telephone operator in southeastern Poland.[107] DTC was formed by uniting village-level telephone committees and local governments. As of 2007, DTC was providing telecommunications services to more than 85 percent of all households in the regions, 70 public sector institutions, and about 450 private businesses. As a result of DTC's initiative, school children could benefit from the use of internet-connected multimedia computer facilities, and the local economy was helped with job creation as the existence of high-quality telecommunication services attracted new and growing businesses to the area. In addition, DTC also served as a catalyst for other community mobilization initiatives. Another example is that of Doe Run in Peru. In recognition of its responsibility to its surrounding community, Doe Run's activities in Peru are oriented towards strengthening the capacities and developing the potential of the individuals of the communities.[108] Doe Run makes

[105] Porter and Kramer 2006, 80.
[106] See Porter and Kramer 2006.
[107] Rok and Kuraszko 2007.
[108] See http://www.doerun.com.pe/content/pagina.php?pID=390 (accessed February 18, 2009).



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a substantial investment in the community in terms of education, the environment, health services, hygiene, and nutrition education.

From the above discussion, the following decision principles based on long-term profit management can be proposed:

(a) Instead of seeking to maximize financial returns in the short run, a business firm ought to aim at creating sustainable value in the long run.
(b) A company, consistent with its role as a social as well as economic institution, ought to consider social goals as ends in themselves rather than as means to a financial end.
(c) A business firm ought to increase business success with a long-term perspective based on social, environmental and financial returns.
(d) A business firm ought to view impoverished markets as sources of opportunity, innovation, and competitive advantage.
(f) A business firm ought to support local communities in their holistic development in terms of supporting education, health, sports, the arts etc. at a scale and focus befitting the local community and culture.

## Conclusion

As documented earlier, the expansion of globalization is inevitable and will increasingly involve corporations engaging impoverished consumers who lack market sophistication, meaningful purchasing options and economic leverage. Such conditions often invite exploitation of these market segments but can be mitigated by enlightened business practitioners willing to thoughtfully consider their ethical and professional obligations to vulnerable consumers. The IJM approach provides a defensible set of general, theoretical values needed to steer this ethical course. The demarcation of those elements provided in this exercise makes the IJM values more user-friendly. *Indeed, the exploration of various business case situations of interacting with poor consumer segments by treating them as respected partners in the creation of exchanged value has yielded over four dozen mid-range implementation principles.* While some may contend that such propositions still lack adequate specificity (i.e. the devil is always in the details), these decision principles vitalize the carefully developed, but very idealized and normative elements of the IJM model to a more actionable level. The approach taken above can be seen as both a template for marketing to the poor with ethical responsibility as well as an answer to the clarion call for new ways of thinking about more inclusive and socially conscious business.

We contend that our approach is also supported in the non-theory based recommendations made by other authors. For example, Gradl et al. highlight five often-present market constraints in low-income markets that act as a deterrent to



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MNC involvement: (1) market information; (2) knowledge and skills; (3) access to financial products; (4) regulatory environment; and (5) physical infrastructure.[109] In effect, these constraints limit the power of MNCs to effectively and efficiently operate in impoverished markets. Drawing upon their own multi-case analysis (but without a guiding theory), Gradl et al. propose five possible solutions to overcoming these constraints: (i) adapting a more inclusive business model; (ii) investing in enabling conditions; (iii) collaborating with communities; (iv) collaborating with other organizations; and (v) collaborating with governments. Gradl et al.'s purely descriptive solutions suggest support for some of the *prescriptive* characteristics derived from the normative IJM. For instance, investing in enabling conditions is akin to the IJM proposition of an investment in future consumption. Collaboration with communities, other organizations and governments is contained within the notion of co-creation of value, though the IJM proposition of co-creation is more directly concerned with co-creating value in partnership *with* impoverished customers. Finally, the IJM proposition of long-term profit management complements adjusting the business model with a "sustainability" perspective. Such perspectives consider the social, environmental, and financial returns in the long run.

An intended contribution of this paper has been to provide mid-range decision principles that managers in MNC subsidiaries can use as guidelines to implement the IJM ideals in their specific contexts. Instead of marketing gimmicks (e.g. misleading advertising) and short-term fixes (e.g. opportunistic ploys such as "bait and switch" promotions and confusing pricing) that sometimes characterize business involvement with low-income consumers, these decision principles, based on the IJM aspirational ideals, provide the business community with an actionable framework that focuses on creating enabling conditions that benefit both the firm and the impoverished customer in the long run. At minimum, these ethical decision principles infuse into business thinking, a formal consideration of the *moral* obligation that firms owe to the disadvantaged and vulnerable constituents they increasingly engage in a global economy.

[109] Gradl, Sobhani, Bootsman, and Gasnier 2008.



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**Table 1: Brief Summary of Theories**[110]

| Theory | Brief summary |
|---|---|
| ***Moral Philosophy and Religious Doctrine:*** | |
| Catholic Social Teaching | Catholic social teaching (CST) comprises the tradition of Papal, Church Council, and Episcopal documents that deal with the Catholic Church's response and commitment to the social demands of the gospel in the context of the world. At the heart of CST are four principles that are referred to as the permanent principles of the Church's social doctrine. These are: dignity of the human person, the common good, subsidiarity, and solidarity.[111]<br>1. *Human dignity:* The Church affirms that human life is sacred and human beings by virtue of being created in God's image have a certain "inviolable dignity." Therefore, all human persons, regardless of race, color, and creed, possess an inherent dignity of being in the likeness of God, and therefore, righteously, should be accorded full respect.<br>2. *The common good:* In its broad sense it is understood as the social conditions that enable individuals or groups to attain their fulfillment more easily. Further, each person should have access to the level of well-being necessary for his [or her] full development.<br>3. *Subsidiarity:* Basically, this principle holds that a greater or higher association should not do what a lesser and subordinate organization can do. The word *subsidiarity* comes from the Latin *subsidium* which means help. Thus, the principle of subsidiarity refers to helping or supporting others while respecting their initiatives and capabilities.<br>4. *Solidarity:* This principle affirms the intrinsic social nature of the human person and the awareness of the interdependence between |

[110] Laczniak and Santos 2011.
[111] Catholic Church 2004.



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| Theory | Brief summary |
|---|---|
| | individuals and peoples. Solidarity is a firm and persevering determination to commit oneself to the common good. |
| Habermas' Discourse Theory | The German philosopher, Jürgen Habermas proposed that instead of postulating a priori moral norms, such as Kant's categorical imperative, one should arrive at these norms through a process of practical discourse.[112] Habermas' discourse theory features moral agents who strive to put themselves in each others' place. Fairness, in discourse theory, is achieved by putting oneself in the place of every other party. Discourse theory, thus, places empathy and dialogue at the heart of the process for arriving at a reasoned agreement of what constitutes a valid moral norm.[113] |
| Kant's categorical imperative | The philosopher Immanuel Kant is well known for his duty based theory of ethics. For Kant, acting out of duty is not contingent upon potential outcomes but rather is based on adhering to fundamental laws that rationally can be designated as universal maxims. Kant called such a fundamental law the "categorical imperative," or the supreme principle of morality and proposed the following three formulations:<br>1. Act only on maxims that you will to be universal laws of nature<br>2. Always treat the humanity in a person as an end and never as a means *merely*<br>3. Act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time[114] |
| Rawls' difference principle | The influential Harvard philosopher, John Rawls uses a thought experiment called the "original position" to arrive |

[112] Habermas 1990.
[113] McCarthy 2001; Nill and Schultz 1997.
[114] Kant 1785[1981 trans.].



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| Theory | Brief summary |
|---|---|
| | at a conception of justice that should be acceptable and fair to all.[115] In this position, individuals do not know in advance their future status in society (i.e., class position or social status, wealth, intelligence, strength and so on). Rawls calls this condition a "veil of ignorance." Rawls proposes that in this "original position" free and rational persons, who wanting to further their own interests and at the same time wanting to minimize their social risk (as they do not know in advance what their "revealed" status will be), would arrive at two moral principles. These are:<br>1. Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all; and<br>2. Social and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged, and (b) attached to offices and positions open to all under conditions of fair equality of opportunity.[116]<br>The first part of the second principle is also known as the *difference principle.* |
| Ross' theory of duties | The Scottish-born moral philosopher, Sir William D. Ross held that there are certain principles that we know intuitively because they are self-evident. Ross calls these principles *prima facie* (meaning at first sight) *duties* and lists six such duties. They are duties of: (1) fidelity; (2) gratitude; (3) justice; (4) beneficence; (5) self-improvement; and (6) nonmaleficence.[117] |
| Sen's capability approach | The Nobel Laureate, Amartya Sen advocates broadening the framework of development economics. For Sen, economic growth should be considered not merely in monetary terms such as gross domestic product (GDP), aggregate income, or supply of goods and services, but in |

[115] Rawls 1971.
[116] Rawls 1999, 266.
[117] Ross 1930.



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| Theory | Brief summary |
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| | perspectives that involve expanding the capabilities, entitlements, and freedoms of people.[118] According to Sen, a person's *capabilities* specifically refer to "the alternative combinations of functionings that are feasible for her [or him] to achieve."[119] A capability then is "a kind of freedom: the substantive freedom to achieve alternative functioning combinations." Sen considers the expansion of freedom the primary end as well as the principal means of development. The view of freedom here is one that "involves both the *processes* that allow freedom of actions and decisions and the actual *opportunities* that people have, given their personal and social circumstances."[120] Sen lists five distinct types of instrumental freedoms that are interconnected and complementary. These are: (1) political freedoms; (2) economic facilities; (3) social opportunities; (4) transparency guarantees; and (5) protective security.[121] Each of these freedoms advances the general capability of a person. |
| Virtue Ethics | This is one of the oldest moral frameworks, which focuses on the virtues and the perfection of personal character. A prominent and contemporary proponent of the virtue ethics tradition is the philosopher Alasdair MacIntyre. Virtues, according to MacIntyre are acquired human qualities that help develop personal character.[122] While there is disagreement on the list of virtues, in the context of linking virtue ethics to international marketing, Murphy proposes five core virtues that an ethical business organization should possess: integrity, fairness, trust, respect, and empathy.[123] Taken together these virtues provide a helpful benchmark of what constitutes a virtuous firm. |

[118] Sen 1999.
[119] Sen 1999, 75.
[120] Sen 1999, 17.
[121] Sen 1999, 10.
[122] MacIntyre 1984.
[123] Murphy 1999, 113.



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| Theory | Brief summary |
|---|---|
| ***Managerial Frameworks:*** | |
| Socially Responsible Investing | In the wake of the corporate scandals in recent years, companies are beginning to realize that a substantial number of investors are not interested solely in the financial performance of the company but that they are also concerned about social and environmental issues. According to the Social Investment Forum, socially responsible investment (SRI) assets in the United States rose more than 258 percent from $639 billion in 1995 to $2.29 trillion in 2005.[124] At the same time, there may or may not be conclusive evidence that suggests that socially responsible firms outperform those that are not. Vogel, for instance, after reviewing the evidence, which includes academic studies of the relationship between profitability and responsibility, concludes that there is "little support for the claim that more responsible firms are more profitable."[125] However, the fact that SRI assets over a ten year period from 1995 to 2005 increased four percent faster than the entire universe of managed assets in the United States is indicative of a marked shift in investor preferences.[126] This return level is also indicative of the notion that SRI is not the naive financial strategy that some of its early critics made it out to be.[127] |
| Stakeholder Theory | In contrast to *shareholder* theory which holds that the firm's exclusive responsibility is to its shareholders, stakeholder theory maintains that a firm has a |

[124] See Social Investment Forum's 2005 Report on Socially Responsible Investing Trends in the United States: 10 year review. Available from http://www.socialinvest.org/pdf/research/Trends/2005%20Trends%20Report.pdf (accessed January 31, 2008).
[125] Vogel 2005, 42.
[126] Social Investment Forum's 2005 Report on Socially Responsible Investing Trends in the United States: 10 year review. Available from http://www.socialinvest.org/pdf/research/Trends/2005%20Trends%20Report.pdf (accessed January 31, 2008).
[127] Houston Chronicle, 8 February 1999, p. 4.



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| Theory | Brief summary |
|---|---|
| | responsibility to other constituencies that have a stake in the firm.[128] Freeman, Harrison, and Wicks define a stakeholder as "any group or individual who can affect or is affected by the achievement of a corporation's purpose" and point out that "value creation is a joint process that makes each primary stakeholder better off." [129] In other words, there does not have to be any trade-off involved, meaning that the interests of some stakeholders do not have to be sacrificed in favor of the interests of other stakeholders. In order that the interests of the stakeholders are better served Freeman, Harrison, and Wicks recommend that managers should "put themselves in the stakeholder's place and try to empathize with that stakeholder's position."[130] |
| Sustainability Perspective | With the growing awareness of climate change and global warming, there is a tendency to limit the scope of sustainability to the environment. However, as the Copenhagen Declaration at the 1995 World Summit on Social Development pointed out, "economic development, social development, and environmental protection are interdependent and mutually reinforcing components of sustainable development."[131] This understanding was further developed at the 2002 World Summit on Sustainable Development at Johannesburg which stated that, "poverty eradication, changing consumption and production patterns, and protecting and managing the natural resource base for economic and social development are overarching objectives of and essential requirements for sustainable development."[132] |

128 See Friedman 1962 for shareholder theory and Freeman 1984 for stakeholder theory.
129 Freeman, Harrison, and Wicks 2007, 6, 52.
130 Freeman et al. 2007, 112.
131 Available from http://www.un.org/esa/socdev/wssd/text-version/agreements/decparti.htm (accessed November 24, 2009).
132 Available from http://www.un.org/esa/sustdev/documents/WSSD_POI_PD/English/POI_PD.htm (accessed November 24, 2009).



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| Triple Bottom Line | A prominent advocate for the Triple Bottom Line (3BL) concept is John Elkington.[133] Basically, the 3BL approach calls for an enlarged mind-set that moves from an exclusive focus on financial measures and towards considering the social and environmental aspects of the business as well. While profits are an indicator that a business is functioning well, a preoccupation with short-term financial returns can ironically act against the long-term interests of the corporation. A mania by management concerning short run financial hurdles can, in numerous cases, reduce the ability of the firm to position itself advantageously for future business opportunities, create resentment among stakeholders and engender costly regulation. |

[133] Elkington 1998.



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**Table 2: IJM Propositions – Theoretical Support**[134]

| Proposition | Theory |
|---|---|
| Authentic engagement with consumers, particularly impoverished ones, with non-exploitative intent | • Catholic Social Teaching [common good, human dignity, solidarity]<br>• Kant's Categorical Imperative [1st and 2nd formulation]<br>• Ross' Theory of Duties<br>• Service-Dominant Logic of Marketing<br>• Virtue Ethics |
| Co-creation of value with customers, especially those who are impoverished or disadvantaged | • Catholic Social Teaching [human dignity, subsidiarity]<br>• Habermas' Discourse Theory<br>• Kant's Categorical Imperative [3rd formulation]<br>• Service-Dominant Logic of Marketing |
| Investment in future consumption without endangering the environment | • Catholic Social Teaching [common good, human dignity]<br>• Classical Utilitarianism<br>• Sen's Capability Approach<br>• Service-Dominant Logic of Marketing<br>• Sustainability Perspective |
| Interest representation of all stakeholders, particularly impoverished customers | • Catholic Social Teaching [common good, subsidiarity]<br>• Classical Utilitarianism<br>• Habermas' Discourse Theory<br>• Kant's Categorical Imperative [2nd formulation]<br>• Rawls' Difference Principle<br>• Service-Dominant Logic of Marketing<br>• Stakeholder Theory |
| Focus on long-term profit management rather than short-term profit maximization | • Catholic Social Teaching [common good]<br>• Classical Utilitarianism<br>• Service-Dominant Logic of Marketing<br>• Socially Responsible Investing<br>• Triple Bottom Line |

[134] Laczniak and Santos 2011.



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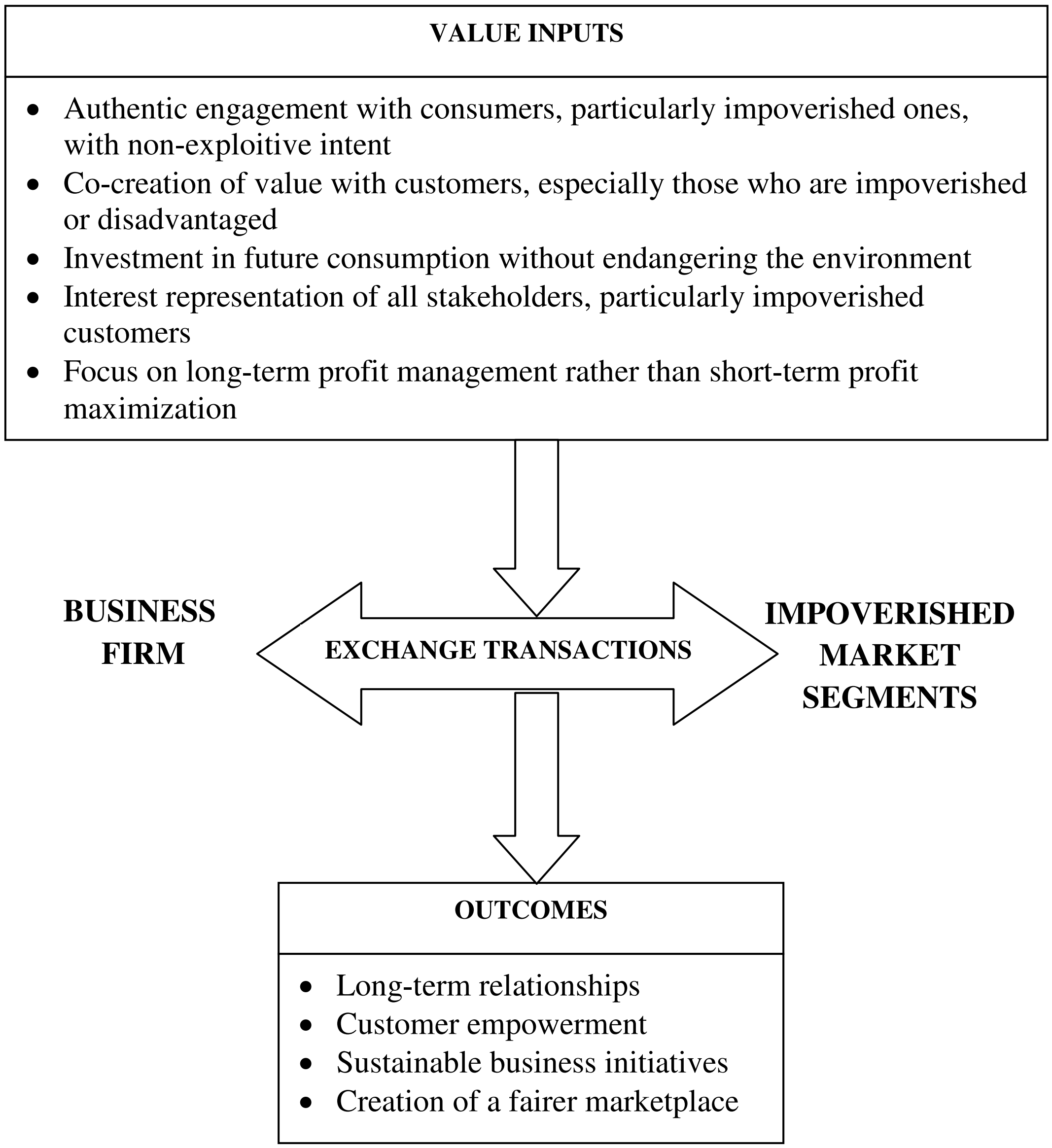
**Figure 1: An Integrative Justice Model for Impoverished Markets**[135]




[135] Santos and Laczniak 2009.



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## APPENDIX: GEOGRAPHICAL DISTRIBUTION OF CASE EXAMPLES

| Country of Operation | Company Name | Nature of BoP engagement |
|---|---|---|
| Bangladesh | Bata [Switzerland] | Partnership with Care to provide high-quality and low-cost footwear to rural areas |
| Bangladesh | Danone [France] | Partnership with Grameen Bank to manufacture and sell low-cost nutritional dairy products |
| Bangladesh | Grameen Bank | Microlending |
| Bangladesh | Grameen Telecom | Phone-sharing service |
| Brazil | Casas Bahia | Consumer education and counseling |
| Congo | Celtel [Netherlands] | Phone-sharing service |
| Ghana | Barclays [UK] | Microbanking initiative |
| India | Aravind Eye Care System | Quality eye-care |
| India | DCM Sriram Consolidated Ltd. | Provides farmers with a range of solutions |
| India | Hindustan Lever [UK] | Women entrepreneurs [Shakti project] |
| India | ITC | Enables greater linkage of local farmers to global markets |
| India | Microsoft [USA] | Partnership with Pratham to provide computers to Indian villages |
| India | National Innovations Foundation | Patenting local innovations |
| India | Nestlé [Switzerland] | Increases capabilities of impoverished farmers |
| India | N-logue | Rural IT-provider |
| India | Nokia Siemens [Finland] | Village connection project |
| India | Philips [Netherlands] | DISHA (Distance Healthcare Advancement) |
| India | Proctor & Gamble [USA] | Consumer closeness program |



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| | | |
|---|---|---|
| India | SELCO | Solar electric home systems |
| India | SKS Microfinance | Microfinance |
| India | Sulabh International | Low-cost sanitation |
| India | Toyota [Japan] | Technical education [Toyota University] |
| Kenya | Health Store Foundation | Healthcare services and distribution of affordable drugs |
| Kenya | Kickstart | Micro-irrigation pump |
| Kenya | SC Johnson [USA] | Partnership with Kickstart to create sustainable livelihoods for farmers |
| Mali | Fair-Trade Labeling Organization | Supports farmers in producing high-quality cotton and guarantees a minimum price for the cotton |
| Mali | Pésinet | Early warning method for children’s health |
| Mexico | CEMEX | Helps do-it-yourself homebuilders |
| Morocco | LYDEC | Supply of water and electricity to shantytowns |
| Multi-country | Cummins [USA] | Employee volunteering |
| Multi-country | IBM [USA] | Corporate Service Corps to Brazil, Russia, India, China, South Africa, and Chile |
| Peru | Doe Run [USA] | Strengthens capabilities of local communities |
| Poland | Danone [France] | Nutritious milk-porridge |
| Poland | District Telephone Cooperative | Telecommunication services |
| South Africa | Investec | Provides support for education of rural youth |
| South Africa | South African Bank of Athens | Banking services to the unbanked and underbanked |
| Tanzania | A to Z Textile Mills | Anti-malaria bed nets |



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