

Stories of Microinsurance:
Strategy Processes for the Base of the Pyramid in
Multinational Companies and Their Network

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The President:

Prof. Dr. Thomas Bieger

PREFACE

Every dissertation is a journey. And as every journey, it is as much about how you get to your destination as where you arrive. It can be read as an analogy on a journey into new and uncharted territory in three ways.

First, the idea of fighting poverty through business was radically new when it was first brought up (Prahalad & Hart 2002), and questioned established business wisdom in multiple ways. The pioneers often started with a strong social motivation but vague ideas, radical experiments and the willingness to pursue their initiatives despite setbacks and hardship. While they benefited from mainstream business resources and processes, this relationship was not an easy one – business models in low-income markets often took long to develop, were, at least initially, financially less appealing than the mainstream business and broke with established patterns. Many practitioners thus struggled in their companies, and only some slowly and eventually got internal acceptance and recognition. Quite some left in the process.

Similarly, the related field of research on businesses in low-income markets started, driven by social concerns and curiosities, at the margin of the official management literature, by researchers that wanted to expand their work beyond the narrowly confined realms of profit maximisation to make a broader contribution (Walsh, Weber & Margolis 2003). And while this research profited from mainstream management research, it also questioned some deep-seated assumptions, raised suspicion, and BoP researchers have found it difficult to get published in the highly ranked journals for a long time (George, McGahan & Prabhu 2012).

Last, the dissertation itself was mainly motivated by understanding how business can contribute to poverty reduction – and, more broadly, to sustainable development. It reflects my long-standing passion for social change and social innovation. But it also draws heavily on the established management literature that I, as an economist, political scientist and ‘applied sustainability researcher’, was acquainted with only at the beginning and over the course of this study. Drawing on this literature certainly helped me to better grasp processes behind business initiatives in low-income markets.

And I hope that the study may eventually contribute to this mainstream management literature and foster a better understanding how organisations work in general.

Moving from two institutions that carry sustainability at their core – the Wuppertal Institute and the CSCP – to the University St.Gallen has been enormously helpful in framing the study. While I brought my passion for sustainability and development issues, spending time at a business school and with my supervisors, Prof. Steven W. Floyd, and Prof. Winfried Ruigrok, helped to point my attention to the myriad of internal process issues that companies face and the methodological and theoretical challenges to capture these. I am deeply thankful to the faculty and students at St.Gallen University, whose trust and curiosity have helped me along the various steps.

I am also thankful towards the staff at my two case companies, in particular, the managers responsible for low-income markets that have been crucial as door openers and key informants. Driven by mutual curiosity and a joint passion for low-income markets, they have opened their doors, carefully accommodating me, as a silent, friendly observer, into their discussions – sharing their ideas, insights, contacts, hopes and frustrations about their ‘guerrilla tactics’ and about ‘teaching elephants to dance’.

I have seriously enjoyed my ‘sneak peek’ in the world of management practice and research. It would not have been possible without the support of the whole oikos family. Starting at oikos Cologne, as a second-year economics student, and continuing with oikos International and the oikos Foundation, as an oikos PhD Fellow, oikos has helped me to bring together my passion for social change and sustainability with rigorous and thoughtful inquiry into management processes. The community of the oikos Fellows in St.Gallen, struggling with and being delighted by similar issues at the border of the sustainability movement and a major business school, has been crucial.

Beyond the work in St.Gallen, I am extremely happy to have organised four oikos UNDP Development Young Scholar Academies – in Switzerland, Costa Rica, India and Turkey – that have not only been places of discussion and debate around business and poverty, but also of motivation and confirmation in a real community of people bringing together passionate inquiry in low-income markets with academic rigor. The Endeava Institute, with its continuous effort to develop entrepreneurial solutions to poverty challenges and its community of likeminded scholars, consultants and friends has been a similar place of encouragement.

The study has involved long and extensive travels, sometimes in difficult and dangerous environments. These travels have been enormously insightful, interesting and fun, but also, at times, tiring, challenging and threatening. I am grateful to all friends and strangers¹ on the road that helped me along, patiently introducing me into new places, cultures, organisations and languages, giving me a bit of ‘home’ on the road.

I hope that the ideas, models, insights and stories contained in this document are interesting and useful for both academics and practitioners. As interesting and useful as the whole, long personal story of arriving, meeting, learning, listening, leaving, doubting, hoping, (re-)writing and celebrating behind has been for me.

Cologne, 19 January 2013

Martin Herrndorf

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TABLE OF CONTENT

Preface	3
Table of content	6
List of tables	13
List of figures	15
List of Abbreviations	17
Summary	18
Zusammenfassung	19
1 Introduction	20
1.1 Methodology.....	23
1.2 Overview on papers	23
1.2.1 “How Value System Structures Affect New Business Exploration: The Case of a Global Market Leader” (Paper I)	24
1.2.2 “Socially Situated Cognition and Reframing Patterns in Exploratory Initiatives” (Paper II)	25
1.2.3 “The Impact of Partnerships on Strategy Processes in Highly Exploratory Initiatives in Nascent Markets” (Paper III).....	25
1.3 Contribution of this study	26
1.4 Organisation of the study.....	28
2 Background	29
2.1 Exploration-exploitation theory.....	29
2.1.1 Defining exploration and exploitation	30
2.1.2 Market dynamics, exploration-exploitation and organisational performance	32

2.1.3	<i>Strategy processes and exploration-exploitation as organisational learning</i>	34
2.1.4	<i>Balancing mechanisms described in the literature</i>	36
2.1.5	<i>Micro-level mechanisms in exploration-exploitation</i>	40
2.1.6	<i>Research gaps</i>	46
2.2	<i>The Base of the Pyramid (BoP) literature</i>	48
2.2.1	<i>Business strategies in BoP markets</i>	48
2.2.2	<i>Organisational barriers to engaging in BoP markets</i>	59
2.2.3	<i>Research opportunities at the BoP?</i>	63
3	Methodology	64
3.1	<i>Research design</i>	64
3.1.1	<i>Ontological and epistemological foundations</i>	64
3.1.2	<i>Research methods</i>	66
3.1.3	<i>Selecting the case setting</i>	67
3.1.4	<i>Entering the field</i>	68
3.2	<i>Data collection</i>	70
3.3	<i>Data analysis and interpretation</i>	76
3.3.1	<i>Defining cases</i>	76
3.3.2	<i>Selecting, understanding and comparing cases</i>	77
3.4	<i>Building theory</i>	77
3.4.1	<i>Developing constructs</i>	78
3.4.2	<i>Building explanatory mechanisms</i>	80
3.4.3	<i>Building models and frameworks</i>	81
3.5	<i>Evaluation of research design</i>	82
3.5.1	<i>Formal criteria</i>	82
3.5.2	<i>The role of the researcher</i>	86
3.6	<i>Ethical issues</i>	89

4	The Research Setting	91
4.1	The sector: BoP markets in the insurance industry	91
4.1.1	<i>Business opportunities in microinsurance</i>	91
4.1.2	<i>Large commercial companies and microinsurance</i>	93
4.2	The case companies: Leading incumbents	95
4.2.1	<i>Company A</i>	95
4.2.2	<i>Company Z</i>	98
4.3	The embedded cases: Strategic BoP initiatives	100
4.3.1	<i>Cases in Company A</i>	100
4.3.2	<i>Cases in Company Z</i>	106
4.4	Utilisation of cases in the different papers	111
4.5	Summary	113
5	How Value system Structures affect New Business Exploration: The Case of a Global Market Leader	115
5.1	Abstract	115
5.2	Introduction	115
5.3	Background	118
5.3.1	<i>New business model exploration</i>	118
5.3.2	<i>The role of values and value systems</i>	119
5.3.3	<i>Research gaps</i>	125
5.4	Methodology	126
5.4.1	<i>Initiative selection and sampling</i>	127
5.4.2	<i>Observation and data gathering procedures</i>	128
5.4.3	<i>Analytical procedures and theory building</i>	129
5.4.4	<i>Validity and reliability tests</i>	129
5.5	Data Overview	130
5.5.1	<i>Two episodes of business model creation</i>	130

5.6	Theory development	138
5.6.1	<i>Signalling through value systems</i>	139
5.6.2	<i>Value systems and initiative formation</i>	146
5.6.3	<i>Value systems and initiative integration</i>	154
5.6.4	<i>Feedback effects on the business model values</i>	164
5.7	Discussion.....	167
5.7.1	<i>A dynamic perspective on values system integration and differentiation</i>	168
5.7.2	<i>Cultural separation in business model exploration</i>	169
5.7.3	<i>Contribution to e-business and BoP theory</i>	169
5.7.4	<i>Limitations and future research</i>	171
6	Socially Situated Cognition and Reframing Patterns in Exploratory Initiatives	173
6.1	Abstract.....	173
6.2	Introduction	173
6.3	Cognition and exploratory initiatives	175
6.3.1	<i>Social cognition and framing effects</i>	175
6.3.2	<i>Cognition in exploratory initiatives</i>	177
6.3.3	<i>Socially situated cognition in BoP research</i>	179
6.3.4	<i>Research question</i>	181
6.4	Methodology and Research Design.....	182
6.5	The Data	184
6.5.1	<i>The cases</i>	185
6.6	Model development	190
6.6.1	<i>The stigma of exploration</i>	191
6.6.2	<i>Structural separation and initiative reframing</i>	196
6.6.3	<i>Pattern switching across exploratory portfolios</i>	203
6.7	Discussion.....	209

6.7.1	<i>Situational reframing and situated cognition</i>	209
6.7.2	<i>Different patterns of exploration</i>	211
6.7.3	<i>BoP and mainstream business</i>	212
6.7.4	<i>Limitations and future research</i>	213
6.7.5	<i>Summary</i>	214
7	The Impact of Partnerships on Strategy Processes in Highly Exploratory Initiatives in Nascent Markets	215
7.1	Abstract	215
7.2	Introduction	215
7.3	Background	218
7.3.1	<i>The nature of nascent markets</i>	218
7.3.2	<i>Strategies and capabilities in nascent markets</i>	220
7.3.3	<i>Organisational boundaries in nascent markets</i>	221
7.3.4	<i>Research question</i>	222
7.4	Methodology	224
7.4.1	<i>Data gathering</i>	225
7.4.2	<i>Data analysis and theory building</i>	226
7.5	Data overview	228
7.5.1	<i>The microinsurance portfolios of the two companies</i>	229
7.5.2	<i>The cases – six microinsurance partnerships</i>	229
7.6	Model development	231
7.6.1	<i>Introducing “proto-structures”</i>	232
7.6.2	<i>Nascent markets and organisational barriers</i>	235
7.6.3	<i>The impact of proto-structures on strategy formation</i>	245
7.7	Discussion	254
7.7.1	<i>Social embeddedness in nascent markets</i>	254
7.7.2	<i>Dynamic capabilities in nascent markets</i>	255

7.7.3	<i>Exploration-exploitation balancing in nascent markets</i>	256
7.7.4	<i>Proto-structures and managerial agency</i>	257
7.7.5	<i>Limitations and future research</i>	258
7.7.6	<i>Importance and implications</i>	259
7.7.7	<i>Conclusions</i>	259
8	Discussion	261
8.1	Contributions to strategy process research	261
8.1.1	<i>The contingency of nascent markets</i>	263
8.1.2	<i>Individual agency in exploration-exploitation</i>	264
8.1.3	<i>External influences</i>	266
8.2	Contributions to BoP discussions	267
8.2.1	<i>Understanding ‘Base of the Pyramid’ markets</i>	267
8.2.2	<i>Exploration and exploitation in BoP markets</i>	268
8.2.3	<i>Partnerships in BoP markets</i>	271
8.3	Importance and implications for practitioners	271
8.4	Limitations and future research	273
8.5	Conclusions	276
	References	278
	Appendices	305
	Appendix 1: List of partner organisations	306
	Appendix 2: Open and closed questionnaire	312
	<i>Open Interview (English, internal)</i>	312
	<i>Closed interview (single relationships of the focal organisation)</i>	313
	<i>Open Interview (English, external)</i>	314
	Appendix 3: The evolution of the BoP literature	316
	Curriculum Vitae	321
	Education and Professional Training	321

Work Experience	321
Others	322

LIST OF TABLES

Table 1: Definitions and characterisations of exploitation and exploration (as quoted in Gupta et al. 2006: 694, except March 1991, Levinthal & March 1993)	31
Table 2: Studies stressing the relevance of organisational barriers to BoP business (Source: Own compilation)	59
Table 3: Preliminary schedule overview (Pre = Preparation, HQ = Headquarter, Sub = Subsidiary, A = Analysis, W = Headquarter / Subsidiary Workshop).....	69
Table 4: Interview and observation partners, ordered by organisation and subsidiary	75
Table 5: Examples for construct development through matching (Example from Paper II).....	79
Table 6: Examples for construct development through contextualisation	79
Table 7: Example for construct development through parallelisation.....	80
Table 8: Example for the adaptation and development of figures.....	82
Table 9: Post-positivist and complementary criteria (adopted from Guba & Lincoln 1994: 114 and others).....	82
Table 10: Images from field visits in Colombia and South Africa.....	89
Table 11: Existing policies in different categories (Roth et al. 2007).....	93
Table 12: Delivery channels by type and covered lives (Roth et al. 2007: 37).....	95
Table 13: Organisational units involved in the microinsurance activities in Company A.....	98
Table 14: Organisational units involved in the microinsurance activities in Company Z	100
Table 15: BoP cases selected for the data analysis in Company A	101
Table 16: E-Business cases from Allianz used in Paper I	106
Table 17: BoP cases selected for the data analysis in Company Z.....	107
Table 18: Shaping of case material for the different papers	111

Table 19: Shaping of case material for Paper I	112
Table 20: Case selection for Paper II.....	113
Table 21: Shaping of case material for Paper III.....	113
Table 22: Direct and indirect impact of values on exploration-exploitation (Source: Own elaboration).....	123
Table 23: Initiatives observed during the e-business episode	134
Table 24: Initiatives observed during the BoP episode	136
Table 25: Dimensions for cross-case comparisons with the polar-case method.	138
Table 26: Extremes in the emergent value fields	142
Table 27: Market context and value systems.....	145
Table 28: Mechanism how values impact initiative formation & business model development	149
Table 29: Mechanism how values impact initiative progress and implementation....	159
Table 30: Interview and complementary material for polar initiatives (Number of interviews in brackets, external interviews in italic).....	183
Table 31: Profiles of the polar cases.....	187
Table 32: Comparison of polar cases (0: low level of exploration/ 5: high level of exploration)	188
Table 33: Structural separation and role distributions	198
Table 34: Basic profiles of case partnerships	231
Table 35: Contributions of proto-structures to overcoming organisation barriers across cases	237
Table 36: Impacts during different strategy process steps	247
Table 37: State of market institutions vs. market dynamics	263
Table 38: Major BoP contributions according to publication type (own compilation)	319

LIST OF FIGURES

Figure 1: Mechanisms to organise exploration and exploitation and their linkage to ambidexterity (Source: Own elaboration)	40
Figure 2: Emotions, Cognition and values as individual- and group-level processes (Source: Own elaboration)	42
Figure 3: Individual, micro-level moderators in ambidexterity (based on Raisch & Birkinshaw 2008: 7, own additions in <i>Italic</i>).	44
Figure 4: Incremental learning and radical exploration strategies	54
Figure 5: Entrepreneurship process in Base of the Pyramid markets (Source: Webb et al. 2009: 3).	61
Figure 6: Two approaches to explaining strategic change (from Langley 1999, after Mohr 1982).....	78
Figure 7: Microinsurance as an example for BoP business models (source: own elaboration)	92
Figure 8: Partner network in A-RELIEF (own elaboration)	103
Figure 9: Partner network in A-MFI (own elaboration)	104
Figure 10: Partner network in A-SAVE (own elaboration).....	105
Figure 11: Partner network in Z-HEALTH (own elaboration).....	108
Figure 12: Partner network in Z-MOBILE (own elaboration)	110
Figure 13: Embedded case setting – only cases from Company A are used for this analysis	128
Figure 14: Model overview – the role of value tensions	139
Figure 15: From stigma to pattern switching	191
Figure 16: Summary – perspectives on exploratory partnerships in nascent markets	224
Figure 17: Embedded case setting (following Yin 2003).....	225
Figure 18: Structure, strategy and proto-structure (based on Burgelman 1983c: 65)	233

Figure 19: The impact of proto-structures on the strategy processes235

LIST OF ABBREVIATIONS

BoP	Base of the Pyramid (or, synonymously, Bottom of the Pyramid)
CGAP	Consultative Group to Assist the Poor
CSR	Corporate Social Responsibility
LatAm	Latin America
Mena	Middle East and North Africa
MFI	Micro-Finance Institution
MNE	Multi-National Enterprise
NGO	Non-Governmental Organisation
RBV	Resource-Based View
SHG	Self-Help Groups
UNDP	United Nations Development Programme
WBCSD	World Business Council for Sustainable Development

SUMMARY

Balancing exploitation and exploration, in particular in nascent markets with high levels of ambiguity, is crucial for long-term organisational survival and success, but challenging from an organisational learning perspective. Exploitation and exploration follow different logics – efficiency, control, and productivity on the one, play, experimentation, and variance on the other hand. While structural solutions to the problem at the organisational level can partly alleviate these tensions, they often tend to fall back on individuals.

In particular for middle managers, combining the maintenance of legacy systems with the exploration of new business models involves cognitive, emotional and cultural challenges – all dependent on and interrelated with local institutional contexts. This dissertation seeks to understand how managers constructively deal with such challenges – to establish, implement and integrate exploratory initiatives that are not fully supported by the corporate structure.

As a central argument, managers rely on practices that mirror the external ambiguity, resulting from both the market conditions and the related institutional field, in their initiative setup to expand their managerial autonomy and achieve “embedded agency”, here, the opportunity to champion new business models in a rigid incumbent context. The practices include the switching between different, reductive or paradoxical, framing patterns dependent on the local institutional setup and situational demands, or the establishment of proto-structures in which managers have higher degrees of autonomy, as they can flexibly draw on fixed, flexible or open elements in a way that escapes higher level supervision.

These models are developed based on the observation of business model exploration in two incumbent, multi-national companies in the insurance sector targeting nascent markets in low-income environments in developing countries – the so-called Base of the Pyramid (BoP) that has been hailed as a ‘win-win’ opportunity for reducing poverty through viable business models. Observing strategy processes in this context allowed capturing the specific contingency of such nascent but low-velocity markets, complementing previous literature that was focused on strategy processes in existing or in nascent, but high velocity markets.

ZUSAMMENFASSUNG

Für Unternehmen ist es wichtig, die Optimierung ihres Kerngeschäfts mit dem Erkunden neuer, gerade entstehender Märkte voller Unwägbarkeiten zu verbinden – was eine schwierige Herausforderung für organisatorische Lernprozesse ist. Denn beide Aktivitäten folgen unterschiedlichen Logiken – Effizienz, Kontrolle und Produktivität auf der einen, Spiel, Experiment und Varianz auf der anderen Seite. Während strukturelle Arrangements einen Teil dieser Spannung auflösen können, fallen diese doch oft auf Individuen zurück.

Vor allem mittlere Führungskräfte stellt es vor kognitive, emotionale und kulturelle Herausforderungen, alte Systeme in Stand zu halten und gleichzeitig neue Geschäftsmodelle aufzubauen. Diese Dissertation versucht zu verstehen, wie Manager diese Herausforderung konstruktiv bearbeiten – um Initiativen zu etablieren, umzusetzen und zu integrieren, die von der Unternehmensstruktur nicht direkt und voll unterstützt werden.

Hierbei ist ein zentrales Argument, dass Manager die externen Unwägbarkeiten, im Markt und im institutionellen Umfeld, im Unternehmen und ihren Initiativen „spiegeln“, um ihre unternehmerischen Freiheitsgrade zu erweitern und sich im Sinne einer „embedded agency“ die Möglichkeit erarbeiten, neue Geschäftsmodelle in dem rigiden Kontext eines etablierten Unternehmens aufzubauen. Dies beinhaltet den flexiblen Wechsel zwischen verschiedenen ‚Framings‘, basierend auf lokalen institutionellen Kontexten und situativen Anforderungen, oder den Aufbau von ‚Protostrukturen‘, in denen Manager höhere Freiheitsgrade durch eine Nutzung fester, flexibler oder offener Elemente erreichen, die sich der Kontrolle im Unternehmen teilweise entzieht.

Die Modelle wurden entwickelt im Rahmen einer „teilnehmenden Beobachtung“ beim Aufbau von Geschäftsmodellen in Armutsmärkten in Entwicklungsländern – der sogenannte „Base of the Pyramid“ (BoP), bei denen Ursachen und Folgen von Armut mit unternehmerischen Ansätzen bekämpft werden sollen. Strategieprozesse in diesem Kontext zu beobachten erlaubt, Schlussfolgerung über die Rahmenbedingungen in sich entwickelnden Markt mit wenig Dynamik zu ziehen, ergänzend zur bestehenden Literatur, die sich primär Märkten mit einer hohen Dynamik widmet.

1 INTRODUCTION

Can companies do well by doing good (Margolis & Elfenbein 2006)? This question has often been looked at from a high-level perspective, asking whether certain firm-level indicators of social performance lead to superior financial performance (Orlitzky, Schmidt & Rynes 2003, Brammer & Millington 2008, Barnett & Salomon 2012)². Alternatively, academics have turned into advocates that lobby for the inclusion of explicit social or environmental concerns into organisational decision-making (Walsh, Kress & Beyerchen 2005).

Due to the limitations of trying to identify a clear causal relation (Margolis & Walsh 2003: 278), this dissertation takes a different angle: An in-depth look at how managers in large, multinational companies struggle, on a daily basis, to develop viable business opportunities in a nascent market – i.e. a market that has just come into being, where definitions and meanings of customers, products, and competitors are contested and that are, as a consequence, marked by high levels of ambiguity (Santos & Eisenhardt 2009).

The nascent market chosen for the empirical investigation is the development and distribution of products and services that provide social security and protection against risks for clients previously excluded from such markets (Banerjee & Duflo 2007, 2011, Sachs 2005). This “microinsurance market” is representative of the “Base of the Pyramid” (BoP) proposition put forward by a relatively young but growing literature (Bruton 2010, George, McGahan & Prabhu 2012, Prahalad & Hart 2002, Ricart, Enright, Ghemawat, Hart & Khanna 2004, Walsh et al. 2005) that is starting to address how business can reach poor people and reduce poverty.

With its high levels of ambiguity and uncertainty, and a complex, diverse institutional field reaching from local self-help groups with illiterate women on the Indian coastline to the World Bank and global financial service conglomerates like the two companies

² The latest answers seems to be a “U”-shaped relationship – small improvements in corporate social performance from a low level do not pay, only after a certain threshold is passed do firms realise the benefits (Barnett & Salomon 2012)

that served as observation sites, the context allows to draw conclusions of company responses to such nascent markets, beyond the high-velocity, tech-driven nascent markets that were the main focus of previous investigations (Santos & Eisenhardt 2009). Providing services to clients previously excluded from formal markets (Seelos & Mair 2007) can have a welfare effect and, if the clients classified as poor, contribute to poverty reduction – at the same time as it helps the company to explore nascent markets and their potential future, but today still vague and ambiguous, business opportunities.

This dissertation captures the exploratory activities of business in nascent markets from strategy process and organisational learning perspectives, following the tradition of studies that stress emergent, bottom-up impulses to strategy development and strategic renewal and a stronger role of middle managers (Burgelman 1983a, c, Floyd & Wooldridge 1992, Mintzberg & Water 1985) – vis-à-vis perspectives that sees strategy as a deliberate outcome of strategic choices made primarily at the executive level (Wooldridge, Schmidt & Floyd 2008). Such perspectives are congruent with views that see competitive advantage as developed through complex, path-dependent historic processes that build resources that cannot easily be substituted or imitated (Barney 1986, 1991) and with conceptions of managers with bounded rationality (Simon 1991) – rendering single, discrete, rational choices a less salient explanation for organisational performance than continuous, cumulative and sometimes paradoxical learning processes (Wooldridge et al. 2008).

Among this broad perspective on management – as more art and craft than science – this study is concerned with the micro-level processes and mechanisms behind the balancing of exploration and exploitation in organisations (Gupta, Smith & Shalley 2006, Levinthal & March 1993, March 1991, Raisch & Birkinshaw 2008, Raisch, Birkinshaw, Probst & Tushman 2009). How companies can combine and balance “explorative” activities to develop new business opportunities with the “exploitative” activities at their core is the key problem addressed by this literature. While there are macro-level mechanisms and patterns how companies can effectively approach this challenge, primarily through structural and temporal separation mixed with linking and coordinating activities, these nevertheless often rely on the capacity of small teams or individuals to integrate and accommodate conflicting logics and demands (Gilbert 2005, 2006, Taylor & Greve 2006).

Studying the micro-level mechanisms behind such integration and balancing requires an individualist, managerial perspective (Mintzberg 1971): The cognition, values and tactics of individual managers that seek to affect change under existing institutions and structures. This problem of “embedded agency” (Battilana 2006, Garud, Hardy & Maguire 2007, Leca & Naccache 2006, Leca, Battilana & Boxenbaum 2008) is not specific to the exploration in nascent markets or even the study of organisations, but a universal one: How does change come into being when the cognition and values of individuals are shaped and determined by stable and self-reproducing institutions? How, if the stabilisation of roles and routines is a key characteristic of organisation (Weick 1969), can divergence in roles and routines become a source not of chaos and decay, but of change (Feldman 2000)? How can organisations select the few promising ideas, among the stream of new ideas, most of which are foolish and dangerous, without rigidly enforcing established organisational rationalities that threaten long-term survival (March 2006a, b)?

While the need to achieve a balance of exploration and exploitation is dictated by market dynamics, for example the emergence of disruptive business opportunities outside the current product-client vector that undermine the viability of existing business models (Burgelman 2002, Christensen & Overdorf 2000), responding to these dynamics can require tacit, counter-intuitive, non-rational tactics of being open to soft cues, to allowing ambiguity and space for individual, divergent cognition and individual emotion. These tactics do not replace more traditional business principles like efficiency, productivity, control planning and deliberate decision-making (Adler et al. 2009), or structural solutions to explore new business opportunities through research and development, innovation initiatives or corporate venturing. Instead, they expand the strategic repertoire once the market opportunities accessible through these imitable and substitutable methods have been exploited (Barney 1991), both by the company and its competitors, and in fact rely on these tactics to exploit the new business opportunities developed through more playful exploration (March 1991).

The purpose of this dissertation is to capture this kind of divergent, exploratory behaviour, in the case of initiatives to explore business opportunities in nascent markets – and, in particular, the tactics that managers use to accommodate such behaviour in existing corporate structures.

1.1 Methodology

Understanding how the micro-level mechanisms for balancing exploration and exploitation work requires models that capture the longitudinal, complex, overlapping and multi-level patterns of change in companies (Pettigrew 1990, 1992, Langley 1999). This study thus involved embedded case studies based on in-depth, participatory observation in the context of two multinational financial service companies that have successfully develop a range of products and established distribution channels to target low-income customers in developing countries – alongside core business processes that are marked by high stability and resistance to change. Both companies operate in the insurance sector and distribute so-called microinsurance products that provide protection to low-income households against the payment of adequate premiums (Brown 2001, Churchill 2006, Churchill & Matul 2012).

Data was gathered through open and structured interviews, observation and document collection at four locations – headquarters and subsidiaries – over a total of more than eight months. For *Paper I*, cases from one of the two companies were combined with data previously gathered during efforts to develop e-business model in the case companies – allowing a cross-case and cross-episode analysis (Schmid 2005). For *Paper II* and *III*, only selected initiatives from the two case companies covered in this study were included.

1.2 Overview on papers

This frameworks and models in this study are developed in three distinct papers that highlight different issues, with a narrowing conceptual and empirical focus: *Paper I* compares and builds a model on value system characteristics and exploration patterns, based on data across two episodes of business model exploration – e-business and BoP; *Paper II* focuses on cognition and framing patterns in initiatives with different degrees of exploration; and *Paper III* focuses on highly exploratory initiatives, describing the impact that partnerships as ‘proto-structures’ have on the strategy processes and organisational barriers within the company.

1.2.1 “How Value System Structures Affect New Business Exploration: The Case of a Global Market Leader”³ (Paper I)

Prior research shows how values and processes of valuation affect the exploration of new, potentially disruptive business models in incumbent businesses (Leonard-Barton 1992). *Paper I* explains how different characteristics of value systems relate to processes of new business model creation – building theory by comparing across two different episodes of business exploration that have driven the recent interest in business models (Zott, Amit & Massa 2010): E-business and BoP.

The model developed proposes that richness and connectedness in value systems – i.e. the number of process and outcome preferences and the connections between them, are a result of complex negotiation and sensemaking processes involving a variety of actors in the business model’s institutional field (Hoffman 1999, 2001, Maurer, Bansal & Crossan 2011) and thus provide a credible signal for the potential attractiveness and viability of the new business model. While the potential of the new business model might not (yet) be verifiable from a rational choice or accounting perspective, our model shows how the rich and connected value systems might nevertheless relate to processes that allow exploring the new business model – through deterring action in and influence from the core, and creating experimental spaces in the periphery (Regnér 2003). Over time, as tensions re-surface when business models have to be re-connected to existing core resources (Siggelkow & Levinthal 2003, Taylor & Helfat 2009), we observe a “marginalising” or “confirming” adaptation of the value systems that depends on the initiative success – leading to a self-reinforcing process of initiative success or termination.

The model contributes to the literature on organisational values (Detert, Schroeder & Mauriel 2000, Linnenluecke & Griffiths 2010) as it challenges perspectives that see coherent value systems as a universal feature of organisations though featuring the tensions and dynamics in organisational sub-cultures around new business models that allow organisations to respond in a productive way. Such a “cultural separation” can complement or, at extremes, replace structural separation and re-integration for the exploration of new business models (Gilbert 2005).

³ Paper I is co-authored with Torsten Schmid, University of St.Gallen

1.2.2 “Socially Situated Cognition and Reframing Patterns in Exploratory Initiatives” (Paper II)

The second paper focuses on situated cognition in exploration-exploitation balancing. It explains how the institutional context affects cognition and framing patterns (Elsbach, Kimberly, Barr & Hargadon 2005) and how individual managers use metacognitive strategies to deal with these patterns over the course of initiatives (Haynie, Shepherd, Mosakowski & Earley 2010).

It starts from the difficulties that companies face to capture business models in terms of existing shared mental models or performance dimensions – the difficulties of both top-down and bottom-up sense-making in the face of exploration (Walsh 1995). As a managerial response, we observe two different kinds of reframing – “paradoxical reframing” to stress the uniqueness of the respective exploratory initiatives and “reductive reframing” that presents exploratory initiatives in a way that assures coherency with the core business. While the choice of re-framing is initially contingent on the local institutional context – i.e. whether initiatives are embedded in loosely or tightly coupled systems with low or high goal autonomy (Orton & Weick 1990) – the model captures situational “pattern switching” over time through which managers deal with the tensions between the uniqueness of initiatives and the requirement to increasingly comply with core business requirements.

With this framework, the paper also helps to understand how companies, and especially Multi-National Companies (MNCs), can manage the on-going tension between exploitation and exploration in their activities in developing countries, addressing the “paradox of size and scale” that makes it difficult to run ambitious projects targeting low-income markets based at least partly on a social motivation in established firms (Olsen & Boxenbaum 2009, George et al. 2012, Halme, Lindeman & Linna 2012).

1.2.3 “The Impact of Partnerships on Strategy Processes in Highly Exploratory Initiatives in Nascent Markets” (Paper III)

Companies often face difficulties to explore emerging business opportunities in nascent markets – markets, in which clients, products and competitors are undefined and that are consequentially marked by high levels of ambiguity (Santos & Eisenhardt 2009). Based on the case of low-income markets in developing countries, the model shows how the absence of clear market rules, and the presence of other, i.e. social,

cultural or religious regulatory mechanisms (Granovetter 1985, 2005), creates business model frictions, planning difficulties and role conflicts in companies (Floyd & Lane 2000, Olsen & Boxenbaum 2009).

While companies often rely on partnerships to overcome external, market-related barriers (London & Hart 2004, Seelos & Mair 2007, Webb, Kistruck, Ireland & Ketchen 2009a), we observe that managers also use the “proto-structures” created between the company and the partner to directly influence the strategy processes within the company, address the challenges resulting from the ambiguity in nascent markets described above and support the re-configuration of internal resources to successfully develop opportunities in low-income markets (Hart & Dowell 2011).

These proto-structures (Burgelman 1983a, Brown & Eisenhardt 1997) exist ‘between’ the two organisations for a limited amount of time, and are marked by the co-existence of fixed, open and flexible elements. They allow managers to establish highly exploratory initiatives, by drawing on the open elements, acquiring resources from other departments by focusing on the fixed elements, and adapting the initiatives over time by relying on the flexible parts of proto-structures. As managers have a certain degree of freedom in choosing whether to focus on a flexible, open or negotiated element in a given moment, the resulting ambiguity creates the crucial space for managerial agency (Mahoney & Thelen 2010) – for creative actions that defy the straightjacket of the company’s current structure and allow the reconfiguration of internal resources in a way that would not have been possible based on the existing structures in the company alone.

1.3 Contribution of this study

The study utilises the different perspectives in the three papers to advance the understanding of micro-level mechanisms behind the balancing of exploration and exploitation (March 1991, Raisch et al. 2009), in particular as they relate to the impact of cognition and values on exploratory initiatives.

First, across the papers, it highlights how companies can productively accommodate divergent patterns of cognition (Walsh 1995) and divergent values related to new business models (Walsh et al. 2003, Maurer et al. 2011) in the balancing of exploration and exploitation. While these divergent cognitions and values have external sources, resulting from the institutional field related to the new business or,

more directly, from partnerships, they are embodied by individual managers that resist structural constraints through exercising their agency (Battilana 2006, Garud et al. 2007). The papers thus show how theories of situated cognition, i.e. cognition that is not “merely” a psychological, mental phenomenon, but rooted in individual’s bodies and embedded in social situations and institutions (Elsbach et al. 2005, Robbins & Aydede 2008), can be fruitfully applied to fields like exploration-exploitation balancing and ambidexterity.

Second, the study captures external influences on the balancing of exploitation and exploration in companies. While the issue has been highlighted before – as learning through staff turnover (March 1991) or knowledge inflows to executives (Gilbert 2005) – the papers offer a more in-depth account of how companies “process” external information to determine the appropriate scope, direction and degree of exploration of initiatives to build new business models. It goes beyond a focus on rationally processed knowledge inflows – as the complex and ambiguous external information related to emerging business opportunities might often not fit to the company’s existing shared mental models, value systems or performance dimensions. Instead, it captures how such information is reflected in process dynamics around exploratory initiatives and how managers deal with such information which is, for example, stored in the structure of value systems, i.e. their richness and interconnectedness, rather than in the content of the value system as such (see Paper I).

With regards to the emerging middle-range theory around the phenomenon of business activities in low-income markets, the study shows the relevance of the exploration-exploitation – and more general, of strategy process research (Pettigrew 1990, 1992, Hutzschenreuter & Kleindienst 2006), debate for the field of research at the Base of the Pyramid (BoP, Webb et al. 2009a, George et al. 2012). Scale is required for realising both the financial and social promise of business opportunities in such contexts (Prahalad 2004), and needs to encompass the recognition and development of business opportunities in low-income markets (‘explore’), as well as dedication of resources to scale and grow these models once they have reached maturity (‘exploit’). In order to tap their own core resources, businesses need to find ways to combine and bridge their exploratory portfolios with the more exploitative activities in their company’s traditional business, a challenge that can lead to significant internal resistance (Dawar & Chattopadhyay 2002, George et al. 2012, Halme et al. 2012, London & Hart 2004, Olsen & Boxenbaum 2009). To overcome such internal

organisational barriers, managers in charge of BoP initiatives need to take care of the micro-level dynamics – the compatibilities and clashes between different value systems (in Paper I), the cognitive difficulties around initiatives that rely on different motivations sometimes seen as conflicting (Paper II, Olsen & Boxenbaum 2009), and the process dynamics created by bringing in external, non-traditional partners (in Paper III, London & Hart 2004, Seelos & Mair 2007).

1.4 Organisation of the study

The study first provides background information on the exploitation-exploration literature and on the state of discussions on business activities in low-income markets – the emerging Base of the Pyramid (BoP) literature. It then describes the methodology used to gather and interpret the qualitative data used in this study, as well as to build the theoretical frameworks and models. After providing information on the research setting – the industry and company selected as well as the approach to low-income markets in developing countries in the sector – it provides the main models and frameworks in the three papers. The last section, Discussion, depicts the overall contribution of the study, highlights limitations and options for future research before drawing overall conclusions.

2 BACKGROUND

This section reviews the literature in the two major fields that provide the background for this study – the exploration-exploitation literature, concerned with how businesses, and potentially other organisations, combine more exploratory initiatives to develop new business models with their more exploitative activities at the core, and, second, the literature streams concerned with business and poverty issues.

The literature on values and cognition, concepts that are featured prominently in the individual papers, is reviewed there with regards to their specific contribution in the scope of these papers, while the literature background presented here discusses these concepts in the context of two main areas focused on – the exploration-exploitation and Base of the Pyramid theory.

2.1 Exploration-exploitation theory

The exploration-exploitation literature, going back to March (1991), is concerned with how firms combine exploration, i.e. building up new business areas, with exploitation, i.e. refining their core business. It takes up older concerns about incumbent inertia and the strategic evolution and emergence of firm strategies (Burgelman 1983a, Hannan & Freeman 1984, Mintzberg & Water 1985), with a renewed focus on characterising the specific nature of and organisational learning processes associated with exploration and exploitation activities, and the tension existing between the two fields (Burgelman 2002, Burgelman & Grove 2007, Gupta et al. 2006, Levinthal & March 1993, March 1991, McGrath 2010, Raisch & Birkinshaw 2008, Raisch, Birkinshaw, Probst & Tushman 2009).

This section will systematically review the strategy process literature (Hutzschenreuter & Kleindienst 2006, Pettigrew 1990), to set the context for the tensions between exploration and exploitation and the respective balancing efforts. It first discusses the existing definitions of exploration-exploitation, before taking a look at the external factors – more specifically, how organisational performance is determined by firms' reactions to external market and technology developments. It then displays the internal, organisational learning dimension of exploration-exploitation – the specific

challenges faced by companies engaging in exploration and exploitation, and the mechanisms described in the literature on how companies deal with such challenges. The review closes by mapping open questions and research opportunities.

2.1.1 Defining exploration and exploitation

The debate on exploration and exploitation is not a clearly demarcated one, but overlaps and interacts with related domains, and is even said to “dominate” such diverse fields as “technological innovation, organization design, organizational adaptation, organizational learning, competitive advantage and, indeed, organizational survival“ (Gupta et al. 2006).

Going back to March (1991), different definitions and understandings of exploitation and exploration have been used in the literature (see Table 1)⁴. While these definitions differ in a variety of respects, most refer either to the *domain* or the *type* of organisational learning (Gupta et al. 2006).

	Exploitation	Exploration	Learning Focus
Baum, Li & Usher (2000: 768).	“exploitation refers to learning gained via local search, experiential refinement, and selection and reuse of existing routines.“	„exploration refers to learning gained through processes of concerted variation, planned experimentation, and play“	Type
Benner and Tushman (2002: 679)	“exploitative innovations involve improvements in existing components and build on the existing technological trajectory”	„exploratory innovation involves a shift to a different technological trajectory“	Domain

⁴ In addition, there is related research streams that cover broadly similar, analogous or identical ideas (Raisch & Birkinshaw 2008: 2) – in particular, the “productivity dilemma” (Adler et al. 2000), the idea that “the capabilities that enable consistent execution [‘exploitation’, the author] can also hinder learning and innovation [‘exploration’], leaving organizations rigid and inflexible“, the concept of “disruptive innovation”, where business are oriented on ‘exploiting’ an existing, stable market, and fail to recognise marginal tendencies leading to a disruption of that market that would require ‘exploring’ new opportunities (Christensen & Bower 1996), or the concept of “incumbent inertia”, the failure of large, reliable and accountable organisations to overcome internal processes that reproduce past strategic behaviour (Hannan & Freeman 1984).

March (1991: 71)	“refinement, choice, production, efficiency, selection, implementation, execution”	“search, variation, risk taking, experimentation, play, flexibility, discovery, innovation”	Type
He and Wong (2004: 483)	“technological innovation activities aimed at improving existing product-market domains”	“technological innovation aimed at entering new product-market domains”	Domain
Levinthal & March (1993: 105)	„the use and development of things already known“	„the pursuit of new knowledge, of things that might come to be known“	Domain
Vermeulen and Barkema (2001: 459)	“ongoing use of a firm’s knowledge base.”	“search for new knowledge”	Domain

Table 1: Definitions and characterisations of exploitation and exploration (as quoted in Gupta et al. 2006: 694, except March 1991, Levinthal & March 1993)

The first type of definitions is concerned with the *domain* of learning, for example about existing product-market domains vs. new ones (He & Wong 2004), or regarding existing or ‘different’ technological trajectories (Benner & Tushman 2002), or the use of existing vs. new knowledge (Vermeulen & Barkema 2001). These definitions directly relate to organisational performance: While exploitation is required to increase short-term performance by focusing on improving performance around existing products and markets (Benner & Tushman 2002, 2003), exploration builds the long-term capabilities in newly emerging fields afar from the core business that are required for long-term success or, in the extremes, even survival (March 1991, Leonard-Barton 1992).

Definitions in the second area relate to exploration and exploitation as different *types* of organisational learning and the characteristics and mechanisms associated with these types (March 1991, Gupta et al. 2006). While exploitation requires refinement of existing procedures, as visible in the “process management” approach (Benner & Tushman 2002, 2003), exploration requires experimentation, search or play – approaches that are difficult to capture in formal management systems (March 1991, Baum et al. 2000).

While most definitions fall into one of these two categories, they in fact capture ‘two faces’ of the same phenomenon: Different learning domains require different learning types, and the performance of a specific learning type is contingent on the domain in

which it is applied. The over-reliance on near-sighted modes of learning, like process management and similar tools, can create significant challenges for long-term firm performance and survival (March 1991, Benner & Tushman 2002). The next sections will more deeply explore questions related to both domain of learning, linking it to different market dynamics, as well as type of learning.

2.1.2 Market dynamics, exploration-exploitation and organisational performance

A key justification for the importance of capturing the dynamics and interplay of exploration and exploitation is an external one: Both mechanisms are required for firms to survive in the current and future market environment by adapting to environmental changes and turbulences (Levinthal & March 1993). When economic development is not a linear but a cyclic process that “incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” (Schumpeter 1934: 82), long-term firm survival and success requires firms to not only perform in the current, stable or only linearly changing economic structure, but simultaneously prepare for performance in future market environments, that might be shaped by discontinuities and non-linear change – a challenge that many companies struggle to master (March 1991, Christensen & Overdorf 2000, Burgelman & Grove 2007, Davis, Eisenhardt & Bingham 2009).

Researchers have thus long been concerned with “myopia”, or under-exploration, firms focusing on exploitation at the neglect of exploration (Fang & Levinthal 2009, Levinthal & March 1993). While the main focus and concern in exploration-exploitation debates is on under-exploration, tensions between exploration and exploitation can also lead to a “mirror-inverted” phenomenon where exploration drives out exploitation (Levinthal & March 1993, Smith & Tushman 2005). Over-exploration describes a situation where businesses focus on exploring long-term opportunities, at the neglect of the exploitation of short-term business requirements (Andriopoulos & Lewis 2009, Levinthal & March 1993).

Organisations that under-explore face the challenge of “incumbent inertia”, the inability to adapt to environmental change in a way fast enough to ensure survival and satisfying economic performance (Hannan & Freeman 1984). This challenge is especially salient in the case of or “disruptive” technological change (Bower & Christensen 1995, Christensen & Bower 1996), where a new technology or business

model develops in an emergent market that is of initially low relevance and alongside performance dimensions that are irrelevant in the current market environment (Christensen & Bower 1996). While a new technology is already emerging, the “residual fit” that the firm has with its existing, mainstream markets reduces the short-term incentive for exploration of new products, markets or technologies – a firm is locked into an existing product-client combination (Burgelman 2002, Gilbert 2006).

Such challenges also exist outside the narrow realm of new technologies. Innovations that apply the same core technologies as before, but re-combine them in new and surprising ways, so-called “architectural innovations” (Henderson & Clark 1990), might be equally far reaching but more subtle than technological challenges, and consequentially more difficult to detect for companies used to compete on technologies and their performance criteria. As a result, companies might hold on to the exploitation of existing business models and confine exploration to the narrow domain of technology development, at the neglect of the exploration of new business opportunities that recombine technologies in new ways, develop new revenue streams from existing technologies or apply new organisational forms or governance structures (Christensen & Overdorf 2000, McGrath 2010, Zott & Amit 2009, Zott et al. 2010).

Evolutionary ecology models provide a different, but complementary framing for the performance challenge of exploration-exploitation balancing (Burgelman 1991, March 2006a: 205, Raisch & Birkinshaw 2008: 5). They frame exploration and exploitation as a challenge between creating sufficient amounts of variation in the organisational system on the one, and selection and retention of alternatives on the other hand (March 1991). Considering resource scarcities and other limitations, the amount of variation and retention present a fundamental trade-off in evolutionary systems (Adner & Levinthal 2008). From an evolutionary perspective, companies exploration-exploitation balances is affected by the amount of variation they allow, the breadth of variation they encourage through providing centralised ‘strategic intent’ from above and the stringency through which they select and retain initiatives (Lovas & Ghoshal 2000: 876). Restraining variation too much, in amount or scope, results in under-exploration and myopia, while a neglect of selection and retention mechanisms results in over-exploration and organisational chaos.

In all these perspectives, there are strong contextual or contingent aspects: The optimal level of attention required and devoted to exploration vis-à-vis exploitation depends on a variety of factors that depend on characteristics of the external

environment. Examples include the rate of technological change (Chesbrough & Rosenbloom 2002), the dynamics among established and emerging customer groups (Bower & Christensen 1995, Christensen & Bower 1996), or the degree to which new business models have to draw on core resources (Taylor & Helfat 2009). Over time, studies point towards higher rates of environmental dynamism, a fact that requires higher degrees of exploration on the one hand, and an stronger simultaneous attention to exploration and exploitation, or ambidexterity (Raisch & Birkinshaw 2008), for firms to engage in “continuous change” that continuously redefines their underlying competencies (Brown & Eisenhardt 1997).

2.1.3 Strategy processes and exploration-exploitation as organisational learning

A second, internal and process-oriented perspective complements the view presented above (Pettigrew 1992). Here, tensions between exploration and exploitation are framed as an *organisational learning* challenge (Levinthal & March 1993, March 1991, Raisch & Birkinshaw 2008: 3). Such a framing conceptualises both exploration and exploitation as different kinds of learning processes related not only to different domains of established or new fields of knowledge – as mapped above – but also of a different *type*, and thus with different process characteristics (Gupta et al. 2006).

The organisational learning perspective on exploration-exploitation questions theories based on rational choice assumptions, that would see the challenge of exploration-exploitation primarily as one of evaluating the net present value of different alternatives and choosing among these accordingly (March 1991). Such a perspective would imply a rational analysis by executives in the company that chose from a given set of strategic alternatives to enter a new market or exit existing ones, developed a new product or technology or abandon old ones, etc. (Wooldridge et al. 2008).

In contrast to that position, theories of bounded rationality point to the fact that rational choice decision making might be difficult or impossible to implement in situations marked by a wide range of factors such as uncertainty and causal complexity, ambiguities regarding the preferences of decision makers or organisational goals, the difficulty to analytically assess trade-offs between different goals and persons, and strategic interactions with other actors (Simon 1991) – all factors that are present to a larger or smaller degree in situations marked by exploration-exploitation tensions (March 2006a: 204). For example, uncertainty is a key factor affecting exploration, as pay-offs from exploration is typically further

removed and less certain that payoff from exploitation (March 1991). Similarly, activities in new, not yet existing markets rely on a large number of other actors, including competitors, clients and regulators, so that the complexity and strategic dependencies make rational assessments imprecise to the point of risking company failure (March 2006a, Santos & Eisenhardt 2009).

Organisational learning theories based on limited rationality, like the Carnegie-School (Gavetti, Levinthal & Rivkin 2007), have thus focused on ‘non-rational’ process characteristics: The use of routines and ‘rules of thumb’ in decision making (Feldman 2000), the importance of tacit knowledge coupled to organisational practices (Miller, Thao & Calantone 2006), the role of intuition and emotion in learning (Adler & Obstfeld 2000), etc. Such approaches can explain organisational resistance to exploration that can persist even if top-management and other actors in the company are convinced that change and exploration are required, and willing to take action in that area (March 1991, Gilbert 2005, 2006, Olsen & Boxenbaum 2009).

From such a perspective, a central explanatory mechanism arises from the different nature of the processes required for exploitation and exploration. Exploration requires higher degrees of freedom and experimentation than exploitation and is less guided by rigid routines and formal processes (March 1991, McGrath 2001, 2010)⁵. Mirroring the fact that exploratory activities might initially underperform on the performance dimensions of the core business activities in established markets (Christensen & Bower 1996), the existing formal company systems for performance evaluation and rewarding are often inadequate for directing exploratory behaviour (McGrath 1995, London & Hart 2004, Johnson, Christensen & Kagermann 2008). Instead, exploratory activities tend to be “*other directed*” – guided less by formal systems, and more by intuition, curiosity, creativity, by puzzles and problem solving etc. (Adler & Obstfeld 2007, Adner & Levinthal 2008: 44, Andriopoulos & Lewis 2009).

Firms often find it difficult to provide space for such experimentation by lower-level, peripheral actors (Gilbert 2005). Such difficulties can result both from the process to uphold established norms and conformities in the exploitative activities that comprise the core business to reduce the risks and unwanted side-effects of change and avoid short-term firm failure (Burgelman & Grove 2007: 966). One example of such inertial

⁵ Even if routines can change, and can be the source of change (Feldman 2000)

forces is the rigor and normative pressure of formal systems of “process management” or “total quality management” (Benner & Tushman 2002, 2003)⁶. While these reduce errors and mistakes – i.e. (unwanted) variance – in the core business and thus enhance short-term performance and productivity, they simultaneously suppress new and challenging impulses that would be required for exploration and long-term adaptability (Benner & Tushman 2002, 2003, Adler et al. 2009). While there is a “need to institutionalize the managerial behaviour associated with current competencies and current strategies” to assure stability for a smooth implementation of the core business, this need can clash with efforts to encourage the behaviours necessary to explore new competencies (Floyd & Lane 2000: 154).

The difficulties created by the different nature of exploration and exploitation can be exacerbated by political and value issues, especially when new business models are perceived as a threat to the core businesses (Gilbert 2005), and as a consequence, undermine the position of powerful actors in the firm and the value of established and traditional types of knowledge (Leonard-Barton 1992). In such situations, the insights of peripheral actors important for exploration can be undervalued and marginalised, with companies neglecting an important source for variation and new initiative emergence (Regnér 2003, March 2006a).

2.1.4 Balancing mechanisms described in the literature

As a result of these tensions, there is disagreement whether exploration and exploitation are *orthogonal* – impossible or difficult to combine – or whether ambidexterity, pursuing both simultaneously, is possible, and under which conditions and antecedents (Gupta et al. 2006, Raisch & Birkinshaw 2008). The mechanisms to combine exploration and exploitation in organisations described and discussed in the literature differ on several dimensions – like the differentiation or integration of exploration activities, the level of innovation, etc. –, and provide a fine-grained perspective on the balancing of exploration and exploitation (Raisch et al. 2009: 686).

⁶ A closely related formulation is that of the “productivity dilemma” (Adler et al. 2009).

2.1.4.1 *Balancing via differentiation and integration*

Some authors have proposed *differentiation*, for example the distribution of exploration and exploitation on different business units to reduce tensions between the two (Benner & Tushman 2003, Gilbert 2005). Another label for differentiation is ‘structural separation’, where different units in the organisation are responsible for exploration and exploitation, which keeps the two separate (Gilbert 2005). One example of structural separation would be corporate venturing (Burgelman 1983c), where new business units are set up specifically to explore a certain new business area, uninhibited by dynamics at the company’s core.

In contrast, other authors have stressed that *integration* is required, for example through top-level managers engaging in “paradoxical” and integrative thinking, or through informal linkages and exchanges between teams (Gilbert 2006, Jansen, Tempelaar, van den Bosch & Volberda 2009). Integration becomes crucial when exploratory activities require interaction with established, exploitative activities to allow exploratory initiatives to draw on complementary resources from the core business and realise other synergies (Gupta et al. 2006, Taylor & Helfat 2009). In the case of disruptive innovation, integration would be crucial, as the new knowledge gathered through exploration is required to update the knowledge stock in the core business (Christensen & Overdorf 2000).

2.1.4.2 *Multilevel exploration*

Second, the challenge between exploration and exploitation is often conceptualised as a multi-level phenomenon, both regarding the overall firm as well as at the scope of different business units, work teams or even individuals (Gupta et al. 2006)⁷. Structural separation often solves the exploration-exploitation challenge by separating the two activity fields on lower organisational levels, i.e. in different departments, thus allowing the pursuit of both activities simultaneously in parallel in the same organisation (Raisch et al. 2009: 687).

⁷ i.e. in a multi-unit firm, the tensions between exploration and exploitation exist both within and across business units: Should a business unit focus on exploitation, or broaden its scope through exploration? Should the firm overall focus on exploitation through its existing business units, or build up new business units through exploration?

Multilevel exploration also affects the role of different actors in the organisation. Allowing or encouraging lower-level exploration requires a more active, “strategic” role of middle managers that allows these to facilitate and champion initiatives at the border or outside of official mandates (Burgelman 1983a, Floyd & Wooldridge 1992). Approaches for a such a stronger role of middle managers range from autonomous initiatives, mainly driven by middle managers (Burgelman 1983a, Floyd & Wooldridge 1997, Floyd & Lane 2000), over guided evolution modes where top-managers provide a general direction and then rely on the internal corporate ecosystem (Lovas & Ghoshal 2000) to more formal corporate venture programmes (Burgelman 1983c). In all of these efforts, structural separation on lower organisational levels can require that high-level decision-makers deal with ‘paradoxical’ positions to resolve the exploitation-exploration tensions in their portfolios (Leonard-Barton 1992, Atuahene-Gima 2005, Gilbert 2006, Andriopoulos & Lewis 2009).

2.1.4.3 Dynamic shifts of attention

As a third mechanism, the relative attention dedicated to exploration or exploitation might change over time (Raisch et al. 2009). At one extreme, companies might focus on exploitation, i.e. a stable set of activities in the core business for longer periods of time, as a response to stable market conditions, which are then radically “punctuated” by short episodes of exploration – i.e. radical change and adaptation to a new competitive situation (Gersick 1991, Romanelli & Tushman 1994). The main challenge here would lie in the right timing of exploration – the decision when to abort previous activities and restructure into a new “vector” (Burgelman & Grove 2007) – and the management of the role conflicts and organisational turbulences resulting from such periods of change (Floyd & Lane 2000, Huy 2002).

At the other end of the spectrum are firms for which change is “endemic to the way” they compete – they constantly and continuously adapt and change to new environments (Brown & Eisenhardt 1997). Such firms rely on “dynamic capabilities” – experiential processes through which companies constantly re-invent themselves and reconfigure their resources to flexible explore and exploit emerging market opportunities (Eisenhardt & Martin 2000).

2.1.4.4 Locus of innovation

Last, mechanisms to balance exploitation and exploration differ according to whether impulses for exploratory activities, or the activities themselves, are located inside the company, or whether they company mainly relies on external sources of innovation. While research and development efforts might be examples for internal sources of variance⁸, examples for the later range from openness for impulses and ideas for exploration from outsiders (Gilbert 2005), employee turnover that brings in new skills and knowledge sets into the organisation (March 1991), to the acquisitions of newly developed business models (Hoang & Rothaermel 2010).

Echoing the contingency argument made for the performance of different degrees of exploration and exploitation in companies, the effectiveness of the different methods to combine and balance exploration and exploitation also depends on both external (market, technology...) and internal characteristics. For example, architectural innovations that primarily combine existing technologies (Henderson & Clark 1990) require firms to draw more strongly on existing departments, and thus might render differentiation a relatively ineffective mechanism. Similarly, highly dynamic market context might require continuous, rather than discontinuous change (Eisenhardt & Martin 2000)

Additionally, the different mechanisms are logically connected and can be combined in a variety of ways. Temporal separation can be combined with other strategies, for example when first structurally separating exploration and exploitation, and later re-integrating the two parts (Siggelkow & Levinthal 2003). Taken together, the range of mechanisms and their combinations can be used to capture the different potential pathways towards ambidexterity (Gupta et al. 2006, Raisch et al. 2009) – from organisations with high degrees of ambidexterity that pursue both exploration and exploitation internally, simultaneously, and in a single unit with staff working on both exploratory and exploitative projects, to those with low levels of ambidexterity – that pursue exploration and exploitation in clearly separated units, or at different points in

⁸ Still, even research efforts to develop new technologies or products might have a strong, partly hidden component of knowledge acquisition as a by-product of the research and development process ostensibly focus on developing something generically new (Simon 1991)

time, or rely mainly on external impulses, e.g. acquisitions or take-overs, for exploration.

Full differentiation / structural separation	<	Level of differentiation / integration?	>	Full integration
Use of multiple levels for organising exploration	<	Multilevel-innovation?	>	Use of one / few levels for organising exploration
Clearly separated phases for exploration	<	Dynamic shifts of attention?	>	Simultaneous attention
Mainly external exploration	<	Locus of innovation?	>	Fully internal exploration
Lowest	<	Degree of ambidexterity	>	Highest

Figure 1: Mechanisms to organise exploration and exploitation and their linkage to ambidexterity (Source: Own elaboration)

2.1.5 Micro-level mechanisms in exploration-exploitation

While the balancing of exploitation and exploration is an organisational learning phenomenon and thus concerned with organisational, i.e. shared, knowledge stocks, it nevertheless, as all organisational learning processes (Simon 1991), has an individual component. On the one hand, all organisational learning relies on individual learning – importantly for tacit knowledge and experience (Miller et al. 2006), but also including the individual-level competences to access and enact explicit, codified knowledge in the forms of information databases, manuals etc. On the other hand, individual perceptions and decisions shape where and with which focus exploratory and exploitative learning take place.

Individual learning is important for both exploratory and exploitative learning. Exploitative learning, focused on standardisation and efficiency, can, for example, occur through formalised training on quality control routines and processes (Benner & Tushman 2002, 2003) or through the tacit, routinized experience gathered through continuous task engagement (Miller et al. 2006, Gupta et al. 2006). Still, individual impulses often play a key role in divergent behaviour that is the basis of exploration (Floyd & Wooldridge 1992, Adler & Obstfeld 2007) and in exploratory search that is often less routinized, and more reliant on individual play and experimentation (March

1991). The next section will thus focus on the role of individuals in exploratory learning.

2.1.5.1 Exploration and managerial agency

While the differentiation view described above presents a relatively neat, structural solution to the challenge of exploration and exploitation, previous literature has described the contribution of individuals as more problematic – concluding that “within a single domain (i.e., an individual or a subsystem), exploration and exploitation will generally be mutually exclusive.” (Gupta et al. 2006: 697). Examples include the findings that (exploitation-enhancing) process training reduces individuals’ capacity to engage in exploration (Benner & Tushman 2002, 2003) or the difficulty to simultaneously adapt convergent, questioning and divergent relationships to the current strategy of an organisation (Floyd & Lane 2000).

While the role of individuals in exploitation is thus relatively unproblematic, their role in exploration relates to larger questions of (managerial) agency – i.e. the question how individuals can affect change in the face of institutional constraints (Battilana 2006, Garud et al. 2007, Mantere 2008, Mahoney & Thelen 2010). This question arises as groups and organisations face constant pressure to ensure consistency and coherency vis-à-vis their environment – through shared cognition, emotions, norms and values that embody the current strategic direction of the company. This coherency is upheld through a variety of mechanisms – selection and hiring, socialisation, training, mimicry, coercion, incentive systems, etc. (DiMaggio & Powell 1983, Fang, Duffy & Shaw 2011). In summary: “Institutions endure” through institutional reproduction processes that are, at least to some degree, immune to individual activities that try to instigate change (Clemens & Cook 1999: 441).

Exploratory initiatives differ with regards to the degree in which they challenge institutions, depending on both the initiative and the host institution. While some organisations are highly resistant to change, others might have own “routines” for change that are part of the institutional setup (Feldman 2000). Still, to some degree, all exploratory initiatives challenge certain elements of the status quo and, vice versa, even extremely flexible and open institutional arrangements restrict certain initiatives (Davis et al. 2009).

Activity patterns that, while embedded in and affected by existing institutions, challenge or change these have been described as “embedded agency” or “institutional

entrepreneurship” (Garud et al. 2002, Garud & Karnøe 2003). Exploratory learning can be understood as a type of embedded agency, inasmuch as the activities it involves do not follow institutional scripts, but freer and more flexible and open logics like experimentation and play (March 1991). As a consequence, the balance between exploration and exploitation is reflected in competing pressures to uphold institutional logics while allowing a certain degree of “embedded agency”, and the concept of ambidexterity can be defined as an institutional arrangement that includes both reproductive and disruptive elements.

2.1.5.2 Agency and cognition, emotion and values

The tension between exploitation and exploration and the resulting challenge of embedded agency affect individuals on different but interlocking dimensions – cognitive, related to perception and framing, emotional, related to affect and impulses, and normative, related to values and preferences (DiMaggio 1997).

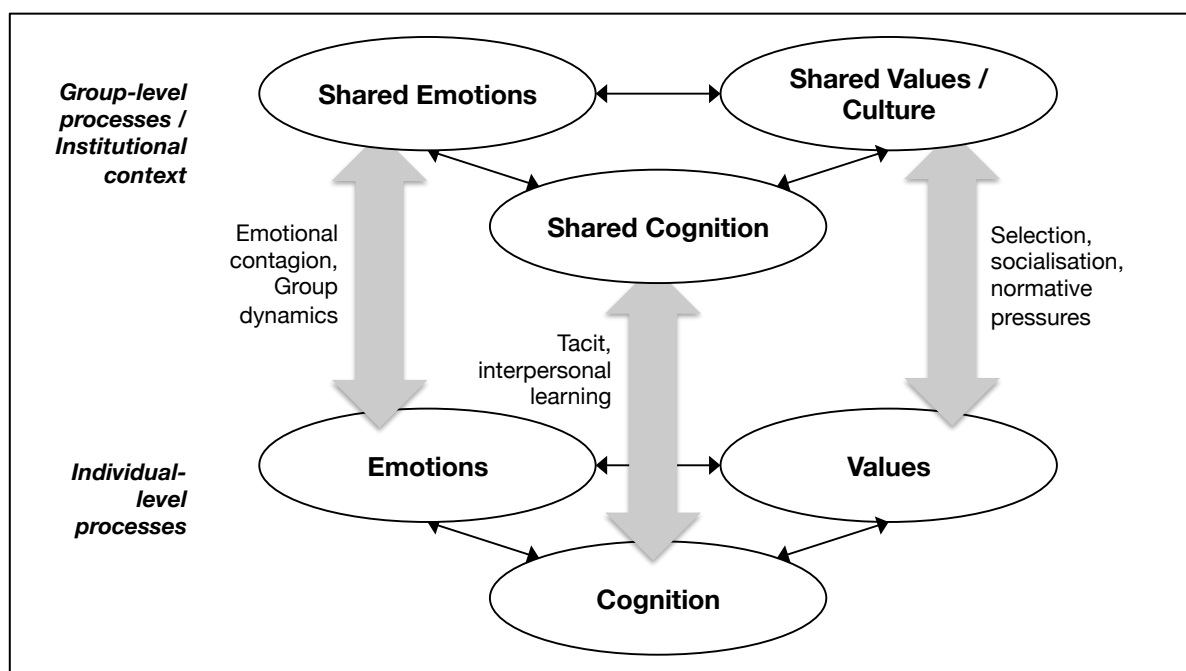


Figure 2: Emotions, Cognition and values as individual- and group-level processes (Source: Own elaboration)

Regarding the cognitive dimensions, a unified and shared set of mental models has been described as a key characteristic of organisations in general, and companies in particular (Walsh 1995, DiMaggio 1997). While cognition is an individual process, it has strong social and organisational dimensions, as communication, negotiation and

other organisational activities shape perception. Cognition is thus embedded and situated in existing institutions and strongly affected by the respective institutional, cultural, physical and socio-economic context (Hutchins 1995, Elsbach et al. 2005, Robbins & Aydede 2008).

Under exploration-exploitation tensions, cognition and framings affect whether a new business opportunity is perceived as exploitative or exploratory, i.e. whether a client group falls under an existing schema applied to identify appropriate clients or not. It further influences how companies react to such new business propositions, i.e. as shown in different patterns of resource allocation to initiatives perceived as dealing with threats or opportunities (Gilbert 2005), or by managerial strategies for reflectively adapting ones own cognitions to effectively respond to external impulses (Haynie et al. 2010).

Being strongly related to and based on cognition (Lazarus 1982), emotions are a second dimension of individual responses and antecedent to exploration-exploitation. Similarly as cognition is shared and negotiated (Hutchins 1995), emotions are also to a degree learned and shared, an aspect that can be seen in the phenomenon of “emotional contagion” (Adler & Obstfeld 2007: 32, Barsade 2002). Exploration also affects emotional states of individuals (Adler & Obstfeld 2007, Huy 2002), and in a way that is related and builds on underlying patterns of cognition (Lazarus 1982) – i.e. a situation has to be perceived and recognized as a “threat” to evoke emotions of “fear”, and different threatening situations might evoke different kinds of fear (Adler & Obstfeld 2007).

Organisational change, and thus exploratory activity, is often held back by feelings of anxiety and fear about the unknown (Huy 2005: 5). And while activities in exploitation might be less emotionally charged, activities around exploration can be highly emotional, including feelings such a curiosity, alertness, excitement, but also stress, or anger or other emotions related to “activation” (i.e., the upper half of the ‘emotion circumflex’ in Adler & Obstfeld 2007:26). And the “balancing” of exploration and exploitation activities might be accompanied by an “emotional balancing” between commitment towards new change initiative and towards the emotions of other stakeholders in the company that might be more representative of the status quo (Huy 2002).

Last, exploration and exploitation often affect questions of values, i.e. of relatively stable preferences for certain processes or end-states (Rokeach 1973: 5, in Wiener

1988). Similar to cognition and emotions, values are individually held but often shared and negotiated in organisations (Detert et al. 2000, DiMaggio 1997, Schein 1990) – as a unified organisational culture or as diverse sub-cultures (Barney 1986, Linnenluecke & Griffiths 2010).

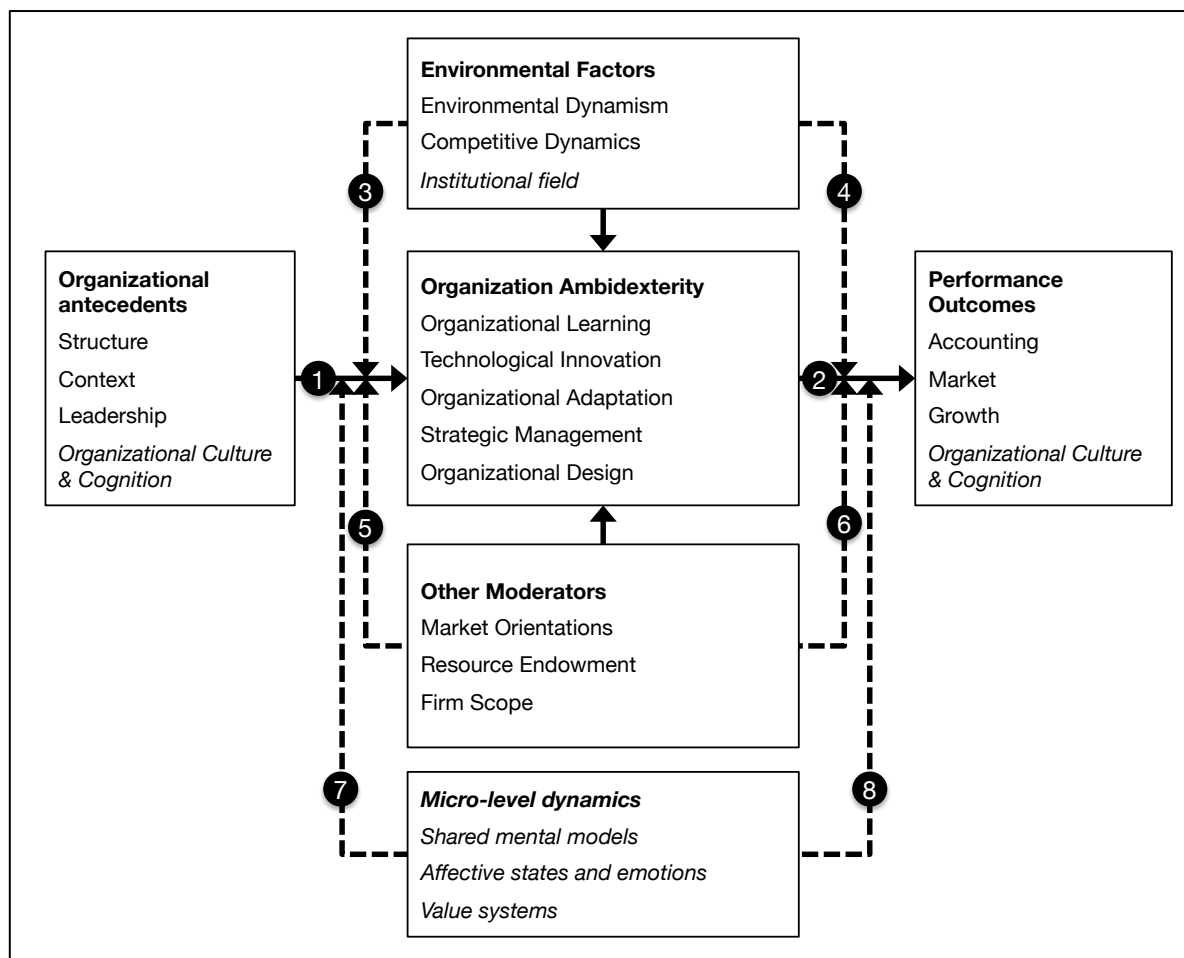


Figure 3: Individual, micro-level moderators in ambidexterity (based on Raisch & Birkinshaw 2008: 7, own additions in Italic).

Organisational values affect the balance of exploration and exploitation in multiple ways⁹ – for example, positively, through values of “empowerment” that promote divergent, autonomous activity throughout organisations or, negatively, through preferences for core disciplines and the neglect of peripheral disciplines and actors in the company (Leonard-Barton 1992). On the structural level, a strong, unified

⁹ See the more detailed literature review in Paper I for details on definitions of values and value systems as well as for an overview on the relation to exploration/exploitation

organisational culture can deter deviations from the status quo (Detert et al. 2000, Adler et al. 2009), while the existence of sub-cultures with a diversity of values, i.e. related to different disciplines, can enhance and enable exploration.

In summary, while cognition, emotions and values are conceptually distinct, they are still strongly linked (Lazarus 1982, DiMaggio 1997) and share certain similarities: They are individually anchored but shared, negotiated and affected by situational factors and institutional arrangements. This renders them useful to describe the micro-level mechanisms behind exploration/exploitation balancing and ambidexterity (Raisch & Birkinshaw 2008, Raisch et al. 2009) – as they connect the institutional and the individual response or impulse (see Figure 3), connections that will be further explored in the next section.

2.1.5.3 Institutional arrangements and individual responses

Cognition, emotions and values have a double impact on the balancing of exploration and exploitation. First, they affect the perception and evaluation of the required degrees of exploration and exploitation, and thus the choice of different institutional arrangements for exploration and exploitation, for example for structural or temporal separation, cross-linking teams, etc. (Arrow 7 in Figure 3). Second, the cognitive or emotional responses among executives, managers and staff, both in the exploratory initiatives as well as in the more exploitative core, to these institutional arrangements will affect the effectiveness through which the companies exploits and explores (Arrow 8 in Figure 3, Huy 2002). Both influences will hold differently for different groups in the company, depending on their respective roles in the strategy process (Floyd & Lane 2000).

Under structural separation, cognition and emotions play a key role when top management executives need to balance and integrate the two modes (Gilbert 2006, Gupta et al. 2006, Huy 2002), i.e. by managing both exploitative and exploratory initiatives as well as their interactions. Examples include the need for top management to switch between “threat” and “opportunity” perceptions (Gilbert 2005, 2006), or between forward- and backward-looking modes (Smith & Tushman 2005) when dealing with paradoxical and conflicting strategic demands in initiatives that follow these logics. While these conflicting logics can be separated in the different initiatives, reducing cognitive and emotional tensions on lower levels, executives will need to switch between these initiatives or adopt (challenging) paradoxical perspectives – with

cognitive complexity and paradoxical cognition as success factors for dealing with paradox and contradictions over time (Gilbert 2005, Smith & Lewis 2011: 389).

But cognitive, emotional and cultural tensions are also continuously present on lower levels in the organisation – among middle managers or even operational staff members that are exposed to conflicting or paradoxical demands resulting for the operation and refinement of the existing system, competency deployment aimed at efficiency, while either actively contributing to exploration or acknowledging that exploration exists in other areas of the company, and might over time undermine the status quo (Floyd & Lane 2000, Gupta et al. 2006). In particular, when exploration relates to core processes or relies on core resources and knowledge (Taylor & Helfat 2009), managers at the intersection between exploration and exploitation, on both sides, need to accommodate and creatively use conflicting, paradoxical logics (Lewis 2000).

These tensions are also present when individuals are required to directly engage in exploration and exploitation, for example, when individuals integrate knowledge better than teams (Taylor & Greve 2006) or when individuals hold key expert positions and knowledge, even though this simultaneous engagement may be difficult (Gupta et al. 2006). First, accepting, and second, creatively accommodating such cognitive tensions without suppressing and thereby exacerbating them is a challenging task for managers, but may be important for long-term performance of companies (Smith & Lewis 2011). The difficulty of such integrative views is illustrated, for example, by studies that show how training in efficiency and productivity crowd out the cognitive ability for exploration (Benner & Tushman 2002, 2003, Adler et al. 2009)

2.1.6 Research gaps

As environmental dynamism and complexity rises, the degree to which companies need to increasingly integrate and continuously combine exploration and exploitation rise as well (Brown & Eisenhardt 1997, Davis et al. 2009, Eisenhardt & Martin 2000) – and with that, the cognitive, emotional and value-related demands on executives and middle managers. While there will continue to be a link between organizational arrangements and organizational performance on different levels, individual-level factors could increasingly mitigate this link (see Figure 3)

Previous authors have already asked for multi-level studies and more micro-level inquiry – in the highly related fields of exploration-exploitation balancing (Gupta et al. 2006) and ambidexterity research (Raisch & Birkinshaw 2008, Raisch et al. 2009). In light of the above, this would require two main steps.

First, following research in related areas, i.e. on the productivity paradox (Adler et al. 2009), such a micro-level inquiry could benefit from a stronger transfer of existing micro-level frameworks, i.e. from research on cognition, emotions and values, to strategy process research (DiMaggio 1997, Hutzschenreuter & Kleindienst 2006: 209). Such a transfer should in particular consider the shared and negotiated aspects of these individual-level constructs, i.e. in situated cognition theories (Hutchins 1995, Robbins & Aydede 2008) or work on emotional contagion (Barsade 2002), helping to uncover the interactions between institutional level context and individual-level response (Elsbach et al. 2005).

Second, such an integration would require to embrace issues such as ambiguity and paradox (Eisenhardt 2000, Smith & Lewis 2011) and transfer the related insights and challenges, both methodologically and theoretically (Lewis 2000), that these issues bring about to the field of exploration-exploitation balancing and ambidexterity. While companies regularly avoid ambiguity, through defining clear processes, goals and responsibilities, a certain degree of it might help middle managers to negotiate space for creativity and the development of new, exploratory initiatives (Mahoney & Thelen 2010). And while impulses might exist to suppress paradox or to structurally separate the different, conflicting logics, accepting and embracing them, down to an individual level, might be a more effective strategy, in particular under disruptive or radical change (Lewis 2000, Smith & Lewis 2011).

Such a research agenda would necessarily be dynamic and longitudinal, i.e. seek to cover how processes related to exploration and exploitation play out over time (Pettigrew 1990) – for example by studying how the progress of initiatives from exploration to an acceptance by and integration into the mainstream affects cognition and emotions in these initiatives, or how cognition and emotion change in “failed” exploratory initiatives that are terminated before resulting in a solid business model.

2.2 The Base of the Pyramid (BoP) literature¹⁰

While exploration and exploitation are almost universal features of organisations (Gupta et al, 2006, Raisch et. al 2008), their specific dynamics depend on the market context. This study was implemented in one specific, though widely spread market and strategy context: That of under-exploration of new business models and strategies in low-income markets in development countries (Prahalad 2004), or, if exploration has yielded first, successful models, of neglected exploitation and scaling (Akula 2008, George et al. 2012, Seelos & Mair 2013).

While the challenges related to exploration and exploitation in BoP markets are similar to those in regular markets to some degree, existing theories still need to be adapted and amended, as market conditions, as a key contingency for strategy making and organisational learning, are significantly different from that in middle and upper-class markets, even in developing countries (Webb et al. 2009a). This section thus maps the state of the emerging, middle-range BoP theory dealing with the special characteristics, strategic approaches and learning dynamics in these markets (Weick 1974, George et al. 2012). It first summarises the existing models and theories on business strategies in BoP markets and then the later, more internally focused literature on organisational barriers to successfully engaging at the BoP before closing with the research opportunities that are relevant to this study – that arise by using BoP as a research and theoretical context.

2.2.1 Business strategies in BoP markets

While early publications in the field have postulated that significant business opportunities exist in these markets (Hart 2005, Prahalad 2004), which has widely excited both manager and academics alike (Walsh et al. 2005), they were seldom realised in practice (Akula 2008, Karnani 2007a, b, Olsen & Boxenbaum 2009). The available research agrees that to get a chance for success, businesses should not only re-think their business models (Prahalad 2004), but focus on building local and non-traditional networks to reach out to low-income households (London & Hart 2004, Seelos & Mair 2007, Webb et al. 2009a). This section will map these business models

¹⁰ This section is partly based on the pre-study presented for this dissertation (Herrndorf 2010)

– from the institutional environment on which they depend, over the business model elements up to the partnership recommended to implement them.

2.2.1.1 The institutional environment in BoP markets¹¹

While management researchers have recently focused on high-velocity, technology-driven markets, in particular under the concept of dynamic capabilities (Teece, Pisano & Shuen 1997, Eisenhardt & Martin 2000), the term ‘Base of the Pyramid’ (BoP) refers to the vast markets of poor consumers in developing countries that, for a long time, have not been targeted or reached by mainstream companies (Dawar and Chattopadhyay 2002, Prahalad 2004, Prahalad and Hart 2002).

While some might argue that BoP markets are just “regular” markets (Akula 2008)¹², the difficult market conditions have played a key role to explain why large companies face challenges to enter and successfully operate in these markets – with their townships, favelas and rural hamlets (de Soto 2000). These barriers are not incidental, but a core aspect of BoP markets, as summarised by Ireland (2008):

“Can there be a worse market in which to seek supernormal profits than one that is distant, dispersed, desperately poor, largely illiterate and heterogeneous as well as economically, physically and politically risky?”

BoP markets are thus economically, structurally and culturally different from regular, ‘formal’ markets (de Soto 2000, Webb et al. 2009a, Webb, Tihanyi, Ireland and Sirmon 2009b). While the management literature so far has been mostly silent on

¹¹ A prior version of this section has greatly benefited from joint work with Tobias Lorenz

¹² This position could be summarized by the following quote from Akula (2008): “Why should business among the very poor be different than it is anywhere else? Listen to customers, standardize processes, and don’t be afraid to make a profit.” Vikram Akula, a former employee of a leading consulting company, has built up what was for some time the fastest growing microfinance institution in India, and one of the biggest. While SKS went through a successful IPO and reached over 6.2 million borrowers in 2010, the organisation has later been criticised for its practices towards clients, especially regarding client selection and loan collection, and client numbers have since gone down due to a microcredit crises in the state of Andra Pradesh in part trigger and / or justified by the activities of SKS Microfinance itself (CGAP 2010, Reille 2010, SKS Microfinance 2012). Reasons can be found

poverty issues (Ricart et al. 2004, Bruton 2010)¹³, literature in the fields of development economics and sociology (de Soto 2000, Banerjee & Duflo 2011) can help to understand the institutional environment in low-income markets. While BoP started out from economic definitions, the following, different, perspectives in particular have been applied to explain the peculiarities of these markets.

Economic perspectives: Early literature often refer to the income or spending thresholds, like the “2-dollar-poverty-line” (Prahalad 2004, Karnani 2007a, b, Hammond, Kramer, Katz, Tran & Walker 2007). This coincides with official poverty definitions, e.g. by the World Bank, that applies the 2-dollar-line to define people living in “poverty”, or a 1-dollar-line for those living in “extreme poverty” (Banerjee & Duflo 2007). Besides the absolute level of income, publications also refer to irregular and uncertain income streams, and the need to finance lump sum or unforeseen expenses (Prahalad 2004: 10, Collins, Morduch, Rutherford & Ruthven 2009).

Geographic characterizations: Other definitions focus on geography or infrastructure. The poor are described as “normally scattered in rural areas“ (Sánchez, Ricart & Rodríguez 2006) or, more accurately, as “geographically dispersed (except for the urban poor concentrated into slums)” (Karnani 2007b). Another barrier identified is the lack of infrastructure (UNDP 2008): “physical infrastructure amenities are either inadequate or lacking entirely, while social services are often severely underfunded“ (Fisman & Khanna 2004), posing a challenge for business activities in these environments.

Political and governance approaches are less frequently found. Kirchgeorg & Winn (2006) note the „poor’s lack of voice, of representation“ and point to the corrupt and ineffective systems that prevent the delivery of public services to the poor. As a consequence, “institutional voids” persist in developing countries and make business with the poor a challenging affair (Mair, Martí & Ganly 2007). Governance

¹³ This neglect exists despite the fact that international business research has recently shown a growing interest in “emerging markets” (Hoskisson et al. 2000, Wright et al. 2005, Xu & Meyer 2012), and that in these markets, poverty is a persistent and highly visible challenge. In India, praised for its dynamism and entrepreneurial spirit (Huang and Khanna 2003), four in five people live below 2 USD a day, and one in five persons is undernourished. In China, after years of rapid economic growth that has indeed significantly reduced poverty rates, one in three persons remains below the poverty rate.

approaches also refer to issues like informality and lack of law enforcement – for example, the “large, but hidden, informal economies“ and the corresponding dominance of “social contracts and social institutions“ (London & Hart 2004, Sánchez et al. 2006, Webb et al. 2009a, b).

Socio-cultural characterizations are another important perspective (Hart & London 2004, Sánchez et al. 2006). In his case study on Unilever’s whitening cream offered in developing countries, Karnani (2007a) points to “the vulnerability of the consumers, who are victims of racist and sexist prejudices”, and asserts that “the poor are further disadvantaged by being ill informed, not well educated, and perhaps even illiterate“. With a different focus, Letelier, Flores and Spinoso (2003) point out that the lives of many poor “are not organized around fantasies of consumption“, making it difficult for them to see themselves as consumers, even though they might consider consumption as “modern”.

Market-based approaches: Last, the BoP context be characterized through the presence of market failures and lacking access of low-income producers and consumers to market institutions, both regarding supply chains and customers. Often, local institutions are decoupled from global markets, so that “some existing indigenous market agglomerations in BoP [markets] subsist over time by achieving passive efficiencies and serving local demand.” (Arnould and Mohr 2005). In lieu of business actors, the poor are mainly targeted by NGOs, public agencies or development actors, whose effectiveness is often in doubt (Easterly 2006, Walsh et al. 2005). BoP thus proposes to mobilise the transformative power of marketplace solutions, compared to the “comparatively uneconomic social solutions thus far designed and delivered by governmental and civic agencies” (Sridharan & Viswanathan 2008). Social intermediation takes a similar approach – of bridging between informal and formal markets by establishing crucial market linkages (Kistruck, Beamish, Qureshi & Sutter 2013, McKague & Tinsley 2012). Multinational corporations having access to superior resources and sufficient capital could in this perspective “develop those markets, thus stimulating economic development in poor countries“ (Seelos 2008).

As an additional difficulty, BoP markets are not uniform, but differ widely in terms of customer income, geography, language diversity and level of institutional development, both within and across countries, regions and even households (Hammond et al. 2007, Banerjee & Duflo 2011). Projects that target “low-income”

households might in fact reach customers considered middle-class in many developing countries, and not the “very poor” imagined at the outset (Karnani 2007a). And this heterogeneity exists on all levels – economically, culturally, geographically and on the political and institutional level (Webb et al. 2009a).

2.2.1.2 Bridging institutional distance

Independent of the dimensions used to classify and define ‘the poor’, the result of the special context in BoP markets is a high psychic or institutional distance (Ghemawat 2001) between the company and BoP customers as a target market (Sánchez et al. 2006, Webb et al. 2009a). Large, formal companies, and especially multinationals, usually pay relatively high salaries, have premium-price products targeting middle and upper-class consumers, are located in urban centres well-served by transport and other infrastructure, are close to political elites and decision structures, represent “modern” values of consumerism and commercialization and, last, are central players for commerce and trade and thus at the centre of formal markets and value chains (Fisman & Khanna 2004, Letelier et al. 2003, Prahalad & Hart 2002, Sánchez et al. 2006, Webb et al. 2009a).

The institutional logic at the BoP might conflict with “modern” business principles also on the relational level. Economic issues are entangled with social, political and religious ones, making relationships more conflictive and less transparent from a company perspective focused on formalised, uni-dimensional economic relationships (Rivera-Santos & Rufín 2010). A local manager cited in Sánchez et al. (2006: 25) stressed the need to establish relationships of “friendship and joy“ with sales channels – values that could be difficult to balance with the business practices like standardisation and profit-focus proposed to reach the low-income customers (Akula 2008).

To bridge the institutional distance between formal, upper-class markets and the BoP, companies have been asked to radically rethink their business models (Chesbrough, Ahern, Finn & Guerraz 2006, Dawar & Chattopadhyay 2002, Prahalad 2004, Zott et al. 2010). Companies need to adapt their products for BoP customers to meet demands like “Availability”, “Affordability”, “Awareness” and “Acceptability” (Anderson & Billou 2007, Prahalad 2004: 18), or to assure their functioning in adverse geographic and climatic conditions (Prahalad & Hart 2002, Prahalad 2004, Smith & Bloemink 2007).

Early business models have in particular focused on the sales of products through “sachet” packaging, selling small packages at low prices (Karnani 2007a, Prahalad 2004, Singh, Ang, & Sy-Changco 2009) and through the innovative delivery of services. Later models have focused on customers as ‘co-creators’ of value and the need to strategically develop markets at the BoP. These business model characteristics concern the need to create (disposable) income for the different target groups at the BoP, for example by offering income-generating products and services (Prahalad 2004, Seelos & Mair 2007) or through pre-financing of products, like solar lanterns, through microfinance models (Armendáriz 2010). Responding to the cultural gaps between BoP and mainstream consumers, models also stress need to attune business models to the prevailing cultural conditions in BoP markets (Letelier et al. 2003).

BoP business models also need to reflect the prevailing heterogeneity in BoP markets. While microcredit is generally successful and probably the most widely spread and discussed “BoP product”, in fact, different organisations offer microcredit in substantially different ways in different locations, responding to customer needs and insights gathered over time (Armendáriz 2010, Khavul 2010)¹⁴. A similar diversity exists in other sectors, for example in energy between grid or off-grid electrification, different energy sources like solar, wind, hydropower or biomass, or between different distribution mechanisms like rental models, solar kiosks, etc.

2.2.1.3 BoP and internationalisation paths

Both the general institutional distance as well as the diversity of BoP markets create a similar effect as the “liability of foreignness” that businesses have to overcome when entering new countries, and especially emerging economies (Ghemawat 2001, Zaheer 1995). But the management and international business and emerging market literature (Wright, Filatotchev, Hoskisson & Peng 2005) has mostly been silent on the widely spread phenomenon of poverty in developing countries (Margolis & Walsh 2003, Ricart et al. 2004, Bruton 2010), even though businesses face different challenges in normal and BoP markets within these countries (Webb et al. 2009a).

¹⁴ As one key example, the “joint liability group lending” often associated with microcredit has by now mostly been replaced by “joint liability group lending”, even by the Grameen Bank that had originally pioneered it and was strongly associated with the concept (Khavul 2010: 62).

When companies enter developing countries, they often first focus on the emerging middle and upper classes in the formal part in these economies (Dawar & Chattopadhyay 2002, Schuster & Holtbrügge 2011). But while formal markets in developing countries are already different from developed countries, the informal economy – with its townships, favelas and rural hamlets (de Soto 2000) – is even further away from what global companies have experienced in their home markets (de Soto 2000, UNDP 2008, Webb et al. 2009a). This approach of entering similar markets first through step-wise commitments – formal market segments first, informal, poor market segments second (if at all) as depicted by the continuous lines in Figure 4 – is consistent with established patterns of internationalization based on incremental learning (Johanson & Vahlne 1977).

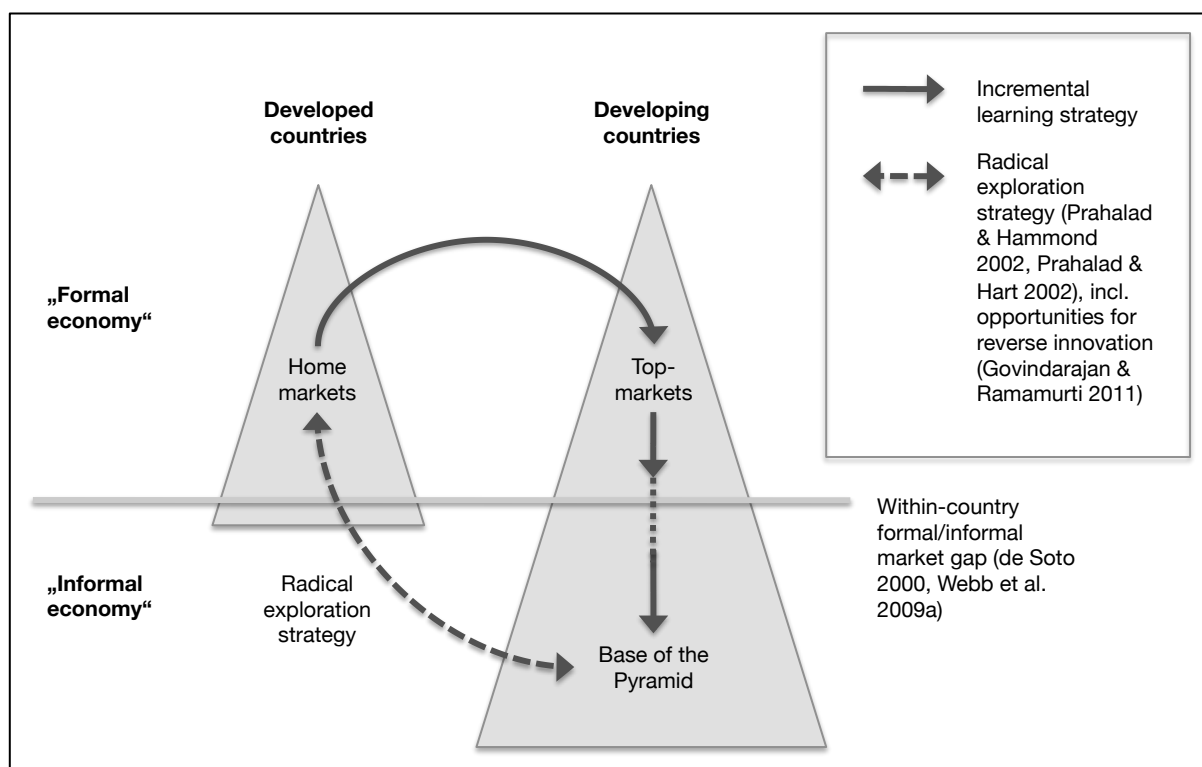


Figure 4: Incremental learning and radical exploration strategies

Still, the mainstream of early BoP authors (Prahalad & Hammond 2002, Prahalad & Hart 2002) has advocated for innovation strategies that target “Base of the Pyramid” customers directly, even advocating for greenfield market entry to avoid being trapped by established processes and resources developed by subsidiaries to target middle and upper class clients (London & Hart 2004). This implies more radical exploration and the utilisation of company resources across very different market domains, as shown

by the dashed lines in Figure 4. The promise is an opportunity to capitalise on learning in different contexts (Ruigrok & Wagner 2003) – here, the context of (extreme) poverty. Successful models from BoP markets can then potentially be transferred to rich markets, a strategy labelled “reverse innovation” (Govindarajan & Ramamurti 2011).

2.2.1.4 BoP partnerships

The available research agrees that to increase their chances for success, businesses should build strongly on partnerships (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007, Webb et al. 2009a), which are expected to differ significantly from partnerships in developed countries due to the different nature of the underlying institutional environment (Rivera-Santos & Rufín 2010).

This involves “forging a multitude of local partnerships“ to reach out to low-income households (Seelos & Mair 2007). These partners will not be found among their establish range of business partners, leading to the quest to “develop relationships with non-traditional partners” to co-invent custom solutions and build local capacity, and focus on “fringe stakeholders” currently not linked to the company (London & Hart 2004, Hart & Sharma 2004). These relationships can help companies along an “entrepreneurial” process of entering low-income markets: For being alert to opportunities, and for recognising and exploiting them (Webb et al. 2009a: 3). Some of the more successful models in reaching the BoP have been based on such non-traditional partnerships, like that of Telenor and Grameen (Seelos & Mair 2007).

A first way of understanding partnerships is by looking at the *learning requirements* in BoP markets. Partnerships shall help companies to get to know customers, market conditions and competitors (London & Hart 2004). So-called “fringe” stakeholders that sometimes have long-standing experiences in BoP markets can help to discover perspectives and insights not directly derived from the company’s existing knowledge stock (Hart & Sharma 2004). Inflows from partners in BoP markets are likely to provide information on “new technological developments, unexpected problems, and changing market conditions and customer demands“ (Mom, Frans, van den Bosch & Volberda 2007: 915) in these markets – types of knowledge that are linked to strong exploration. This type of learning is required for finding out where opportunities exist, and to create building business models appropriate for these opportunities (Webb et al. 2009a).

A second perspective would be to consider access to different *resources* to build profitable, inclusive business models that companies routinely lack (Seelos & Mair 2007). This calls for drawing on partner's resources developed in and for these contexts:

„existing capabilities and existing local BOP models can be leveraged to build new markets that include the poor and generate sufficient financial returns for companies to justify investments.“ (Seelos & Mair 2007: 49)

While learning is important for building successful BoP models, resources are important for implementing these – i.e. for exploiting new opportunities (Webb et al. 2009a). This approach of complementing company with partner resources can be seen in different areas – regarding financial, human, technical, and network resources.

For *financial resources*, the early BoP literature has assumed that MNCs will bring significant financial resources as investments to BoP markets (Prahalad & Hart 2002: 12). But as the difficult learning processes at the BoP might often not match corporate profit requirements, there often is a need “soft funding” – either internal cross-subsidies by lowered profit-expectations (London & Hart 2004, Olsen & Boxenbaum 2009) or through external non-commercial grants or subsidies. Still, MNCs have difficulties to access such soft funding, or “patient capital” (Friedman 2007), which is normally targeted at NGOs or social enterprises. As partners to private companies, such partners can access funds from official donor organisations or impact-investors that are prohibited from making grants to purely private-sector organisations (Reficco & Márquez 2009).

The need for soft funding is consistent with the insight that exploration is financially less attractive as compared to exploitation at least in the short term (March 1991: 85). While the exploitation-exploration literature stresses the need to protect exploration from standard business requirements, e.g. through structural separation (Gilbert 2005, London & Hart 2004), bringing in additional partner resources can help to overcome such lower returns.

Regarding *human resources*, partners can bring in people with diverse backgrounds and skills that have special expertise on operating in low-income markets that can be sparse in a corporate setting. Handling the different nature of networks at the BoP – with their highly politically charged relations and the entangled web of social and economic relations (Rivera-Santos & Rufín 2010) – requires special skill-sets. Staff

members of established companies might perceive working in poor or rural contexts as stigmatising and inadequate for their degree of education and career level, an obstacle that can be enforced by local group pressure and societal expectations (Yunus 2003). Staffing projects can thus require working with local partners that employ experts accustomed to poor environments and communities.

Third, companies need special *technical resources* for accessing the BoP. While they normally have relatively wide access to both basic and advanced technologies, more specific and localised technical resources for accessing BoP markets are often lacking – for example, for adapting technologies to local language and sign systems or other cultural norms. Partners can help companies to acquire these technical resources.

Regarding *social or network resources*, partners can often reach out to large numbers of customers, another requirement for exploiting opportunities found at the BoP (Webb et al. 2009a). Networks structures and relationships are different in BoP markets than in the formal economy (Peredo 2003, Peredo & Chrisman 2006, Rivera-Santos & Rufín 2010). Partnerships can help companies to deal with the different network structures in the “small towns” of the informal economy (Rivera-Santos & Rufín 2010) and provide companies with legitimacy in contexts where they might otherwise be viewed as suspicious “outsiders”, partly also due to their formal economy status.

2.2.1.5 Performance of BoP business models

As empirical evidence that BoP projects by companies can work, Prahalad (2004) and others (Sánchez et al. 2006, WBCSD 2004, UNDP 2008) have provided an array of cases that illustrate the basic principles and ideas behind BoP markets – even if these include already known innovations like microfinance or social entrepreneurship (Walsh et al. 2005) or have been criticised as not being entirely profit driven entities, or failing to reach the very poor (Karnani 2007a, b).

Still, the impact of BoP business strategies is contested, both regarding the impact on the competitive advantage of businesses, as the dominating interest of the strategy literature, and the often over-looked social impact (Walsh et al. 2003).

Regarding the impact on competitive advantage of companies, early research has claimed that BoP business models can yield profits equal or superior of that in normal

markets – the title-giving “Fortune at the Bottom of the Pyramid” in Prahalad (2004), or the “Unlimited Business Opportunities” of Hart (2005)¹⁵. Economies of scale, disruptive price-performance improvements and the lower level of competition in BoP markets have been causes of this optimism (Prahalad 2004). Still, there is little hard evidence on the profitability of BoP cases, and earlier evidence brought forward to prove the financial viability of BoP business was later found to be inadequate, as it mostly featured non-profit cases, or businesses not really oriented on the poor (Karnani 2007a). And as many BoP business models require up-front investments, have a steep learning curve and are implemented in difficult environments, they are usually less profitable than comparable projects in the company, at least initially (London & Hart 2004). Later research was thus more careful with regards to direct financial gains, but included more intangible benefits like the promise for learning from “fringe stakeholders” (Hart & Sharma 2004) and the ability to transfer these insights back to regular markets, the so-called “reverse innovation” (Govindarajan and Ramamurti 2011).

On the other hand, BoP research has questioned the impact of BoP business activities on poor people (Walsh et al. 2005). One impact includes the creation and strengthening of local incomes, through providing income-generating products and services (Seelos & Mair 2007, Polak 2008) or the inclusion of the poor as distribution agents (Prahalad 2004). Others see a broader potential contribution – including a general improvement of the living situation and a feeling of “empowerment” by being included in value chains and more formal structures (UNDP 2008). These positive impacts have later been challenged by BoP critiques, with Karnani (2007a, b, 2009) questioning both the value of specific product offerings, like that of Unilever’s whitening cream “Fair and Lovely” as well as the value of targeting poor people as “customers” (proposing to include them in supply chains as an alternative).

¹⁵ Later editions of Hart (2005) have featured toned-down subtitles, including “Aligning Business, Earth, and Humanity” (Hart 2007) and “Next Generation Business Strategies for a Post-Crisis World” (Hart 2010)

2.2.2 Organisational barriers to engaging in BoP markets

Both financial and social impacts depend on the specific business models implemented, and the process set up for establishing them. Some recent BoP publications have thus increasingly taken a “process” perspective (Pettigrew 1992) on BoP business exploration, to analyse entrepreneurship processes for entering low-income markets (Webb et al. 2009a), the use of “bricolage” by corporate intrapreneurs (Halme et al. 2012), or of incremental learning for gradually expanding activities across countries (Schuster & Holtbrügge 2011).

2.2.2.1 An ‘organisational turn’ in BoP theory?

The term “organisational barriers” seeks to capture barriers towards an effective engagement at the BoP that reside mainly *within* the company, and not in the (doubtlessly difficult) characteristics of the market described above, and the research attention has recently turned towards these internal factors that restrict the ability of organisations to develop and implement BoP business models (George et al. 2012, as exemplified by the quotes in Table 2).

Framing	Quote	Source
“Business model innovation”	“the fundamental challenge may be one of business model innovation – breaking free of the established mind-sets, systems, and metrics that constrain the imagination of incumbent firms.”	Hart & London 2005
“Internal organization barriers”	„Although external factors are most certainly important, they donot account for the <i>internal organizational barriers</i> that, regardless of the externalconditions, may affect the implementationof BOP in organizational practices.“	Olsen & Boxenbaum 2009: 101
“Internal drives and constraints”	“Internal drivers and constraints include issues related to the inability of small firms to scale and large firms to sustain a focus on low margin markets that require attention and resources over a long period of time before significant financial returns can be realized“	George et al. 2012: 679
“Obstacles (...) in the organizations”	“we propose that the growth of inclusive business out of multinational corporations (MNCs) is effectively hampered by obstacles that reside in the organizations themselves”	Halme et al. 2012: 744

Table 2: Studies stressing the relevance of organisational barriers to BoP business (Source: Own compilation)

These organisational barriers can seriously stifle BoP projects. Reliance on established project evaluation criteria, business metrics and incentive systems can prevent managers from dedicating the resources to projects in low-income markets that would be required to make them a success (London & Hart 2004: 358, Olsen and Boxenbaum 2009: 113). “Internal resistance”, especially in subsidiaries, might lead companies to rely on traditional technology and sales channels that do not effectively respond to the conditions in low-income markets and, as a consequence, might fail (London and Hart 2004).

2.2.2.2 Organisational learning in BoP markets

These barriers are similar to those described in the exploration-exploitation literature (March 1991, Raisch et al. 2009): BoP activities are initially highly explorative, as they involve learning about new activity areas, rather than about existing ones (Gupta et al. 2006), and target a new “product-market domain” (Burgelman 2002, He & Wong 2004: 483), i.e. the poor that have been outside of the scope of business activity (Hart & Sharma 2004). While complementary assets (Taylor & Helfat 2009) required to reach clients might exist in the companies as proposed by the early literature (Prahalad & Hart 2002), organisational barriers can make it difficult to access these resources and mobilise them for exploratory initiatives (Hart & Dowell 2011). As in other cases of incumbent failure, core capabilities have become core rigidities (Leonard-Barton 1992).

Still, success in low-income market requires not only exploring new, but also scaling existing models – to reach broad social impact as well as financial sustainability, as BoP models routinely rely on low margins but high volumes, and thus require economies of scale (Prahalad 2004, Seelos & Mair 2013). While the scaling of models and “impact” can also happen through replication of the model by other companies (Bradach 2010), from an organizational perspective, scaling and exploitation are highly related. And indeed, for the roll out and implementation of business models that target low-income clients, studies have stressed standardization of products, efficiency in processes etc. (Akula 2008, Kistruck, Webb, Sutter & Ireland 2011, Seelos & Mair 2013) in a way that strongly resembles existing characterizations of exploitation and exploitative learning (March 1991, Gupta et al. 2006, Adler et al. 2009).

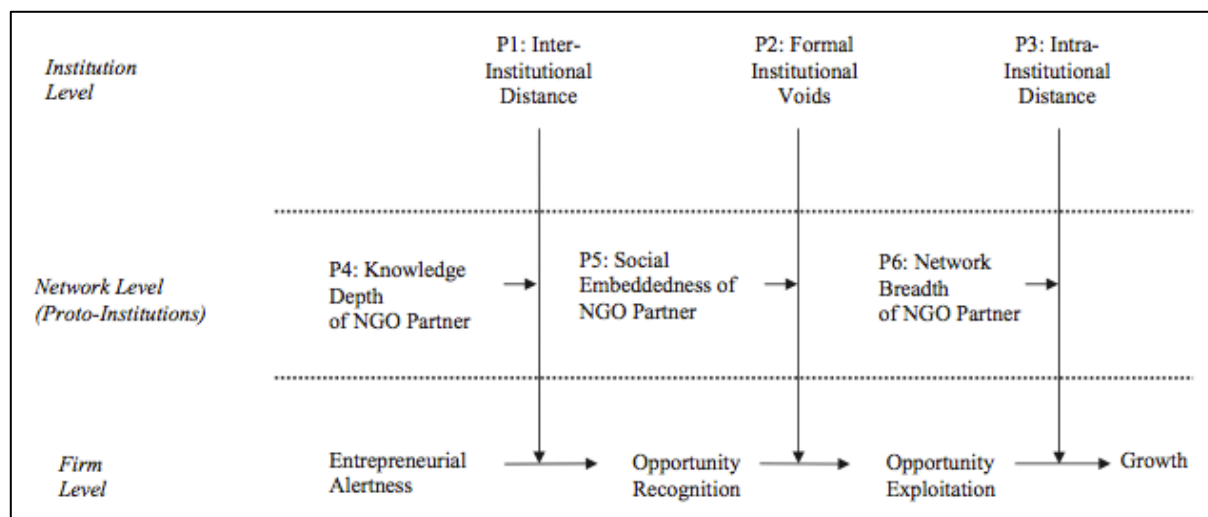


Figure 5: Entrepreneurship process in Base of the Pyramid markets (Source: Webb et al. 2009: 3).

The result of these barriers has been summarized as the “paradox of size and scale” (George et al. 2012: 678): While small, mission-driven companies (Russo 2011) may have the motivation to develop models for BoP markets, they lack the appropriate resources to reach scale. Large, resourceful organisations, in contrast, often lack the motivation to engage in BoP markets, as these compete with other, more promising business opportunities and more pressing business issues (George et al. 2012, Olsen & Boxenbaum 2009). Companies are “locked-in” to certain customer groups, here those with higher incomes in the formal economy (Dawar & Chattopadhyay 2002, Webb et al. 2009a).

To successfully operate at the Base of the Pyramid – across different countries, market segments and product categories – business need the „ability to integrate, build, and reconfigure internal and external competences” (Teece et al. 1997) to “identify, develop, and profit from opportunities at the BoP” (Hart & Dowell 2011) and systematically develop business models for low-income markets in developing countries.

2.2.2.3 Learning models at the BoP

Different proposals exist on how to develop such “BoP capabilities” (Hart & Dowell 2011) under existing institutional setups in multinational companies. “Structural separation” is one potential solution (Gilbert 2005, 2006) that has also been explored at the BoP. A radical option for structurally separating BoP activities from the

mainstream company is to set up Greenfield operations (London & Hart 2004). A more moderate version features separate BoP teams that explore markets in depth, and different protocols and toolkits have been proposed to support teams on such exploratory projects (WBCSD 2004, Simanis & Hart 2008, UNDP 2008). On a less formal level, the concept of “bricolage” (Halme et al. 2012) describes bottom-up, autonomous initiatives to develop BoP initiatives in large companies in a way that is decoupled from the company’s mainstream not through deliberate strategic intent, but through independent, “guerrilla-style” activities.

A second balancing proposal is “temporal separation”, where businesses engage in exploration and exploitation at different phases (Burgelman 2002, Tushman & O’Reilly 1996). Temporal separation can be seen in the BoP “entrepreneurship process” by Webb et al. (2009a), where business engage in exploration and exploitation in different, well-defined phases. Temporal separation is also an implicit assumption in immersion and innovation processes to develop new model that can be scaled afterwards (Simanis & Hart 2008).

While both structural and temporal separation reduce the initial dependence of the BoP team on core business processes and structures, it creates the need to “link back” to these when initiatives require additional resources (Jansen et al. 2009, Taylor & Helfat 2009).

2.2.2.4 Cognition, emotion and culture in BoP organisational learning

On the individual level, managers in established businesses have been found to lack knowledge about “customers’ needs, habits and attitudes, the informal institutional context, etc.” (Sánchez et al. 2006: 30). Even managers originating from and educated in developing countries might often be “rigidly conditioned to operate in higher-margin markets” and thus lack the motivation to dedicate attention to low-income customers, and lack the skills required to build business strategies that reach them (Prahalad & Hammond 2002: 9, London & Hart 2004).

These managers are likely to perceive projects targeting low-income consumers in a “trade-off” view that plays out social against financial motives, and leaves few opportunities for innovation (Olsen & Boxenbaum 2009: 109). Managers in charge of BoP initiatives need to respond to such internal organisational challenges – often through unconventional processes as bricolage, i.e. the step-wise assembly and implementation of projects at the border of official mandates (Halme et al. 2012).

2.2.3 Research opportunities at the BoP?

The Base of the Pyramid is still a relatively young field of research (Ricart et al. 2004, Bruton 2010, George et al. 2012), and even fewer studies address the internal, organisational barriers and learning processes in nascent markets in developing countries (George et al. 2012: 679), even though these have emerged as crucial in previous studies (London & Hart 2004, Olsen & Boxenbaum 2009). These studies often draw on case studies from very different contexts, e.g. in different industries (Seelos & Mair 2007), geographic contexts (Halme et al. 2012) or in studies mixing profits and non-profits (London & Hart 2004, Prahalad 2004). Solid conclusions on the relations between variables and the underlying mechanisms are thus difficult.

There is thus a need for studies that inquire into the internal mechanisms of BoP innovation and growth (George et al. 2012), in particular, how businesses develop business models that go beyond the stage of experiments and pilots, and realise the full potential and scale behind the BoP proposition. While studying embedded cases (Yin 2003) would be an interesting research designs to explain such a progression, few of these have been implemented as few companies have developed successful BoP portfolios (Karnani 2007a).

This dissertation seeks to better understand these organisational learning processes, and in particular their micro-level mechanisms, through conducting research on the BoP phenomenon and by drawing on the emerging, (middle range) BoP theory, to contribute to existing organisational learning theories – by building generically applicable models and framework based on the specific context of nascent markets in low-income countries in developing countries.

3 METHODOLOGY

The methodology was designed to consider a variety of factors – the status of the strategy process and exploitation-exploration literature, its applicability and explanatory value in the context of nascent markets in low-income countries, and the status quo of companies trying to reach poor customers, a field with a limited number of comparable cases (Karnani 2007a), a fit with the research question, and, last but not least, the resources and preferences of the researcher (Barley 1990). As a result, a qualitative case study design was chosen – with interviews and participatory observation, implemented at two focal companies, in four locations. This section describes the research design, the data collection, and the data analysis and theory building.

3.1 Research design

3.1.1 Ontological and epistemological foundations

Choosing a research method as well as the criteria for evaluating research reflects underlying assumptions (or choices) about the nature of organisations, and of organisational learning and strategy research as such. Different schools of management research approach organisations with different concepts of ‘reality’, and how we can gather this knowledge – the “ontological” and “epistemological” foundations of research (Guba & Lincoln 1994: 108). (Post-)positivist, interpretative and critical theory research have different assumptions about the underlying reality, goals and methods (Guba & Lincoln 1994, Gephart 2004). Can an “objective reality” be assumed, and tackled with positivist, truth-seeking methods that discover relationship between variables that capture aspects of this reality, with a preference for quantitative methods? Or is reality, in a more postpositive perspective, only partly and imperfectly comprehensible? Or do we, in the constructivist paradigm, deal with “local intersubjective realities” that can only properly be grasped by interpretative methods seeking to understand motivations and meanings attached to a situation through participation and immersion, almost as practiced by anthropologists (Buckley & Chapman 1996, Gephart 2004: 456, Guba & Lincoln 1994, Langley 1999)?

Often, these notions are not easy to reconcile. Still, some scholars assume that a ‘middle way’ of rigorous, qualitative inquiry to gather insights into the mechanisms behind organisational processes is possible (Buckley & Chapman 1996, Gibbert, Ruigrok & Wick 2008). Taking the phenomenon of exploration and exploitation, the ontological nature is neither apparent nor fixed – it rather depends on the definition of the specific research interest. For example, the different degrees of exploration and exploitation and the resulting performance effects under different market contexts are observable, and have been covered by quantitative, positivist studies (Groysberg & Lee 2009, He & Wong 2004, Hoang & Rothaermel 2010). But detecting the underlying mechanisms, for example how managers perceive and interpret threats or opportunities (Gilbert 2005, 2006), or the tension between creativity and business goals (Andriopoulos & Lewis 2009), is of a more subjective nature, and would call for post-positivist or interpretative research approaches (Guba & Lincoln 1994).

One approach that seeks to reconcile these apparent difference is that of “critical realism” – an approach that has both been previously applied to questions of institutional entrepreneurship and embedded agency (Leca & Naccache 2006) and, even more specifically, to the case of inclusive business (Seelos & Mair 2010). Critical realism assumes that structures and institutions have “trans-factual (...) causal powers” (Leca & Naccache 2006: 631), following positivist notions about an objective social reality that exists beyond specific acts of interaction and interpretation, but that the realisation of these causal powers depends on specific contexts, which resonates more with constructivist or post-positivists notions focus on the analysis and understanding of specific discourses and sensemaking processes.

While the exploration-exploitation literature in general has emerged from and followed a positivist orientation, and both dominate the management field in general (Gephart 2004, Guba & Lincoln 1994), the study was conducted mostly in a critical realism or post-positivist perspective (Leca & Naccache 2006, Seelos & Mair 2010), and seeks to comply with positivist criteria of validity and reliability, in their respective adaptations to qualitative research (Gibbert et al. 2009), while at the same time being attentive and attuned to the importance of context and the understanding of individual, observable discrete acts.

3.1.2 Research methods

This dissertation has used qualitative methods to gather data that yields rich, contextual stories and an in-depth understanding of the context, events and relationships on the ground (Dyer & Wilkins 1991, Gephart 2004: 455, Heugens & Mol 2005, Weick 2007) – which is important to develop theoretical explanations that are trans-situational (Eisenhardt 1989, Flyvbjerg 2006, Weick 1989) as well as an understanding for the specific contexts under which they are activated (Leca & Naccache 2006). This choice is supported by the nature of questions asked, being less concerned with “what” or “how many”, but the “how” and “why” of managerial activities (Yin 2003).

Additionally, research on business and poverty presents a low-paradigm field that is still at an early stage (Bruton 2010, George et al. 2012, Ricart et al. 2004), thus requiring continued exploration and interpretation, to be accomplished mainly through qualitative research approaches and inductive approaches to building theory (Edmondson & McManus 2007). Most publications on business and poverty conducted in the BoP-paradigm reflect this state of the field, and are qualitative in nature (Bruton 2010, London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007).

The research was conducted as an embedded case study design (Yin 2003) in two multinational companies at both headquarter and subsidiary level – for several reasons. The multinational company context was used as a research setting marked by heterogeneity and complexity, partly to explain this specific complexity, but in general to generate the rich material to develop new theory and models of a phenomenon of general interest (Roth & Kostova 2003). Second, processes are always embedded in specific contexts (Pettigrew 1992), and while institutions and structures may have their own rationality, the specific effects such institutional logics may only appear in a specific context (Leca & Naccache 2006: 631). While theoretic insights from case studies should be ‘generalizable’ (Gibbert et al. 2004: 1468), this requires building valid theory based on contextualised knowledge in the first place (Flyvbjerg 2006, Weick 2007). So using embedded cases to get an in-depth view on processes in different contexts, geographical and cultural, is a prerequisite for building solid models that could hold across contexts (Flyvbjerg 2006, Pettigrew, Woodman & Cameron 2001: 698). While researchers have found it difficult to set up sound multi-country survey inquiries (Yang, Wang & Chenting 2006), working with a multinational company allowed leveraging existing networks at the headquarters for getting multi-

country access and conduct a series of embedded case studies. Last, business strategies for low-income markets are implemented in developing countries, and studying how multinational companies approach these is greatly facilitated by an understanding of the local perspective (Bruton 2010).

The research also takes a longitudinal perspective on the change processes in the company to consider timing and pacing of activities (Langley 1999, Pettigrew et al. 2001: 699, see *Paper I and III*). One challenge in data gathering and analysis was capturing the different time spans in the processes observed (Langley 1999). On the one hand, the initiatives developed over several years (see the overview tables in *Paper I*, for example), an aspect that was mostly covered through backward-looking interviews¹⁶. On the other hand, observation (two months per location, eight months in total) was required to understand the specific processes and events in which managers established and adapt the initiatives. In particular the participatory observation, involving internal strategy meetings, phone conferences etc., was important to build trustful relations and uncover hidden agendas by directly observing events, emotions and interpretations¹⁷.

3.1.3 Selecting the case setting

To assure that the data gathered at the case companies allowed making the intended generalisations, the cases were selected based on a theoretic sampling logic that allowed to observe how causal relationship and mechanisms realise in different, but still comparable contexts (Leca & Naccache 2006), while being open to opportunities for building access and trust with relevant organisations (Barley 1990, Pauwels & Matthyssens 2004, Yin 2003).

¹⁶ From an epistemological perspective, backward looking interviews do not capture events, but participants remaining memory of their past perception of these events. They are thus a “second-best” solution and command careful triangulation and analysis of data.

¹⁷ For example, the relationships of the respective BoP managers and executives in the companies was more conflictive than regularly admitted in public statements, including interaction with other doctoral students and management researchers observed during the observatory stays. Middle managers also overstated the degree of support and contribution of top managers to BoP strategies, and openly acknowledge this in interviews and discussions.

A focus on business projects targeting low-income groups was set due the special and challenging market environment, for example the diversity and dynamic of partnerships and institutional field that can be observed in these settings (London & Hart 2004). While the causal relationships and mechanisms observed exist beyond the narrow field of business and poverty, and independent of the respective literature, they are nevertheless expected to be particularly activated and visible in this specific context, allowing to progress from the specific, and contextually dependent reality towards more abstract frameworks (Seelos & Mair 2010).

Within the field of business and poverty, the insurance sector was selected due to the relatively far progressed initiatives to reach low-income customers, and the special partnership patterns observable (Churchill 2006a, Roth, McCord & Liber 2007, see the chapter on ‘The Research Setting’). Both companies selected within the sector have significant experience in targeting low-income customers and have built up broad and diverse partnership networks, creating an interesting context to observe different patterns of interaction.

The study was conducted at the headquarters- and subsidiary-level, responding to the call for multi-level studies on exploration-exploitation (Raisch et al. 2008)¹⁸. It also covered organisations placed in different countries, with four countries as primary sites for investigation and a wide range of others covered indirectly, and thus expands the field of international business research by an intercultural, cross-country study, an approach under-represented so far (Yang et al. 2006)¹⁹.

3.1.4 Entering the field

Getting access to the research sites was a long, partly opportunistic process (Barley 1990). With one company, a relationship was built up over the course of a year, through joint seminars, casual conference interactions and a smaller consulting project. By building up sector knowledge and a track record of reliable interactions, the ground was prepared for negotiating deep access to the company. Based on a recommendation by the BoP manager at this first company, discussions were started

¹⁸ A timetable is provided in Appendix 1 and 2.

¹⁹ The headquarters are located in German-speaking, European countries, and the subsidiaries in emerging economies in Latin America and Africa.

with the BoP headquarters team at the second company. The access to the subsidiaries was negotiated through the headquarter teams in both companies. While the contact to the subsidiary was rather loose in the first subsidiary, also due to language issues, in the second company, the headquarter team had established project collaborations with the subsidiary selected for a stay.

The quality of the research access differed across the research settings in the different sites, and there were occasions where political and business considerations made access difficult, especially to partner organisations²⁰. This research process sometimes involved a “hustle” for data (Venkatesh 2008), involving longer periods of building trust and networks to get access to the required information, or to relevant meetings and discussions (Barley 1990).

Plan:	12	01	02	03	04	05	06	07	08	09	10	11	12	1	...
Prep	Pre														
Data			HQ1	Sub1				HQ2	Sub2			W			
Analysis						A1					A2			A3	
Write															
Implement- ation:															
Prep	Pre														
Data			HQ1	Sub1	HQ2					Sub2					
Analysis									A1					A2	
Write															

Table 3: Preliminary schedule overview (Pre = Preparation, HQ = Headquarter, Sub = Subsidiary, A = Analysis, W = Headquarter / Subsidiary Workshop).

As deviations from the schedule foreseen (see Table 3), a stay at the second subsidiary was included in the headquarter stay at the second company, to take the opportunity to

²⁰ For example, a sudden and, for the company, unexpected re-negotiation for a major account in a subsidiary of *Company A* prevented getting direct access. The research site could be revisited a year later, and direct access to the distribution partner was established, which allowed getting an in-depth view on operations and processes, as well as an unbiased perspective on how *Company A* was perceived as a business partner in the subsidiary.

accompany a headquarter team conducting a BoP project in the subsidiary to the final project evaluation. In addition, the first, intermediary analysis phase was moved into the summer break, coinciding with the absence of key decision makers in the second company due to summer vacations, and allowing the participation in academic events that provided the opportunity for discussion and higher-level reflection on the research progress and the opportunity for data analysis and theory-building²¹.

3.2 Data collection

The data gathering used multiple sources of evidence (Yin 2003: 97): Direct observation of the strategy formulation and implementation, informal observation and interaction, interviews and document analysis. These sources were combined to triangulate and crosscheck, but also to shed light on different aspects of the phenomena of interest (Yin 2003, Gibbert et al. 2008).

Observations and field notes: The primary researcher participated in a wide range of activities at the four research sites, mostly in activities in which the respective key informants were involved. This included internal – departmental meetings, strategy meetings of the BoP teams, reporting meetings with higher-level and coordination meetings with mainline staff, interactions with subsidiary managers, negotiation and coordination meetings with partners and conference visits. Travel and waiting times were used for informal interaction, getting an unfiltered and rounded perspective on the events at the case companies.

Field notes were collected during the observation phase to capture the activities observed. Notes were taken in close timely proximity to the actual experience, mostly in the same evening or during the day. These notes tried capturing the “observed behaviour” as well as the managerial interpretation and sensemaking for later interpretation and analysis. They cover the full set of activities observed, but in different depths to limit the empirical data gathered to a manageable amount (Silverman 2006: 88). More comprehensive notes were taken on activities directly related to microinsurance, especially to the management of external partners. As all observation and note taking brings in the observer as a person (Barley 1990,

²¹ The included the attendance of the AOM Meeting in Montreal (5-10 August 2010) and the oikos UNDP Young Scholars Development Academy, Costa Rica (21 August – 5 September 2010).

Wolfinger 2002), the notes dealt with this issue pro-actively by including reflections on the research progress, the role as an embedded researcher and next steps.

Open interviews: Open (or “long”, McCracken 1988) interviews were conducted with selected managers involved in BoP activities to understand the processes for managing BoP in these companies, including the “status quo” and the past development of the initiative. Trigger questions were used to collect memories of past perceptions, acknowledging that these might not always reflect past perceptions or ‘actual’ importance at that time (Leonard-Barton 1990). They were formulated in a rather open fashion to provide interview partners with an opportunity to provide their account of the story, including implicit statements about priorities and perceptions they might hold. The trigger statements were adjusted for interviews, for example when interviewing partners about their perspective on the company’s strategy.

Structured Interviews: As the most specific instrument, a structured interview guideline served to inquire deeper into the partnerships relevant for BoP initiatives at the company. The questions were partly based on Maurer and Ebers (2006)²² inquiry into the role of social capital in a start-up company, and were designed to capture relevant issues relating to these constructs. The questionnaire and other research instruments relied on relatively broad constructs as derived from different literature streams, and helped to understand relevant issues and variables in the partnerships analysed in a consistent manner (Gibbert et al. 2008), even if the specific list of constructs was reformulated through several rounds of iterations to respond to emerging research issues (Eisenhardt 1989).

The interview partners were selected jointly with the company, and reflect a diversity of perspectives within the company and its network to get a more complete picture. The following interviews were conducted:

²² The questionnaire was used due to the initial research interest in social capital, but proved useful for a holistic data gathering on the partnerships as such, data that was later used to elaborate the impact on the strategy processes around BoP in *Paper III*. The original, full-length questionnaire was obtained directly from the authors.

Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

Organisation	Person	Methods & Scope		
		Open	Closed	Observation
Company A	Head of BoP	General strategy and development of BoP	Partnerships with <i>DevCoop1</i> , <i>Global NGO1</i> , <i>Global-NGO2</i> (three separate interviews)	Intense (total of two months) Meetings with <i>DevCoop1</i> (multiple), <i>Global-NGO1</i> (multiple), <i>Global-NGO2</i> (multiple), <i>MFI3</i> , <i>Global-NGO4</i> , <i>Global-NGO5</i> etc. Participation during conference visits and travels (multiple)
	Head of PR	General strategy and development of BoP	–	Occasionally
	Regional Director	General strategy, relation to core partners (<i>DevCoop1</i> , <i>Global-NGO1</i>)	–	Meeting with Head of BoP
	Department head	–	–	Meeting with Head of BoP (multiple)
Consult1 (external)	BoP consultant	Development of BoP at <i>Company A</i>	–	–
CompanyA, Africa1	CEO Africa1	General strategy in subsidiary	–	Joint office visit
Global-NGO2 (external)	BoP regional director	Overall BoP strategy, including partnerships	Relationship to <i>Company A</i> (including <i>Africa1</i>)	–
<i>MFI2</i> (in <i>Africa1</i>) (external)	Branch Director	Relation to subsidiary <i>Africa1</i>	–	–
Subsidiary <i>LatAm1</i>	Head of marketing	General BoP strategy in subsidiary	–	–
	Head of affinity	General BoP strategy	–	Interaction with BoP manager 1 & 2

	BoP manager 1	General BoP strategy, own accounts (MFI3)	Partnership with MFI3	Interaction with Head of affinity
	BoP manager 2	General BoP strategy, own accounts (Retail1)	Partnership with Retail1	Interaction with Head of affinity Meetings with distribution partner <i>Retail1</i>
<i>MFI3</i> (in <i>LatAm1</i>) (external)	BoP product manager & team	General BoP strategy, relation to subsidiary <i>LatAm1</i>	–	Visit of local branch, interaction of staff with BoP clients
<i>MFI3</i> (in <i>LatAm1</i>) (external)	Intermediary manager	General BoP strategy, relation to subsidiary <i>LatAm1</i>	Partnership between subsidiary <i>LatAm3</i> & <i>MFI3</i>	–
Industry Body (in <i>LatAm1</i>) (external)	BoP expert	General BoP context in <i>LatAm1</i> , strategy of subsidiary <i>LatAm1</i>	–	–
Subsidiary <i>Asia1</i>	Head of regional unit	Role of subsidiary in BoP strategy	–	–
	Internal intern (from home country subsidiary)	Partnership between <i>Company A</i> , <i>Global-NGO1</i> and <i>Local-NGO1</i>	–	–
<i>Global-NGO1</i> , <i>Asia1</i>	Director Asia	Development of BoP partnership with <i>Company A</i>	–	–
<i>Global-NGO1</i> , Europe	Partnership Director	–	–	Observation of meeting with Head of Microinsurance, <i>Company A</i>
<i>Global-NGO1</i> , <i>Asia1</i>	BoP director	Development of BoP portfolio, partnership with <i>Company A</i> (external interviewer)	–	–

Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

	BoP coordinator	Development of BoP portfolio, partnership with <i>Company A</i> (external interviewer)	–	–
<i>Company Z</i>	Head of BoP team	General BoP strategy	Partnership with <i>DevCoop2</i> & <i>DevCoop3</i>	Observation during 2 months, including conference visits
	BoP team member 1	General BoP strategy, Activities in <i>Africa4</i>	Partnership with <i>DevCoop2</i> & <i>DevCoop3</i> , multi-partnership with <i>Africa4</i>	Observation at headquarters during 2 months Observation at subsidiary during 1 week
	BoP team member 2	General BoP strategy, activities in <i>Asia4</i> & <i>LatAm2</i>	–	–
	BoP team member 3	Activities in <i>Mena1</i>	Partnership with <i>Global-NGO3</i> , <i>MFI3</i>	–
	Account manager (responsible for mainstream accounts)	General BoP strategy, partnership with <i>MNC1</i> , <i>MNC2</i>	–	–
<i>Company Z, Africa4</i>	BoP manager	Subsidiary BoP strategy	Partnership with <i>MFI5</i> & <i>Local-NGO2</i>	Observation in meetings with local distribution partners (<i>MFI5</i> , <i>Local-NGO2</i> , <i>Bank1</i>) and others (<i>ReInsure1</i>)
<i>Local-NGO2</i>	Head	Partnership with <i>Company Z</i>	–	Observation in meetings with <i>Company Z</i>
<i>Bank1</i>	CEO	General BoP strategy	Partnership with <i>Company Z</i>	Observation in Meetings with <i>Company Z</i>
	Training officer	General BoP strategy	Partnership with <i>Company Z</i>	Observation in trainings of local BoP agents

	Several field officers & agents	–	–	Observation of sales and service in local low-income areas
<i>DevCoop5</i>	Country head	General BoP strategy	Partnership with <i>Company Z</i>	–
<i>Academic1</i>	Group leader	BoP projects	Partnership with <i>Company Z</i>	–
	IT consultant	BoP projects	Partnership with <i>Company Z</i>	–
<i>Retail2</i>	BoP manager	BoP portfolio of <i>Retail2</i> , Negotiations with <i>Company Z</i>	–	–

*Table 4: Interview and observation partners, ordered by organisation and subsidiary*²³

All interviews were recorded and transcribed to have access to the full and unabridged interview material in later stages of the analysis. Most interviews were conducted in person, few over telephone or Skype.

Document analysis: The study included an analysis of the companies' internal documents that were retrieved during the company stay from key informants. During the stay, key emails and other records were stored to get a direct insight into interactions and relationships with partners.

Regarding the research **language**, most of the interactions observed were in German, the researcher's native language, in English, in which the researcher is fluent, or in Spanish (subsidiary of *Company A* in Latin America), of which the researcher has a good working command.

²³ Interview partners from other organisations (distribution partner, regulators, etc.) have been allocated to the central BoP team or the respective subsidiary, according to their main point of interaction

3.3 Data analysis and interpretation

Qualitative data analysis has been described as a difficult endeavour, due to the underlying quantity as well as the complex, messy nature of qualitative data (Langley 1999, Pettigrew 1992). The two key steps have been the definition and the comparison of cases.

3.3.1 Defining cases

To deal with the data gathered and handle the complexity of the company's strategically relevant activities and processes, the data was organised in cases representing "strategic initiatives", each of which served as a "stand-alone entity" (Eisenhardt 1989: 540), even though in reality these cases often had blurry boundaries and interactions (Pettigrew 1990: 272, Langley 1999).

A starting point for defining cases were the perceptions and conceptualisations of managers within the company itself (Gephart 2004: 455), where the BoP activities were often organised in "projects", for the more experimental, or "accounts" or "portfolios" for the more conventional projects. These perceptions partly coincided, partly crossed organisational boundaries and external partnerships relations²⁴. But all cases show a certain persistency over time (ranging from several months to years), and consistency in terms of products offered, partnerships held, issues discussed etc.

Defining cases based on managerial perceptions and interpretations allowed to build relevant theory by starting from real-life challenges of practitioners – which were discussed around particular initiatives (Vermeulen 2005), while also securing the rigor of the theory developed by building constructs based on cases whose boundaries coincide with both structural and cognitive boundaries.

²⁴ For example, *Asial* as a single subsidiary was home to several BoP initiatives treated as distinct cases. One "case" was defined as covering a group of accounts providing a relatively simple BoP product on a commercial basis and through standardised agreements with a variety of distribution partners, and had few headquarters involvement. A second "case" comprised a highly experimental portfolio implemented with a core international partner, and was mainly initiated and run by the headquarters.

3.3.2 Selecting, understanding and comparing cases

For theory building and the development of the individual papers, certain cases were selected for in-case and cross-case analysis (Eisenhardt 1989). This selection (or “sampling”) did not happen according to statistical rules, but through theoretical sampling (Yin 2003, Pauwels & Matthyssens 2004):

„Cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs. (...) cases sampled for theoretical reasons, such as revelation of an unusual phenomenon, replication of findings from other cases, contrary replication, elimination of alternative explanations, and elaboration of the emergent theory.” (Eisenhardt & Graebner 2007)

This logic of theoretical sampling applied both on the overall level – selecting BoP and, more specifically, microinsurance, as a unusual, interesting phenomenon in a company – as well as on the company and initiative level – trying to cover interesting initiatives that can illuminate the underlying relationships and logics. Initiatives were found in different setting and with different characteristics that help to understand and capture the variance in exploratory initiatives design and structure, while maintaining a certain level of consistency that allowed the uncovering relationships and underlying causal mechanisms beyond idiosyncratic, phenomenon-bound explanations.

The case selection differs for the individual papers, according to the type of theory developed. For Paper II, for example, opposing “polar” cases were used to elaborate on the origin of and different processes associated with different types of initiatives – i.e., highly and less exploratory projects (Pettigrew 1990: 275). For *Paper III*, in contrast, cases feature similar set-ups – i.e. they are all highly exploratory, experimental projects – where an in-depth comparison of different cases is used to create rich descriptions of the phenomenon and underlying causal mechanisms (Weick 2007).

3.4 Building theory

To accomplish successful theorising under these circumstances, this study applied neither straightforward, deductive analysis nor purely inductive reasoning, but a combined method of “Induction, Deduction, and Inspiration” (Langley 1999: 707). It took building blocks from the evolutionary model for theorising proposed by Weick

(1989), a process in systemically creating variety of explanations and narrowing these down. For its individual elements, the process drew on methods suggested by other authors (including Gibbert et al 2008, Langley 1999 and Yin 2003).

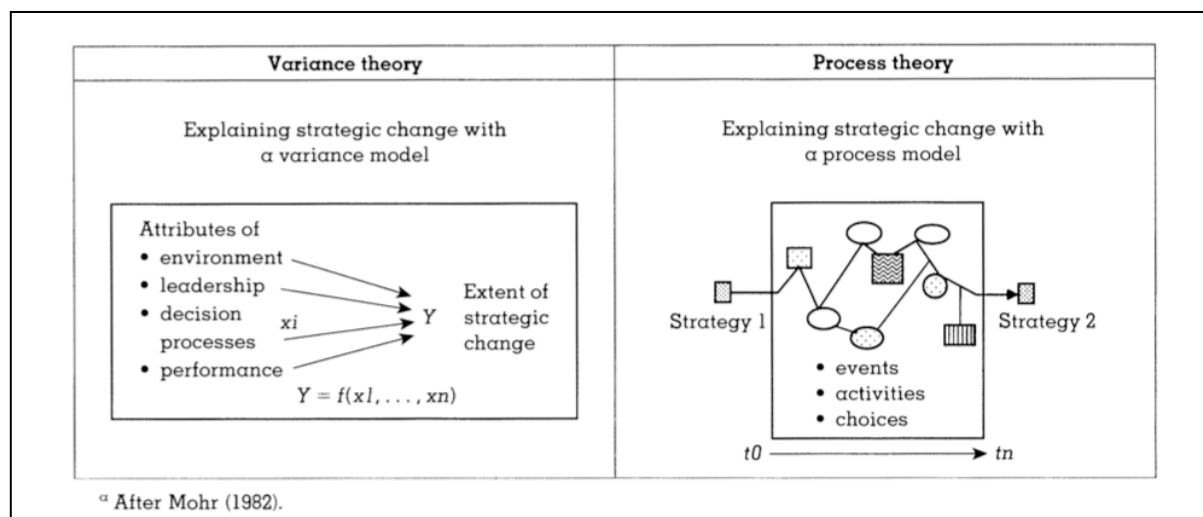


Figure 6: Two approaches to explaining strategic change (from Langley 1999, after Mohr 1982).

The purpose of applying such a circular, evolutionary model of the theory building is that interesting new theory is unlikely to result either from pure induction or deduction alone (Weick 1989, Langley 1999). Separating the processes of generating different explanations, visualising them and then selecting with the help of these visualisations helped to create sufficient distance to the data to come up with a generalizable, yet still sufficiently accurate explanations and mechanisms. The goal was to match the specific understanding of a local reality, gained by immersion and long interviews, to research questions of more general interest (Barley 1990), and build theory that is generically interesting (van de Ven & Johnson 2006, see the evaluation of the methodology below).

3.4.1 Developing constructs

Due to overall approach setting of the study, focusing on organisational learning processes in the context of nascent markets at the BoP, different strategies were used for developing constructs (Eisenhardt 1989). A first strategy was that the combination and matching of concepts between the different fields. This strategy was employed when equivalents covering sufficiently similar phenomena had been elaborated both in the general organisational learning and in the BoP field, as in the example provided in

Table 5. Drawing on established organisational learning theories helped to increase validity and generalizability (Gibbert et al. 2008), matching it to the BoP context helped to bring relationships present and visible in that specific context into the general organisational learning literature.

Mainstream concept	Concept match in BoP literature	Data match
<p>“Exploration” and “exploitation” as key activities required for long-term business success, with (March 1991)</p> <p><i>Exploitation</i> referring to “refinement, choice, production, efficiency, selection, implementation, execution”, and <i>Exploration</i> referring to “search, variation, risk taking, experimentation, play, flexibility, discovery, innovation”.</p>	<p>BoP research calls for “radical changing” business models based on immersion, experiments etc. (=exploration) and for realising scale in client numbers to realise profits despite small margins (=exploitation) (e.g. Prahalad 2004, Akula 2008, Webb et al. 2009a).</p>	<p>Both companies have exploratory initiatives (pilots, “proofs of concept”, experiments) and exploitative initiatives (contract-based, commercial ventures) in the BoP field.</p> <p>Significant differences and tension between the two – e.g. the underlying motivation (social/mixed vs. purely commercial), the staff committed (various backgrounds / interdisciplinary vs. insurance experts) etc.</p>

Table 5: Examples for construct development through matching (Example from Paper II)

A second strategy was used if a concept in the exploration-exploitation literature did not correspond to a similar concept in the BoP literature. In this case, attempts were made to “contextualise” the concepts from the exploration-exploitation literature, i.e. seeking to match established management constructs with those emerging from the data. The strategy directly advanced BoP theory building, as it helps to uncover relevant yet so-far overseen patterns, like the importance of structural separation (see Table 6) for BoP exploration.

Concept from mainstream management literature	Contextualisation for BoP	Match in data
<p>“Structural separation” of exploration and exploitation activities, e.g. by allocating them to different organisational units or departments</p>	<p>(Exploratory) BoP activities are expected to be separated both from the (exploitative) company mainstream as well as from less explorative BoP activities</p> <p>Literature congruence: The finding that greenfield operations sometimes facilitate successful BoP exploration (London & Hart 2004) confirms the appropriateness of the contextualisation.</p>	<p>Exploratory activities mainly driven by headquarters, with only limited involvement of subsidiaries → structural separation between headquarters and subsidiary</p> <p>Headquarters teams start in CSR or PR departments as topic is still highly exploratory, move closer to mainstream actors as portfolio matures (i.e. gets less exploratory)</p>

Table 6: Examples for construct development through contextualisation

The third strategy for building concepts was a “parallelisation” of concepts. When an argumentation was found to have only limited validity for explaining the dynamic BoP business, new concepts were built through “parallelisation” of the underlying causal mechanisms, using analogies (Gavetti et al. 2005) to develop the new construct, and already link it to (intermediate) outcomes through established causal mechanisms (see Table 7 for an example).

Concept from mainstream management literature	Parallelisation for BoP	Match in data
Need to hold paradoxical “threat” and “opportunity” perception to overcome the different rigidities these create (Gilbert 2005, 2006).	<p>Limited transferability: Most BoP business is perceived as opportunity, and not threat Explains general high-flexibility, low-resource exploration, but not variation within BoP portfolio; Analogous finding: BoP business can be perceived as “social” or “commercial” opportunity. While social opportunities can create room for experimentation (without direct commercial pressures), commercial opportunities are the ones that receive significant resources. Need to overcome paradoxical trade-off thinking (as in Olsen & Boxenbaum 2009)</p>	<p>Repeated discussions about how to frame BoP in both companies Managers used to trade-off thinking; social contribution perceived as a signal of a lack of a commercial opportunity Difficulty to explain multiple or mixed motivation to mainstream stuff Hindrance to resource allocation, can be overcome by paradoxical / synthetic framing</p>

Table 7: Example for construct development through parallelisation

3.4.2 Building explanatory mechanisms

Building theory requires explanatory mechanisms that link constructs and data points or stories (Sutton & Staw 1995, Weick 2007), whether in the form of variance-explaining research, or by highlighting the causes behind process patterns (Langley 1999). The three above-mentioned ways of construct development point to different ways of building explanatory mechanisms.

In the case of matching, causal mechanisms could be cross-tested between the two different fields. As organisational learning theories have a longer trajectory (March 1991, Prahalad & Hammond 2002, Prahalad & Hart 2002), are better developed and better published than BoP theory (Raisch & Birkinshaw 2008, Bruton 2011), in most cases this led to highlighting “blind spots” of BoP theory, for example on how to overcome initially lower financial performance in BoP initiatives through appropriate

organisational designs (March 1991, London & Hart 2004), or on how to balance exploratory and less exploratory BoP initiatives.

In the case of contextualisation, and thus the introduction of new constructs, explanatory mechanisms could be transferred from the exploration-exploitation field into BoP models, and tested against the data there. While the main contribution here is to advance the understanding of BoP initiatives, the confirmation of explanatory mechanisms from the exploration-exploitation field also helps to feed back into this theory.

Last, parallelisation allowed generating genuinely new explanations, and added richness to the understanding of higher-level concepts. Taking the example from Table 7, it allowed new insights into the perception of exploratory initiatives in organisations, and the role of switching between different framings. Furthermore, it also enriched the understanding of “paradoxes” in general, by highlighting a new area in which such thinking can be useful.

3.4.3 Building models and frameworks

The constructs and causal mechanisms are integrated into models and frameworks that help understand BoP business activities, as well as elaborate exploration-exploitation thinking, both for the specific context used and issues highlighted. Some of the models “twist” existing models (for example the figure in *Paper III*, based on Burgelman 1983a), while others are developed from scratch. While such models are not theory (Sutton & Staw 1995), they still help to organise and present the causal mechanisms developed in a coherent way, and should be seen as part of the larger process of “theorising” presented in this study (Weick 1995).

Figure capturing the interaction of corporate structure and strategy (Burgelman 1983b):

Adapted version for proto-structure established for highly-exploratory projects between a company and it's partners (Paper III):

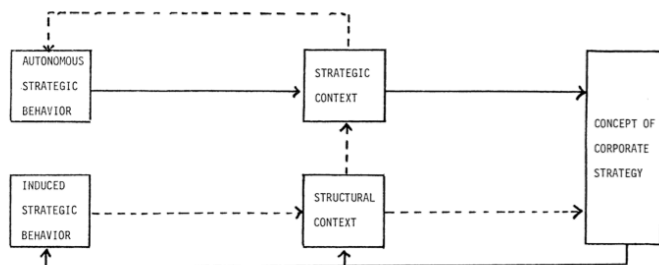


FIGURE 1. A Model of the Interaction of Strategic Behavior, Corporate Context, and the Concept of Strategy. Source: Robert A. Burgelman [6].

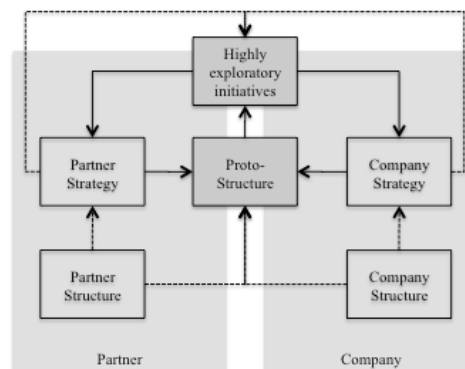


Table 8: Example for the adaptation and development of figures

3.5 Evaluation of research design

3.5.1 Formal criteria

In the whole process, the methodology was developed to comply with comprehensive set of established criteria for qualitative research (Guba & Lincoln 1994: 112), borrowing both on the (post-)positivist (Gibbert et al. 2009) and complementary perspectives (see Table 9).

Post-positivist criteria	Complementary criteria
Internal validity	Richness and contextualisation (Tsoukas 1989, Dyer & Wilkins 1991, Weick 2007)
Construct validity	
External validity / generalizability	Interestingness (Davis 1971)
Reliability	Relevance and practical applicability (Vermeulen 2005)
(Yin 2003, Gibbert et al. 2009)	

Table 9: Post-positivist and complementary criteria (adopted from Guba & Lincoln 1994: 114 and others)

Internal validity is concerned with the logical consistency of the arguments and causal mechanisms (Gibbert et al. 2008, Sutton & Staw 1995). Some previous BoP work relied on superficial arguments and flawed logics, including interference from

cases sampled on the dependent variable for motivational reasons (Walsh et al. 2005, Karnani 2007a)²⁵. This research set out to analyse data and build theory by transferring and ‘borrowing’ causal mechanisms from the exploration-exploitation literature (Floyd 2009), to achieve a logical consistency and rigor similar to that existing in this field of literature. The ‘double goal’ of advancing BoP theory and elaborating exploration-exploitation theory through new facets and contextualisation was used as a continuous control mechanism to maintain a high standard of data collection and theory development.

Construct validity refers to the quality of the concepts and constructs observed in the field – do they really correspond to the (theoretical) phenomenon (Gibbert et al. 2008: 1466)? To achieve construct validity, the data collection was started with a series of constructs and frameworks from organisational learning theory, which were, over time and as insights emerged, partly replaced by other concepts. This flexibility allowed optimising the match between phenomena in the field and theoretical constructs.

For example, the ‘middle manager’ focus originally set for the research (see pre-study) proved difficult to maintain. The BoP activities at the headquarter were mainly driven by individual change agents only loosely embedded in formal corporate structures, equipped with marginal resources and without formal subordinates (similar as in Halme et al. 2012) – with tasks descriptions fitting those of the “middle management”, but an hierarchical position of those in “operational management” (Floyd & Lane 2000: 159). The exploration-exploitation literature allowed a more abstract framework that could better capture the underlying mechanism of structural separation (Gilbert 2005), core-periphery relations (Regnér 2003) or of the impact of loosely or more tightly coupled systems (Orton & Weick 1990), and was thus adopted during the study to maintain construct validity. Here, in particular the interplay between a close coupling of the research process to the established theory (Gibbert et al. 2008) and a certain degree of flexibility and openness (Barley 1990) proved helpful.

External validity refers to the need to build models and frameworks that explain not only the case studies observed, but apply to a larger set of cases (Gibbert et al. 2008:

²⁵ In particular, earlier publications targeting more at practitioner audiences and / or published by major international public, civil society and business organisations regularly present findings and insights from “success cases” (e.g., UNDP 2008, WBCSD 2004), violating basic requirements for variance in dependent variables (Walsh et al. 2005: 477).

1468). External validity in the study is reached by relying on a nested approach with embedded case studies (Yin 2003, Gibbert al. 2008) that makes cross-case comparison possible without losing the deep understanding of the specific context, here of the two focal organisations. As the cases represent different geographic contexts and degrees of exploration (McGrath 1995), as well as two companies, the generalizability is higher than previous studies building on case studies from single geographic contexts (Seelos & Mair 2007) or organisations (Olsen & Boxenbaum 2009). Additionally, relying on established constructs from the exploration-exploitation theory, which were developed on the basis of observations in different industries and episodes (Burgelman 2002, Gilbert 2005, 2006, Leonard-Barton 1992), and partly tested and confirmed in quantitative studies (He & Wong 2004, Groysberg & Lee 2009, Hoang & Rothaermel 2010) strengthens the external validity of the models and frameworks derived.

Last in the list of (post-)positivist criteria, **reliability**, assuring that other researchers following the same procedure would have yielded similar or comparable insights (Gibbert et al. 2008: 1468) is a key requirement for qualitative research²⁶. The research closely followed the steps laid out in the pre-study, as a research protocol, and observations were carefully recoded in a case database. These records also contain self-reflections on the process of the research, and allow following the thought process of the researcher regarding the social dynamics of the research process.

Going beyond the criteria above, researchers have also called for **richness and contextualisation** in qualitative research (Dyer & Wilkins 1991, Leca & Naccache 2006, Weick 2007). These criteria acknowledge that it is often the specific and nuanced accounts of activities and events in cases that allow generating novel insights and understanding contextual specificities and contingencies that are important to understand universally existing, but contextually activated regularities (Tsoukas 1989, Guba & Lincoln 1994, Leca & Naccache 2006). The methodology aimed to increase richness and contextualisation through the data collection methods – in particular, the prolonger periods of participation and observation – as well as through conducting the case studies in one specific sector – insurance / microinsurance – where the researcher could accustom himself with the peculiarities and specificities of the industry (Churchill 2006). While the construct and model development coupled the study back

²⁶ Requiring that they would have yielded the ‘same’ results is unrealistic, due to the necessarily in part idiosyncratic nature of case studies and the related research process (Barley 1990, Tsoukas 1989).

to well-established and more conventional research (Gibbert et al. 2009), the continued interaction with practitioners and the work with original material gathered over the course of the theory development (including re-reading, paraphrasing etc.) aimed to preserve the richness of the original stories.

An additional quality criterion for theory is interestingness – showing counterintuitive or paradoxical insights that “constitute an attack on the taken-for-granted world of their audience“ (Davis 1971: 311). Such ‘surprise’ elements that expose paradoxes (Poole & Van de Ven 1989) and shake established assumption, can be found across the three papers:

- While previous theories have assumed organisational culture to be uniform and stable (Leonard-Barton 1992), in fact, sub-cultures and values tensions can be important drivers of new business model exploration (*Paper I*).
- While e-business and BoP may appear as opposed phenomenon (aggressive vs. patient, financial vs. social driven), there are fundamental similarities in which they affect the value configuration in incumbent players (*Paper I*).
- One would expect that social/financial ‘win-win’ arguments should raise support for BoP businesses. But while they have been used as a motivational argument (Walsh et al. 2005), stressing social objectives might raise suspicion regarding the validity of the financial attractiveness, and lower the overall appeal of BoP business models (Olsen & Boxenbaum 2009, *Paper II*).
- While partnerships are primarily tools that help business achieve certain pre-defined goals in BoP markets, they also strongly affect the strategy process and internal decision-making, leading to a co-evolution of the BoP strategy process (*Paper III*).

While the development of such interesting propositions is difficult to plan and foresee in a methodological framework, the flexibility and openness of the research as well as a prolonged period of theory building, maturation and refinement have helped to achieve these goals.

Last stands the criterion of **relevance and practical applicability** (Sandberg & Tsoukas 2011, Vermeulen 2005). On the one hand, academic rigor and relevance are often considered as mutually exclusive, or at least difficult to reconcile in research projects (Gulati 2007), and academics are not practical ‘problem-solvers’ in the sense that managers are in their respective contexts (March 2006b: 85). Still, management research should still strive to be relevant for practitioners (Baldrige, Floyd &

Markóczy 2004), and recommendations on how to design studies that integrate the two aspects were followed (Gibbert et al. 2008, Gulati 2007, Scandura & Williams 2000, van de Ven & Johnson 2006, Vermeulen 2005, Weick 2001).

To assure rigor and relevance, the research objective and theoretical perspectives were chosen based on interactions with practitioners²⁷, to “rely on managerial sensibility to shape research questions” (Gulati 2007: 780). This also allowed to develop theory in a language that takes up and responds to manager’s perspectives (Guba & Lincoln 1994: 106). In particular, BoP managers were concerned with establishing and justifying projects internally, expressed their feeling of alienation from the company’s core (*Paper I*), how they had to rely on ‘guerrilla’ tactics to avoid top-level scrutiny and form effective BoP teams (*Paper II*), and how they used partnerships to strengthen their position in the strategy process (*Paper III*).

Having been involved with the companies for an extended time span also helped to realise benefits for both partners involved, by sharing knowledge, insights and interpretations between the company and the researcher (Wright 2008). While requests for advice from the managers towards the researchers were mostly rejected (March 2006b: 85), a “collaborative learning community” (van de Ven and Johnson 2006: 811) still developed through joint dialogues and reflections²⁸.

3.5.2 The role of the researcher

As another component of “methodological fit” (Edmonson & McManus 2007), the role of the researcher depends on the research design, and the underlying ontological and epistemological foundations (Guba & Lincoln 1994). The post-positivist paradigm would require a neutral, values-free, emotionally un-involved ‘disinterested scientist’, while other paradigms prefer value-conscious or value-driven, emotionally involved

²⁷ Leading up the research period itself, these interactions covered interviews made with key microinsurance experts during the Microinsurance Conference in Dakar, Senegal, November 2009, an integration seminar taught at the University of St.Gallen in Spring 2009 and continuous discussions with people involved in the sector.

²⁸ The relation between researcher and the key informants changed over the research process – while a more neutral and observing role was taken in the beginning, including a certain degree of ‘enacted naïveté in certain situations. The relationships turned more dialogical towards the end of the research period, or in the phases following the on-site observation.

‘passionate participants’ or ‘transformative intellectuals’, whose positions reflect those of their (ideally dis-enfranchised and marginalised) research subjects (Guba & Lincoln 1994: 114).

Choosing BoP as a field of study (or, for that matter, field of activity), is already often a value-laden decision (Akula 2008, Halme et al. 2012, Hart 2005, Olsen & Boxenbaum 2009, Yunus 2003,), as opposed to ‘mainstream’ management research that has mainly neglected poverty as an issue (Bruton 2010, George et al. 2012, Ricart et al. 2004), even in literature streams like the ‘emerging markets’ literature that mainly covers markets where poverty is highly prevalent and visible (Hoskisson et al. 2000, Meyer 2004, Wright et al. 2005)²⁹. While the choice of phenomenon in this study was thus driven by values, the methodology itself was designed in a post-positivist framing focusing on a reduction of bias and a neutral analysis of relations (Guba & Lincoln 1994), while preserving the involvement, contextuality and richness of qualitative inquiries.³⁰

Beyond the value-laden nature of BoP, concerns in qualitative research also relate to cognitive biases and effects that the presence of the researcher has on the phenomenon observed (Yin 2003, Gibbert al. 2008). Having been involved in the company as a participant has allowed deep insights (Dyer & Wilkins 1991), it has created certain risks for the neutrality and unbiased gathering and analysis of data – as the interaction between managers and researcher clearly has affected both sides. The researcher has spent weeks and at times months with certain informants, with insights into both professional and personal successes and challenges. Building trustful relationships with key informants has certainly led to mutual appreciation and, to a certain degree,

²⁹ From a critical theory perspective, one could argue whether such an approach is value-free, or whether it simply prefers values like conformity, for example with departmental expectations, (Heugens & Mol 2005) and the unquestioned acceptance of ‘bad’ but widely prevailing management theories (Ghoshal 2005). Additionally, the economic incentives (course fees, consulting and advisory contracts) of the business school system support the built-in confirmatory bias of positivist research, the neglect of excluded and marginalised communities as research objects and partners (Walsh et al. 2005), and the unquestioned acceptance of the economic performance of individual corporations as the ultimate goal of academic research (Walsh et al. 2003).

³⁰ One could even argue that in particular issues with social importance and urgency require the application of especially rigorous methods, an increasing trend in development economics (Duflo 2006, Banerjee & Duflo 2007, 2008, 2011).

to identification with the companies and the BoP teams. The fact that BoP research is sometimes marked by ‘motivational’ factors (Walsh et al. 2005), additionally leads to shared values between BoP practitioners and academics, for example, a differentiated view on profits and social outcomes, and a global ‘BoP culture’ crossing private and public sector actors (see *Paper I*), and including academia. These identification effects were limited by the fact that the researcher was relatively new to both the ‘corporate world’ and the ‘BoP world’³¹, making it easier to take the role of a neutral and curious observer of the strategy processes.

Certain situations made being such a neutral observer particularly difficult. These included managers seeking advice from the researcher. While voicing opinions or making statements could not always be avoided in such situations, the researcher tried to give a ‘neutral’ perspective on the situation, and separate effects occurring through his intervention in the recorded data.

To limit the impact of the researcher on the managers observed, the research was not started with a test of propositions or hypotheses derived from literature, but with more open perspectives and constructs to guide that data gathering. Similarly, interviews were always started with open, broad questions, before applying more detailed, analytic frameworks. The stories told contained both relatively neutral accounts of events and activities, mixed with interpretations and ‘practical theories’ about BoP, the strategy processes in the company etc. that were included in the theory building.

One key (and unforeseen) measure to increase the neutrality of observation was to cover two companies in relatively similar situations. While it responded to an interest of the managers, who were keen to learn how they ‘compared’, it helped to distance the researcher from the respective interests and viewpoints of the two companies and the various BoP teams, and to get a higher-level perspective. Rejecting inquiries about the respective ‘other’ company helped to showcase the neutrality and confidentiality of the interaction with the researcher.

Last, the joint data analysis and theory building for *Paper I* with a researcher (Schmid 2005) from outside the BoP community that did not identify with the shared values in

³¹ While the researcher has spent several months and years working on sustainability and BoP issues, and spent prolonged time periods in a range of developing countries, it was the first time for a more than cursory visit to the ‘corporate world’.

that field helped to uncover biases, and check the validity of interpretations regarding the success of the respective initiatives, the underlying mechanisms, etc. – not only for *Paper I*, the core outcome of that collaboration, but also as a discussant for the material in general.

3.6 Ethical issues

The initiatives studied all target poor and vulnerable populations, and there is a significant power imbalance between the global, financially successful companies on the one, and the poor, marginalised, and often voice-less customers on the other hand (Karnani 2007b, 2009). Additionally, the data partly covers confidential information from the companies and its partners, including potentially vulnerable non-governmental organisations.

Microfinance agent explaining microcredit product to clients in Bosa, Bogotá, Colombia (24 February 2011).



Agents selling mobile bank accounts in Alexandra township, Johannesburg, South Africa (6 May 2010).



Table 10: Images from field visits in Colombia and South Africa

As the study focuses on organisational learning processes, data was mainly gathered from the multinational companies, using multiple sources of evidence. Additional data was collected from key informants in the partner network and independent experts, to complement the internal perceptions with a wider range of perspectives. This was complemented by field visits in various locations that allowed observing sales activities and interacting with clients – including township areas in Johannesburg, South Africa, favelas in Bogotá and Cali, Colombia, and rural areas in Dakar, Senegal – as well as observations of the target population independently from the company

network³². While this is not a systematic assessment of the social, economic and environmental impact of the products offered on the clients (Walsh et al. 2005) – to poor entrepreneurs and households – it at least complements the internal, organisational perspective.

³² Due to security considerations, the researcher relied mostly on the company's research partners to get access to low-income communities. Additional field trips were implemented with independent organisations (a start-up MFI and a BoP-focused consultancy) in Bogota, Colombia, and in Johannesburg, South Africa.

4 THE RESEARCH SETTING

Generating data on business activities targeting low-income markets in developing countries is not easy – many projects and initiatives are in early stages or do not really fulfil the criteria for successful business models, as commercial operations actually reaching the poor (Karnani 2007a). This study uses data from the rare case of two relatively large and diversified portfolios of two leading companies in the microinsurance sector, a sector that is one of the few that has seen significant growth in market outreach (Churchill & Matul 2012, Karnani 2007a).

As the research setting has been important for generating rich data and, as a consequence, theory, this section describes the general research setting – starting with the sector, then focusing on the companies that participated in the study, and finally on the cases selected.

4.1 The sector: BoP markets in the insurance industry

4.1.1 Business opportunities in microinsurance

Within the broad field of BoP business models, “financial inclusion” is one widely accepted challenge – to provide the poor with access to affordable, appropriate financial services that respond to their specific needs for managing their finances (Collins et al. 2009). As a part of financial inclusion, or “microfinance”, the provision of microcredit has gained significant attention, to the point of becoming synonymous for the whole field of financial inclusion (Khavul 2010). Still, to satisfy the financial needs of poor households, other services like savings, insurance and payments are similarly, if not more important (Brown 2001, Collins et al. 2009, Churchill 2006, Churchill & Matul 2012).

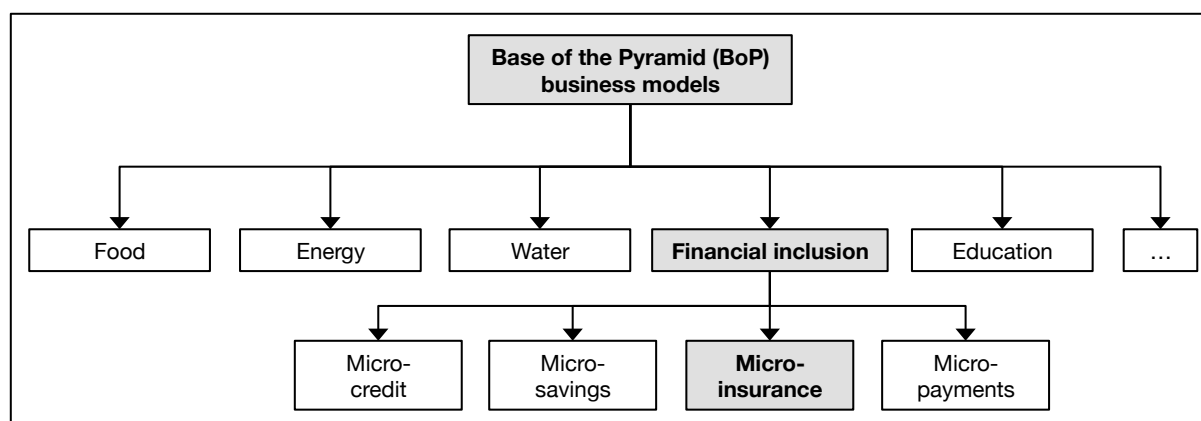


Figure 7: Microinsurance as an example for BoP business models (source: own elaboration)

The emerging “microinsurance industry” seeks to address this challenge by providing insurance products to poor customers previously excluded from the formal financial system, sometimes combined with credit or saving products or even non-financial products such as agricultural inputs or independent energy systems. Microinsurance is a fast-developing business model in a wide range of developing countries (Roth et al. 2007), with a total of almost 500 million risks covered in 2011 (Churchill & Matul 2012: 11), and a total estimated market potential of somewhere between one and three billion clients (Lloyd’s & MIC 2009).

It has been defined as follows:

„Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.“ (Churchill 2006: 12)

Far from being uniform, the complexity of microinsurance schemes depends on a variety of factors, which generate different “degrees of exploration” (McGrath 1995) for the companies involved.

First, on the product level, existing microinsurance products mostly cover a diverse set of risks – including death, health, property and crop/livestock, sometimes involving a savings component (Wipf, Liber & Churchill 2006). Some products, like compulsory credit-life insurance sold through microfinance institutions, are quite standardised and

are sold profitably in a variety of markets³³. Other products, like health or crop insurance, are more novel and complex, e.g. due to the risk of fraud, moral hazard, or higher administrative costs. Schemes offering such products are often at earlier stages, and currently often financially unsustainable or relying on governmental subsidies (Churchill 2006).

Second, microinsurance products are sold in very different low-income markets across Africa, Asia and Latin America, markets that have highly differentiated local conditions for microinsurance (see Table 11). Income levels, overall market size, state of education and (financial) literacy, legal frameworks and the availability and competences of distribution partners determine the difficulty of offering microinsurance products, and whom these can reach. As a result, the distribution of products across countries and regions is highly uneven, across regions and countries as well as within countries.

Region	Life	Health	Accident & Disability	Property & Index ³⁴
Americas	7,545,057	445,876	105,000	600
Africa	2,036,141	3,053,778	1,603,000	1,600,000
Asia	54,158,332	31,697,038	39,180,508	34,557,434
Total	63,739,530	35,196,692	40,888,508	36,158,034

Table 11: Existing policies in different categories (Roth et al. 2007)

4.1.2 Large commercial companies and microinsurance

While a series of different organisations offer microinsurance – for example, cooperatives or so called mutual benefit associations – large, commercial insurers play an important role in this field, which has attracted the interest of several local and multinational insurance companies active in developing countries (Dror & Wiechers

³³ While few data is available on the profitability of different product lines, Angove & Tande (2012: 377) find “gross insurance profit ratios” around 50 percent for life and accidental death & disability (ADD) insurance covers in some schemes, but also losses of around 30 percent (for a health microinsurance policy).

³⁴ Index-insurance refers to policies whose payout depends on a certain index, especially a weather index. They are used as a substitute for crop-insurance, which is difficult to monitor, to protect smallholder farmers from adverse weather events.

2006, Angove, Herrndorf & Mathews 2011, Angove & Tande 2012). As similar operational principles apply to BoP and microinsurance (Churchill 2006: 17-19), these initiatives can serve as one example how businesses can realise the promise of the BoP proposition (Prahalad 2004). The entry into new markets and the realisation of financial objectives dominates among the reasons why commercial insurers enter nascent markets in low-income countries. These motives are complemented by broader concerns, like corporate social responsibility, or brand recognition (Coydon & Molitor 2011, in Churchill & McCord 2012:21).

The interest and activities of larger businesses in microinsurance distinguishes the sector from other BoP sectors, like microcredit or solar lighting, that are driven by smaller businesses, for a variety of reasons:³⁵

- The structure of insurance products often requires larger entities to be involved, for risk-pooling and -diversification, capitalisation, reinsurance and technical capacity (Churchill 2006). Regulatory issues, e.g. minimum capital requirements or licensing procedures, also make it difficult for smaller organisations to offer insurance³⁶.
- Insurance premiums in industrialised countries have partly been shrinking (in 2008 for life -5.3 percent, and for non-life -1.9 percent), but have grown rapidly for emerging markets (at 14.6 and 7.1 percent respectively in 2008, Swiss Re 2009). Insurers that wished to achieve further top-line growth therefore aimed to expand their businesses in developing countries. While a huge amount of this business was conducted with the growing upper- and middle class (Parker 2009), with growing competition in these segments, insurers increasingly turn to clients with lower incomes.

As they often lack experience and networks for directly operating in low-income markets, insurers run their microinsurance operations usually through strong local partnerships. Local partners like community-based organisations (CBOs) or

³⁵ This assessment is backed by private comments from Jim Roth, Leapfrog Investment, who considers large insurers as the major players in the sector.

³⁶ Some countries, like the Philippines, have lowered regulatory barriers to allow smaller organisations that serve the poor to operate in the insurance sector, in the form of member-owned 'mutual benefit associations'. Still, large commercial insurance companies still play a dominant role in the microinsurance sector in most countries.

microfinance institutions (MFIs) take over significant responsibilities in terms of market research and product development, marketing, sales and distribution; and claims settlement (Churchill 2006a). A wide range of organisations acts as delivery channels, including public agencies, commercial actors and civil-society organisations (see Table 12). The partnership patterns found confirm existing research at the BoP that has repeatedly stressed the importance of strong non-traditional partnerships with local organisations (London & Hart 2004, Seelos & Mair 2007).

Delivery Channel Type	Covered Lives
Agents - microinsurance or other	7,569,773
Brokers - microinsurance or other	292,947
CBOs, NGOs and other groups	25,645,596
Employer groups	181,192
Government and Parastatals	11,815,690
Mutuals	13,800,214
Other financial services (e.g. MFIs)	17,001,644
Retailers of other service providers including funeral parlors	1,755,682
Not specified	436,766
Total	78,499,503

Table 12: Delivery channels by type and covered lives (Roth et al. 2007: 37)

4.2 The case companies: Leading incumbents

Within the microinsurance space, two insurance companies have been selected to provide the setting for the case studies. They are leading players, both in the global “traditional” insurance industry as well as in the emerging field of microinsurance, and provide one of the sparse opportunities to observe a range of highly different initiatives targeting nascent markets across a set of countries.

4.2.1 Company A

Company A is a globally active insurance company with its headquarters located Germany. Through acquisitions and joint ventures, it has diversified geographically over the years, including the takeover of a major global competitor that increased the company’s presence in developing countries. It writes about three quarters of its premium outside of its home country.

During the time of observation, the company had microinsurance operations in India, Indonesia, Colombia and several African countries, including Egypt, Cameroon, Cote Ivoire, Madagascar and Senegal. Other markets, like Thailand, Brazil or Ghana, were considered and discussed, but no BoP products had been launched yet. Products differed across the countries. While credit-life was one of the first product offered in many countries, and is often still the only one, *Company A* offered a wider portfolio, including health (*Asia1*) and property (*Asia1, LatAm1*) insurance, and discussed plans for launching pilots on further, more innovative products like funeral and crop microinsurance.

At the headquarters level, the company employed a ‘Head of Microinsurance’ in the company’s Corporate Social Responsibility department, who was responsible for the global microinsurance portfolio and interacts with the global leadership of the company. He coordinated his activities with several other headquarters departments, including

- the departments responsible for regions like Asia, Africa or Latin America markets, that received financial and operational reports from the subsidiaries, but also worked on specific strategic and operational challenges with them.
- the PR-department, whose leader was sympathetic to and supportive of microinsurance, and provided political as well as personal support for the BoP activities. The PR department was also the driving force behind a series of online articles and interviews on microinsurance on the corporate website, the inclusion of the topic in the yearly CSR report, and the commission of a high-level study of the company’s microinsurance portfolio.
- the global reinsurance team, including pricing experts for natural disasters that had affected one portfolio, and crop insurance experts that were consulted to develop projects on more advanced crop-microinsurance schemes.

In the subsidiaries, different teams worked on BoP issues – normally integrated into existing sales or marketing departments that dealt with bancassurance or affinity business, commercial distribution channels that share certain features with microinsurance³⁷.

³⁷ As microinsurance distribution relies heavily on partner organisations, it is structurally similar to bancassurance (insurance sales through bank partners) or affinity (insurance sales through other

Unit	Scope	Unit description	Microinsurance involvement
Headquarters	Global	Global holding company, reporting by all subsidiaries	Microinsurance team in CSR department, formal oversight of microinsurance projects & portfolios through regional directors Several other departments involved, including public relations, reinsurance, etc.
Agro	Global	Unit at holding company, writes global business and consults subsidiaries on agricultural insurance issues	Involved in microinsurance negotiations in the agricultural space (crop insurance), start of own microinsurance activities after observation period (involving satellite imaging for claims assessment)
Subsidiary <i>Asia1</i>	National	Local subsidiary, joint venture with local conglomerate ³⁸	Staff from several units involved in microinsurance business Diverse microinsurance portfolio, comprising early projects started due to regulatory pressure, innovation projects mainly steered by the headquarters microinsurance team, and own, commercially-driven microinsurance projects
Subsidiary <i>Asia2</i>	National	Local subsidiary	Early microinsurance activities with headquarters involvement, portfolio build up by a dedicated microinsurance manager from Company A's home country
Subsidiary <i>Asia3</i>	National	Local subsidiary	No interest in microinsurance business, discussions between headquarters and subsidiary, but mainly defensive attitude
Subsidiary <i>LatAm1</i>	National	Local subsidiary	Microinsurance portfolio, mainly commercially driven, mixed performance

partners, e.g. a mobile carrier or travel agent). As a difference, BoP distribution utilises a wider net of partners, including NGOs or cooperatives targeting the rural or urban poor, uses distribution agents with lower levels of technical training and formal certification, and distributes simpler products.

³⁸ Due to local regulations, which restrict foreign ownership of financial sector companies. The partner is a large, well-established industrial and service conglomerate

Subsidiary <i>LatAm2</i>	National	Local subsidiary	Interest in establishing microinsurance portfolio and repeated contact to headquarters on the topic by individual managers, but no significant activities
<i>Region A</i> (several countries) <i>Africa</i>	Regional	Office with regional responsibility	Director involved in the microinsurance activities in his region (mainly driven and directed by the microinsurance team at the headquarters), first point of contact for headquarters Head of Microinsurance
Subsidiary <i>Africa1</i> (part of <i>Region A</i>)	National	Local subsidiary (small unit)	Carries out microinsurance distribution projects mainly steered by headquarters
Subsidiary <i>Africa2</i> (part of <i>Region A</i>)	National	Local subsidiary (small unit)	Both headquarters-led and independent microinsurance projects
Subsidiary <i>Africa3</i> (part of <i>Region A</i>)	National	Local subsidiary (small unit)	Involved in new microinsurance projects initiated by headquarters

Table 13: Organisational units involved in the microinsurance activities in Company A

4.2.2 Company Z

Company Z is a global, insurance-focused financial service provider based in Switzerland, with active microinsurance operations in a variety of countries. The company stressed that its microinsurance operations were developed on a commercial basis, as expressed in the following statement:

“[In microinsurance] We are focused on profitable growth and innovation, capitalizing on our own experiences and on our cooperation with other institutions to maintain our position of thought leadership.”

Similar to *Company A*, *Company Z* operates in a series of countries around the world, with most collaborations established in Latin America. *Company Z* offers a range of products, including life, property and health. A global microinsurance team in the headquarters consisted of 3-4 persons, with some turnover. The team included two members that had held different, ‘mainstream’ positions in the company before initiating the microinsurance activities – first, as an ‘undercover’ activity in their free time, later as an officially recognised and funded initiative of the company. Shortly

after its official launch, the initiative hired a new head of BoP, from a competitor that had experience of developing affinity and microinsurance products in emerging markets, who brought several colleagues with him that had previously worked together in the same company. The subsidiaries had their own microinsurance teams, with the specific setup depending of the local circumstances. Staff members sometimes had other, ‘regular’ responsibilities.

Unit	Scope	Unit description	Microinsurance involvement
Headquarters	Global	Global holding company, reporting by all subsidiaries	Gathers and consolidates microinsurance account information by subsidiaries Runs own microinsurance projects, with a focus on technological and innovation projects, collaboration with technical and expertise support partners Staff, especially the head of microinsurance team, strongly involved in global microinsurance sector discussions and forums
Subsidiary <i>Asia4</i>	National	Local subsidiary, start-up phase in difficult market environment	Large emerging market, various microinsurance activities (product development), partly involving external parties. Microinsurance is of political relevance, but no sales activities.
Subsidiary <i>Asia2</i>	National	Local subsidiary	Product development with two MNC partners, one launched, one on hold during period of observation.
Subsidiary <i>Mena1</i>	National	No subsidiary, but fronting partner	Microinsurance product developed with international partner and launched successfully in target market.
Subsidiary <i>LatAm2</i>	National	Local subsidiary	Commercially-driven microinsurance activities with alternative distribution partner (energy and water utilities) Ongoing discussions about start of specific microinsurance programme
Subsidiary <i>LatAm3</i>	National	Local subsidiary	Own microinsurance project with large MFI, only minor headquarters involvement
Subsidiary <i>LatAm4</i>	National	Local subsidiary	Own microinsurance project with large MFI, only minor headquarters involvement
Subsidiary <i>LatAm5</i>	National	Local subsidiary	Discussions about microinsurance projects, but no launch of activities

Subsidiary	National	Local subsidiary	
<i>Africa4</i>			Strong microinsurance market environment A local microinsurance manager is working on key microinsurance accounts, and first products have been launched. Topic is contested politically, and resource allocation for expanding microinsurance activities contested.

Table 14: Organisational units involved in the microinsurance activities in Company Z

4.3 The embedded cases: Strategic BoP initiatives

A set of initiatives has been selected as ‘cases’ for the different papers, according to the criteria described above. As many of these initiatives have evolved around specific partnerships (see *Paper III*), a first step has included the development of a full-scale list of partners that held relations with one or, in some cases, with both companies (see Appendix 1). This list included longer-term, institutionalised partnerships governed by Memorandums of Understanding (MoUs), commercial relations as well as specialised consultants hired on a case-by-case basis. As some of the cases were made up by multi-partite partnerships, these were captured in graphic form (see figures below).

The cases finally selected were in different stages of implementation, but all had been running for at least a year at the time of observation. The case selection was driven by the logic of the particular chapter – cases comparable with those in Schmid (2005) for *Paper I*, polar cases with both high and low degrees of exploration for *Paper II*, or cases involving partnerships with high degrees of exploration (*Paper III*).

4.3.1 Cases in Company A

From *Company A*, three highly exploratory and two less exploratory cases were selected. The highly exploratory initiatives were mainly initiated and steered by BoP teams at the headquarters, with local subsidiary teams being responsible for operational issues like product development (see *Paper I*).

Company A				Degree of Exploration	Use in papers		
Code	Initiative	Partner	Units		I	II	III
A-DEVCOOP	3-year strategic alliance under a “development partnership” programme to explore key markets through market research, the development of first micro-insurance products and the connection to key distribution partners	Large, international public, bi-lateral development institution from the firm’s home country	Head-quarters, Subsidiary <i>Asia1</i> and <i>Asia2</i>	High	–	–	A1
A-RELIEF	Joint initiative to distribute innovative microinsurance products (bundled life and property, health) in rural region in Southern India	Large, international humanitarian NGO, with increasing openness for business issues	Head-quarters, Subsidiary <i>Asia1</i>	High	NGO-IMPLE	A-High	A2
A-CONSULT	Partnership to distribute BoP products (mainly, life) across a variety of (smaller) African markets	International microfinance intermediary and consultant	Head-quarters, <i>Region A</i> , <i>Africa1</i> and <i>Africa2</i>	High	NGO-BROKER	–	A3
A-MFI	Distribution agreement between subsidiary and local Micro-Finance-Institution (MFI) for credit-life and voluntary life, motor insurance added later as a side-product	Locally well-established microfinance institution	<i>LatAm1</i>	Low	MFI-LOCAL	A-Low	–
A-SAVE	Development and distribution of innovative savings-life insurance product in a large emerging market, later transfer to a second country	Variety of local microfinance institutions, rural banks and agricultural cooperatives, with a fast-growing microfinance institution as core channel	Subsidiary <i>Asia1</i> , later <i>Asia2</i> and Head-quarters	Low	MULTI-CHANNEL	–	–

Table 15: BoP cases selected for the data analysis in Company A

A-DEVCOOP had started in 2004 as the first partnership of the company in the BoP arena, initiated after informal contacts between the later ‘head of BoP’ of *Company A* and experts of the development cooperation agency *DevCoop1*. The initiative was particular, in that it started as a very early and broad exploration of the topic. Extensive formal market studies were conducted in three selected countries that were supposed to inform the later development of products and distribution channels. While the partnership agreement had formally expired at the time of observation, the head of BoP kept in contact with key people at the partner, and selected activities started under the partnership were still active. During the observation period, several meetings with the partnering organisation were undertaken, with the goal to re-launch the partnership with a renewed focus on issues that had arisen since the formal end of the original agreement – namely, quality standards for BoP distribution and customer interaction, regulation and client education.

A-RELIEF was a multi-partied partnership between the headquarters and subsidiary in *Asia1* of *Company A* on the one, and a local NGO (*Local-NGO1*) and its European counterpart (*Global-NGO1*) on the other hand (see Figure 8). The partnership started from a charitable donation for disaster relief after a major disaster. As the NGO already had sufficient funds to deal with the emergency situation, both sides agreed, after significant hesitance on the side of the subsidiary, to engage in a partnership for product development. At the time of observation, A-RELIEF encompassed a smaller portfolio of combined life, property / housing and health insurances in a remote, coastal region in *Asia1*. While the products sold successfully and the company repeatedly gained international recognition for the initiative, it had incurred high losses due to a second natural disaster in the region. As a related challenge, *Local-NGO1* was still strongly involved in managing the local partnership, but had used up the funds from the original donation. At the time of observation, the products were re-priced and re-formulated in 2010 after a difficult and lengthy process, involving several studies commissioned from internal and external experts. A transfer of the operational responsibilities to the subsidiary in *Asia1* was repeatedly discussed, but still outstanding.

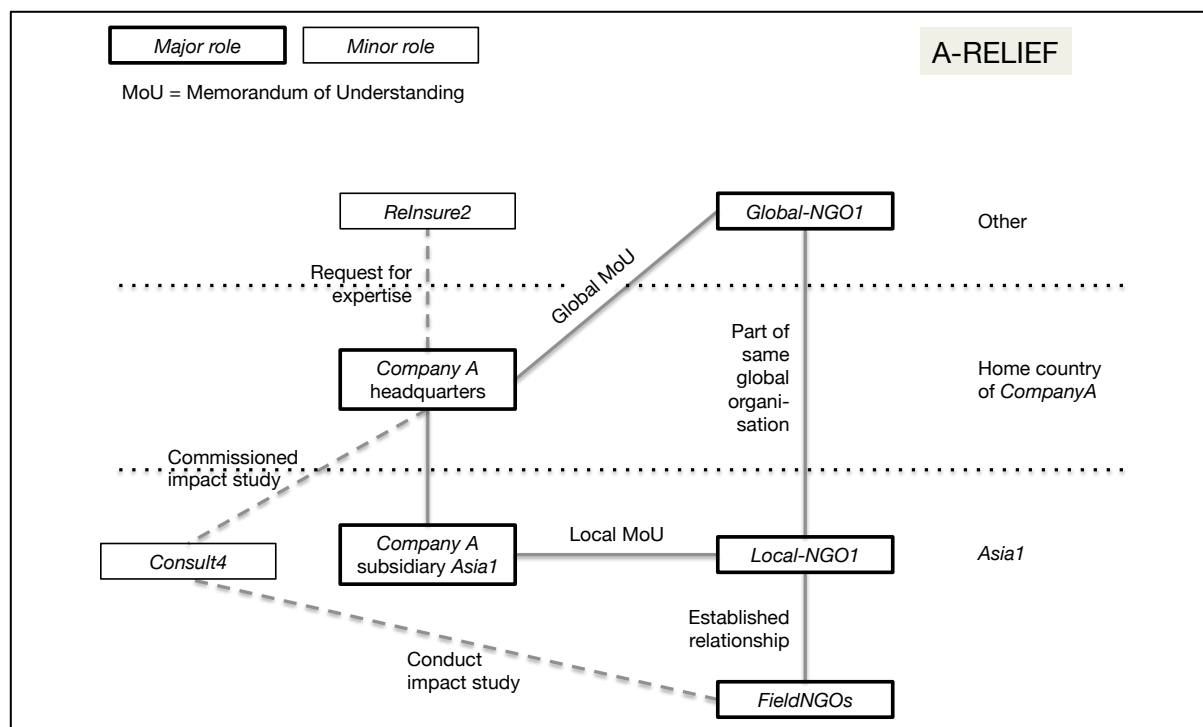


Figure 8: Partner network in A-RELIEF (own elaboration)

A-CONSULT had a similar overall approach as A-RELIEF, but focused on a whole continent, in which the partner organisation *Global-NGO2* was active and had established working relationships with a broad range of local MFIs as a consultant and investor. Over the years, several distribution partnerships were closed, covering relatively standard credit-life products that insured the credit portfolios of local MFIs operating in difficult geographic conditions (e.g. *MFI2*). While the risks were carried by the respective local subsidiaries of *Company A*, the BoP team and a regional director in the headquarters remained the main contact persons for the initiative. At the time of observation, there were severe problems with the ad-hoc methods used by *Global-NGO2* for administering the account. Also, promised product innovations (in particular on crop insurance) were only slowly implemented, as the partner was reliant on grant applications to pursue these.

The two remaining initiatives included were stronger driven by the local subsidiaries. While they are relatively conventional compared to the radically new approaches proposed in the early BoP literature (Prahalad 2004), they provide interesting examples on how such BoP business models can be link stronger to the established core business (*Paper II*).

A-MFI was a distribution agreement between the subsidiary in *LatAm1* and a local Micro-Finance-Institution (MFI) for credit-life and voluntary life. Motor insurance, for the motorbikes bought by credit agents employed by *MFI3*, was later added as a side-product. The relationship had originally developed through a broker (*Broker1*), who remained responsible for the technical administration of the policies. While the broker had initially developed ambitious plans distributing a broad product portfolio through the MFI, these plans had never been followed up. Still, at the time of observation, two new products (housing content and theft) were discussed between the broker and the subsidiary. This discussion stopped when *MFI3* acquired a bank license and had to launch a formal tender process. The company lost the contract as a result of the bidding process, and activities to ‘save’ the relationship through political intervention were unsuccessful. Between the headquarters and the subsidiary there was only sporadic contact, also for language reasons. *MFI3* was also a member of *GlobalNGO3*, who had contact to the headquarters BoP team, but no deeper interaction developed over that channel.

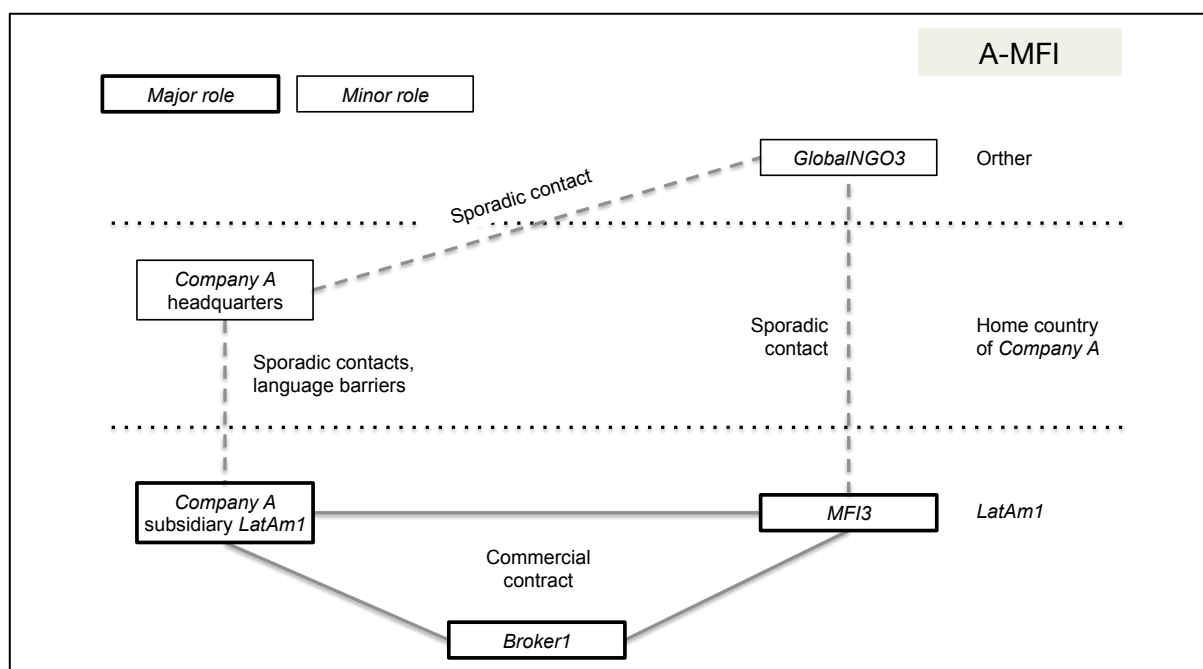


Figure 9: Partner network in A-MFI (own elaboration)

Last, A-SAVE developed out of a contact between the subsidiary in *Asia1* and a local micro-finance institution (*MFI1*) that had achieved rapid growth in providing microcredits to low-income clients. Responding to the demands of both *MFI1* and final clients, the subsidiary had developed a five-year savings plan with a life

insurance component. *Company A* also took an equity stake in *MFII*. The product was highly successful, and sold through a range of rural banks, agricultural cooperatives and similar channels, but *MFII* remained the largest channel by far. Due to public concerns about business practices at *MFII*, the headquarters BoP team started paying increasing attention in 2010, and developed a programme with *DevCoop1* to address the challenges in the portfolio together with the subsidiary. In parallel, the BoP team in subsidiary *Asia2* started an initiative to replicate the product in their country with slight adaptations owed to the different socio-economic and cultural situation.

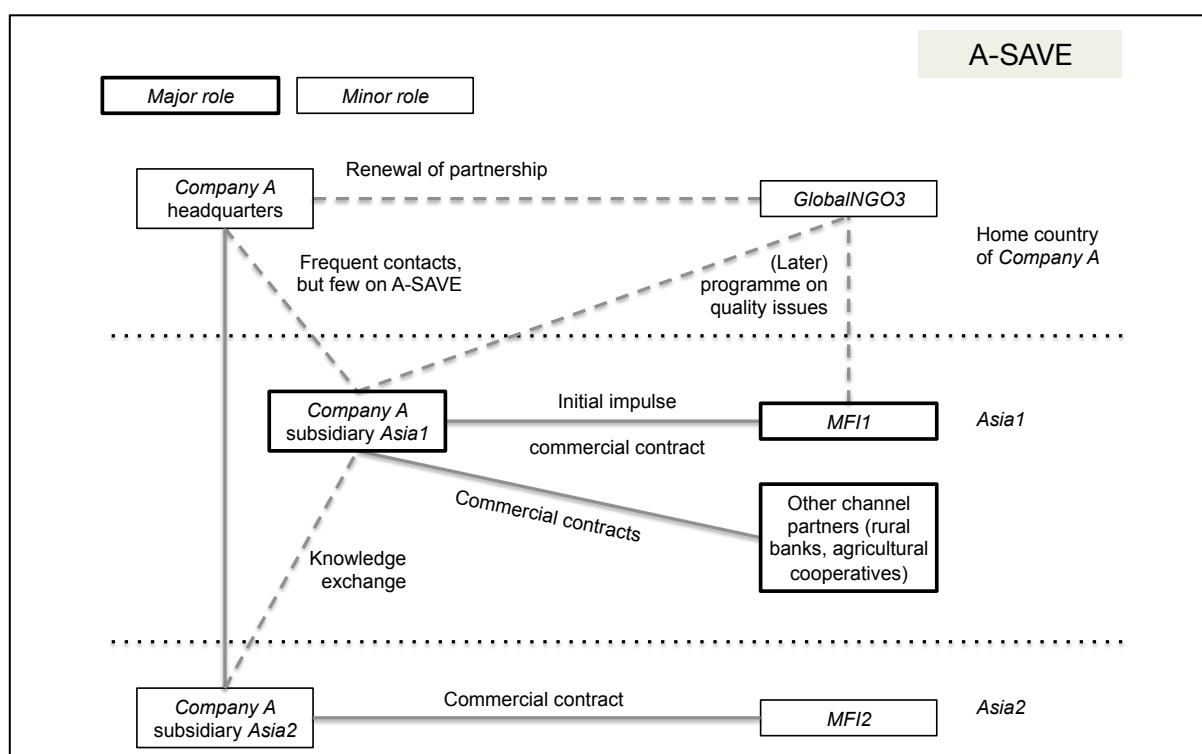


Figure 10: Partner network in A-SAVE (own elaboration)

Additionally to these BoP cases, **e-business cases** from a previous research episode (1999-2001) have been included for the comparison of BoP and “regular” business development cases in *Paper I*. While they deal with a different target market and distribution approach, they still share certain features with the development of BoP businesses (Zott et al. 2010): A topic that was broadly discussed in management practice and academia (Hamel 1999, Amit & Zott 2011) was taken up by the company through setting up international innovation projects, across different divisions, and with different degrees of headquarters involvement (Schmid 2005). They differ, however, in the top-level support and the resources dedicated to the projects, which

are significantly higher for the e-business period, and in the use of partnerships, which was more strongly marked during the BoP period (see *Paper I* for details).

The following e-business cases have been used for the analysis (see Schmid 2005 for details):

Initiative	Partner	Units	Paper I
Distribution of insurance products (especially pension) through the intranet of partner companies, mainly sold through the HR departments of partner companies	Large and medium sized companies willing to provide their employees with access to insurance products from Allianz	Headquarters, German subsidiary	CORP-1
Development of “online insurer”, platform was later primarily used to improve the sales and distribution processes in various subsidiaries	Primarily developed in-house, few consultant companies involved as external partners	Headquarters, Australian subsidiary, several other Asian subsidiaries	RE-USE
Distribution of insurance products to start-ups through online portals oriented at start-ups, later integrated into main corporate website	Online portals and magazines targeting start-ups (difficult, as web-boom ended during project duration)	Headquarters, German subsidiary	SME
Online risk market to transform relations between insurance companies and brokers industry-wide, use of auction mechanism, piloted in the US market	Required partnership with leading insurance and brokers (never materialised, led to project termination)	Headquarters, US subsidiary	RISK

Table 16: E-Business cases from Allianz used in Paper I

4.3.2 Cases in Company Z

The overall BoP portfolio of *Company Z* was relatively similar – reflecting the opportunities and difficulties in the sector at that time. Four cases were selected for and included in the analysis – three highly exploratory cases, for the analysis of the impact of partnerships in such initiatives in *Paper III*, and one additional case with a low degree of exploration for the analysis of the dynamics in BoP portfolios in *Paper II*.

Initiative	Partner	Units	Degree of Exploration	Use in papers			
				I	II	III	
Z-DEVCOOP	Long-term strategic alliance to promote BoP engagement of the company (across product range) and develop the BoP expertise in the sector.	<i>DevCoop2</i> , Public development institution from company's home country, number of country offices	Head-quarters	High	–	–	Z1
Z-HEALTH	Project to launch an innovative BoP product (health microinsurance) in a new target market.	<i>GlobalNGO3</i> International, membership-based network of micro-finance institutions	Head-quarters, <i>Mena1</i>	High	–	–	Z2
Z-MOBILE	Project to test mobile sales as a new channel for distributing microinsurance products.	<i>Bank1</i> Local mobile bank in a developing country with a strong BoP focus	Head-quarters, <i>Africa4</i>	High	–	Z-High	Z3
Z-MFI	Distribution of life and motor (mainly for taxi drivers) to clients of the microfinance institution	<i>MF17</i> , Leading microfinance bank in the national market, well-established processes	<i>LatAm3</i> , Later: Head-quarters	Low	–	Z-Low	–

Table 17: BoP cases selected for the data analysis in Company Z

Z-DEVCOOP was a long-term strategic alliance with *DevCoop2*, the development cooperation agency in the home country of *Company Z*. Internally, it was used to generally promote and steer the BoP engagement of the company, by holding regular (bi-yearly) meetings where the progress of the company was discussed, goals set, etc. While promoting product development and distribution, the initiative was not coupled to a specific product, country or distribution channel, but set up as global, overarching project. Managers repeatedly stressed the importance of the partnership for internally anchoring BoP as a topic, as the partner had high internal recognition as a well-recognised public institution. Additionally, the initiative aimed to develop the BoP expertise in the company as well as in the sector, by conducting joint studies, publishing briefings, etc.

On a more specific level, **Z-HEALTH** was a project to launch an innovative BoP product (health microinsurance) in a new target market. The project was based on

discussions between the head of BoP at *Company Z* and the executive director of *Global-NGO3*. After initial deliberation, *Global-NGO3* proposed *Mena1* as a target market, as their local member, *MFI9*, had expressed its willingness to cooperate. While the company did not have a subsidiary in the target country, it had an established relationship with the local “fronting company”³⁹ *Front1*, that implemented the business on behalf of the company. The project was launched after a long and difficult product development period. As some key product features and the final pricing and product formulation were highly contested between the partners, the product went through several iterations. As this process lasted several months, the team at *Company Z* had significant challenges to get access to internal expertise on a regular basis. The product was finally launched, and judged as highly innovative by the company’s BoP managers.

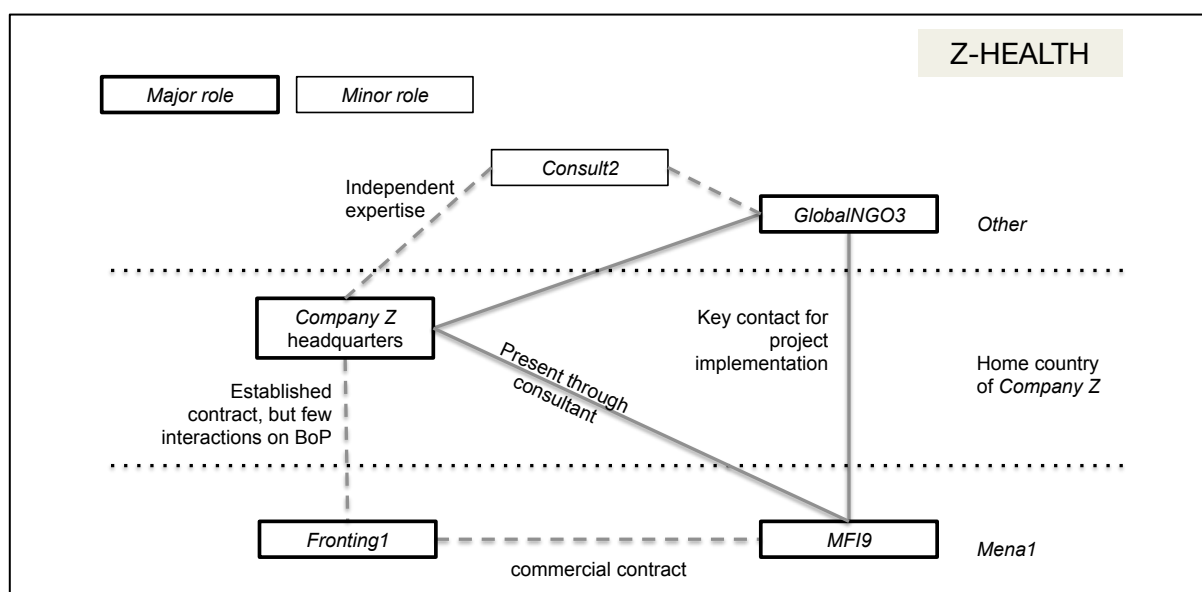


Figure 11: Partner network in Z-HEALTH (own elaboration)

Z-MOBILE was a project to test mobile sales as a new channel for distributing microinsurance products in urban low-income communities. The project was initiated

³⁹ Fronting arrangements allow entities without an insurance license (or, as in this case, without an insurance license in the respective country) to collect premiums and carry risk through a regulated insurance company, the “fronting company”. The fronting company formally assumes the responsibility towards the local regulator, while contracts regulatory the transfer of the risk towards the non-regulated entity.

between the headquarters of Company Z and the executive leadership of Bank1, and received financial and technical support from *DevCoop5*. *Academic1* provided key parts of the technical infrastructure (mobile app for making insurance sales), and played a key role in the partnership⁴⁰. The partners initially discussed to offer funeral coverage, a popular product in the country. After it turned out that the mobile bank already had a contract for this product, as a basic coverage was included in the monthly account fee, the company and its partner decided to offer a ‘legal plan’, providing coverage for legal costs incurred during arrest or accusation. While unconventional for the target group, managers still assumed that it would be highly valued in low-income communities, and first trials and tests with the target group were promising. After significant debates in the subsidiary of *Company Z*, in particular on legal issues⁴¹, the mobile application was successfully launched. Selected sales agents of *Bank1*, mostly teenagers and young adults from lower-income communities, were trained, and started their sales activities. While the sales were lower than expected, the team labelled the project a ‘proof of concept’ that showed that mobile sales were possible, despite the technical and legal barriers.

⁴⁰ Up to the point where employees from *Bank1* would be confused about the organisational affiliation of staff from *Company Z*’s headquarter and *Academic1*

⁴¹ In most countries, sales of insurance policies are limited to registered insurance agents, that have undergone a formal education and approval process. Due to the simple nature of the ‘legal plan’ offered and low educational background of the sales agents, independently employed teenagers and young adults, the products would officially only be ‘offered’ by the agents, not ‘sold’, eliminating the requirement to formally register the bank agents. Whether this is possible was, amongst other issues, hotly debated within the company, including the commission of several legal opinions.

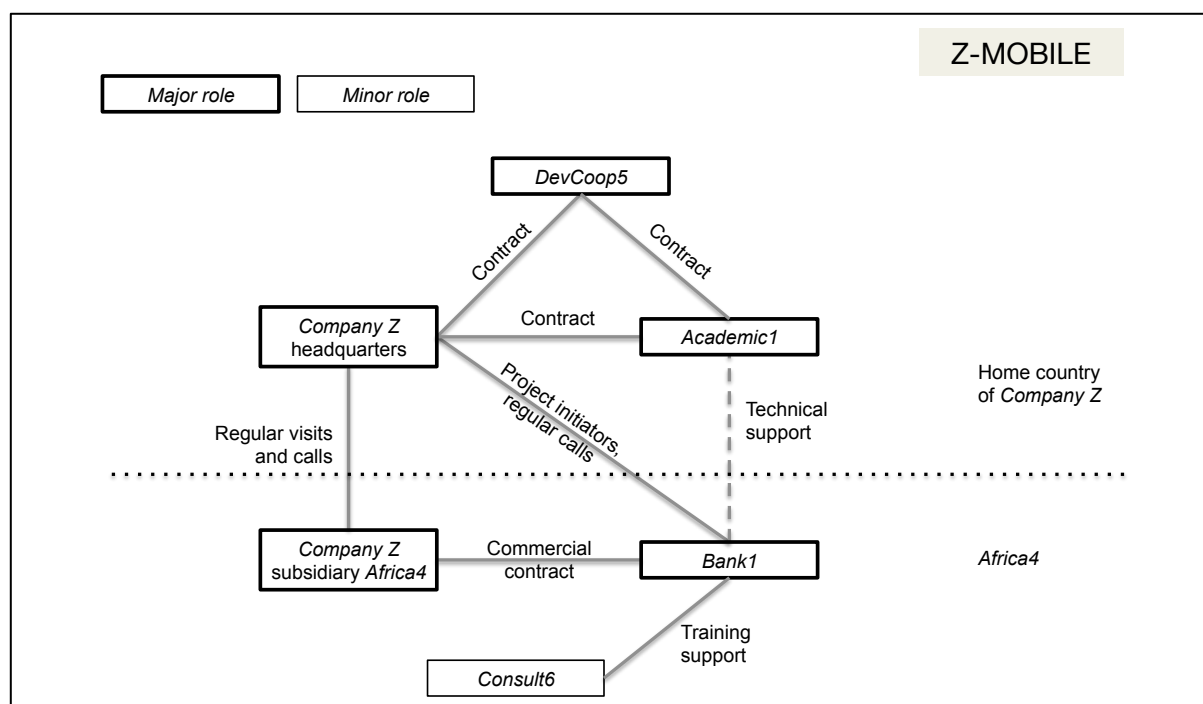


Figure 12: Partner network in Z-MOBILE (own elaboration)

Last, **Z-MFI** was a project similar to *A-MFI*, targeting clients of a leading microfinance institution in *LatAm4* with life and motor (for drivers of minibuses and taxis financed by the MFI). The relationship developed out of informal contacts between the company’s president and an advisory board member of the MFI, in the scope of company’s bancassurance activities in 2001, and was only later re-labelled ‘microinsurance’, once attention to the topic rose. The subsidiary created an own ‘head of microinsurance’, linked up with BoP team at the headquarters, and expanded sales through other local MFIs.

Overall, the cases are representative of the full range of the companies’ BoP portfolios. There were other initiatives that could have been included as cases, for example sales of life and housing content microinsurance through the retail outlets of *Retail1* in *LatAMI*, which overall operated in a very similar fashion to other cases from *Company A* included in the analysis (here, the local *A-MFI*). Adding additional cases would have made the analysis and write-up more lengthy and complex, without adding much additional insights into the mechanisms described and uncovered, a case of “theoretical saturation” (Eisenhardt 1989). The additional cases were thus omitted from the final theory building and write-up.

Additionally to these initiatives considered as cases, several other activities were observed that were not clearly attributable to single initiatives, did lead only to marginal activities, or failed due to political resistance or competition for resources in subsidiaries. This would include, for examples, the interaction between the headquarters of *Company A* and the subsidiary *Asia3* – while regulatory pressure to offer BoP products existed in the country and the headquarters’ BoP manager had interest in promoting BoP activities in the subsidiary, the local executive leadership was hesitant to resistant, and no major activities were undertaken. Similarly, while the headquarter team developed or proposed different products to *Asia4*, frequent local changes in staff and resources prevented these from being rolled out.

4.4 Utilisation of cases in the different papers

For the papers, initiatives were selected as cases from a theoretical sampling perspective – in order to allow insights about the specific processes or mechanisms dealt with under the respective research questions in the three papers. For this purposes, *Paper I* and *Paper II* deal with *initiatives*, while *Paper III* takes a more specific focus on selected *partnerships* as the level of analysis. While partnerships play a certain role in all initiatives, they do not always coincide with initiatives, with one partnership being relevant for several initiatives, in different countries, or one initiative relying on several parallel or interwoven partnerships. The papers try to handle this complexity by maintaining strong coherence within each of the paper with a clear level of analysis, while shifting (for *Paper III*) between the papers.

	Exploratory IT initiatives (both less and highly exploratory)	Less exploratory BoP innovation	Highly exploratory BoP innovation
Company A	Paper I (initiatives)	Paper I (initiatives) Paper II (initiatives)	Paper I (initiatives) Paper II (initiatives) Paper III (partnerships)
Company Z		Paper II (initiatives)	Paper II (initiatives) Paper III (partnerships)
	<i>Data gathered by Schmid (2005)</i>	<i>Data gathered under scope of PhD project</i>	

Table 18: Shaping of case material for the different papers

Paper I is based on an in-depth, participatory case study of two episodes of new business model development in *Company A*. It combines the material from the microinsurance cases, gathered for this thesis (covering events from 2004 to 2010), with those gathered by a previous researcher (Schmid 2005) in the same company on e-business (implemented between 1997 and 2003)⁴².

	Exploratory IT initiatives (both less and highly exploratory)	Less exploratory BoP innovation	Highly exploratory BoP innovation
Company A	CORP-1 RE-USE SME RISK	A-MFI (MFI-LOCAL) A-SAVE (MULTI-CHANNEL)	A-RELIEF (In paper: NGO-IMPLE) A-CONSULT (NGO-BROKER)
Company Z	–	–	–
	<i>Data gathered by Schmid (2005)</i>	<i>Data gathered under scope of PhD project</i>	

Table 19: Shaping of case material for Paper I

The second paper is dealing exclusive with BoP initiatives, and covers BoP initiatives with different degrees of exploration. Two “polar cases” from each company have been selected as the basis for analysis in this paper, representing high (*A-Explore*, *Z-Explore*) and low degrees (*A-Exploit*, *Z-Exploit*) of exploration within the respective BoP portfolios. This selection, and ‘shaping’, of cases as a basis for the data analysis and theory building was influenced by the interactions with the experts in the case companies and their daily concerns – of wanting to run highly exploratory, innovative initiatives (“cool stuff”, in the words of key informants at *Company Z*) and the more exploitative, traditional initiatives preferred by subsidiaries.

	Exploratory IT initiatives (both less and highly exploratory)	Less exploratory BoP innovation	Highly exploratory BoP innovation
Company A	–	A-RELIEF (In paper: A-High)	A-MFI (A-Low)

⁴² For practical reasons, the paper only uses data from one company covered in this PhD study, as data on the e-business activity of the other case company are not available.

Company Z	–	Z-MOBILE (Z-High)	Z-MFI (Z-Low)
	<i>Data gathered by Schmid (2005)</i>	<i>Data gathered under scope of PhD project</i>	

Table 20: Case selection for Paper II

The last paper focuses on highly exploratory initiatives. It is based on six embedded cases, three case studies from each company, that cover partnerships crucial for the development of the company's BoP portfolio. Apart from Z3, all "partners" actually consist of several interlinked organisations, for example on an international and local, i.e. developing country, level. In the case of Z3, several other organisations are part of running and implementing the project, while the partnership between the company and its partner, a local mobile banking targeting clients in low-income areas, remains the core relationship.

	Exploratory IT initiatives (both less and highly exploratory)	Less exploratory BoP innovation	Highly exploratory BoP innovation
Company A	–	–	A-DEVCOOP (In paper: Case A1) A-RELIEF (Case A2) A-CONSULT (Case A3)
Company Z	–	–	Z-DEVCOOP (Case Z1) Z-HEALTH (Case Z2) Z-MOBILE (Case Z3)
	<i>Data gathered by Schmid (2005)</i>	<i>Data gathered under scope of PhD project</i>	

Table 21: Shaping of case material for Paper III

4.5 Summary

The research setting described allows observing MNC operations to reach low-income markets in different stages – from experimentation and start-up to scaling and growth. The networks used to develop these partnerships are varied and range from

international organisations and development cooperation agencies, NGOs and foundations to local MFIs and banks focusing on low-income markets. Besides learning about an exciting and rising phenomenon (Churchill 2006a, Roth et al. 2007), the context – with its variety of products and markets – creates unique material from which theoretical insights can be developed. These insights are contained in the next three chapters – making up the core of this dissertation.

5 HOW VALUE SYSTEM STRUCTURES AFFECT NEW BUSINESS EXPLORATION: THE CASE OF A GLOBAL MARKET LEADER

Torsten Schmid, Martin Herrndorf

5.1 Abstract

This paper seeks to advance the understanding of how firms manage tensions between value systems – systems of interrelated process and outcome preferences – when developing new business models. We propose that richness and connectedness in value systems, originating in business models' institutional fields and the extended processes of interpretation and sense-making around the new business model, provide a strong signal for business model viability and attractiveness. During initiative formation, the interplay of richness and connectedness deters exploratory activities at the company's core, while creating space for such activities in the periphery. Over time, selection of values and reconfiguration of the relationships between them alters the richness and connectedness of the value systems, with the direction of the changes depending on the perceived initiative success: More successful initiatives exhibit 'integrative', less successful initiatives 'marginalising' selection and reconfiguration in their value systems. Our model is based on an in-depth, participatory case study of two episodes of new business model development (for e-Business and BoP) in a leading multinational financial service company.

5.2 Introduction

Values and processes of evaluation, including the respective performance metrics applied, are important features of organisations (Schein 1990, Denis, Langley & Rouleau 2007, Detert et al. 2000). Tensions between different value systems, i.e. systems of related, logically connected values, (Liedtka 1989) often affect strategy processes, including those related to the exploration of new business models in large companies, in multiple ways (Chesbrough & Rosenbloom 2002, Johnson et al. 2008, Leonard-Barton 1992, McGrath 2001).

Large and established companies are often marked by a unified and dominating value system, i.e. a stable organisational culture, at the core (Adler et al. 2009, Detert et al. 2000, Leonard-Barton 1992, Burgelman 2002), developed through processes of socialisation, coercion, mimicry and normative pressures (DiMaggio & Powell 1983, Wiener 1988). Yet, new business models are often marked by differing and partly conflicting value systems (Hamel 1999, Walsh et al. 2005) originating in the respective institutional fields (Hoffman 1999, Maurer et al. 2011) – values that tend to differ from those at the company's core. Managers in exploratory initiatives have to deal with these conflicting value systems and the resulting value tensions (Gilbert 2005, 2006, Andriopoulos & Lewis 2009).

Values are also reflected in performance metrics and wider processes of evaluation and justification (Boltanski & Thévenot 2006, Denis et al. 2007). New business models often initially underperform compared to established business models, and legacy performance metrics are often inappropriate for the evaluation of new business models and market opportunities outside the established core domain and customer focus (Christensen & Overdorf 2000, Johnson et al. 2008, London & Hart 2004, March 1991). Different mechanisms are thus needed to guide the discovery of new business models, to select those among the many “dangerous and foolish” ideas that are promising for the development of new business models (March 2006b, McGrath 2010).

In our model, we show how the institutional fields around new business models create value systems that are marked by richness – i.e. they encompass a high number of process or outcome preferences – and connectedness – i.e. that these preferences are highly linked and dependent on each other. Both richness and connectedness in value systems result from extended processes of sensemaking and interpretation in these institutional fields. And as richness and connectedness are costly to achieve, they provide a strong signal or proxy-indicator for the viability and attractiveness of the new business model.

In new business model exploration, richness and connectedness delay a strong corporate response at the company's core. That delays exploration, but also prevents that legacy knowledge, performance metrics teams and process requirements stifle the new initiatives. At the same time, richness and connectedness spur the development of separate initiatives for new business models creation in the company through the creation of sub-cultural niches (Linnenluecke & Griffiths 2010). Such a ‘cultural

separation’ often accompanies or even replaces the ‘structural separation’ (Gilbert 2005) discussed in the literature, and allows effectively exploring diverse ideas in the initial phase. At later stages, richness and connectedness affect the coordination and integration of the new business models with the core business. Here, middle managers in charge of the initiatives select values and reconfigure relationships in “integrative” ways to facilitate the integration of more successful initiatives, and in “marginalising” ways to reduce the compatibility of new and old value systems in less successful initiatives. In both cases, the company-internal adaptations can feed back into the value systems held by the institutional field – by further increasing richness and connectedness through a learning process from both more and less successful initiatives.

We hope to explain the impact of key structural features of values systems in the complex, messy and often non-linear process of new business model development (Chesbrough & Rosenbloom 2002, McGrath 2010) to create a better understanding of cultural dimensions of new business model development (Leonard-Barton 1992, Maurer et al. 2010). Additionally, we expand existing theory of organisational values and culture, by showing the dynamic differentiation and integration processes around value systems (Linnenluecke & Griffiths 2010, Linnenluecke, Russell & Griffiths 2009) that challenge established views about the uniform, stable nature of organisational culture (DiMaggio & Powell 1983, Detert et al. 2000, Adler et al. 2009).

This paper starts with a review of the existing literature on the role of values in exploration-exploitation, focusing on new business models exploration in incumbent organisations. After presenting the methodology – a qualitative, comparative embedded case study design – we provide information on our data to capture the company context and the main setup of the two episodes of exploration we are covering: the development of e-business and BoP business models (Zott et al. 2010). The theory section provides a model on the origin of these values in the respective institutional fields, their simultaneously inhibiting and enabling effects on the strategy process, and the way tensions are resolved through a re-evaluation of the new business models in terms of the established core business.

5.3 Background

Which role do values and processes of evaluation play in the mechanisms that determine, if, where and how and with what success companies explore new business models? To map the existing knowledge relevant to this question, we will, first and briefly, sketch the need for the exploration of new business models and highlight some challenges that companies experience in this field. We will review existing definitions of values and valuation, and show how these influence the tensions between exploration and exploitation. The resulting research gap – the mechanisms through which values systems might both enable and hinder progress in exploration initiatives – will guide the rest of the paper, and in particular the model development.

5.3.1 New business model exploration

It is increasingly well accepted in both theory and practice that incumbent firms cannot maintain dominant market positions by merely exploiting the core business, but that they need to explore new, potentially disruptive business models for long-term firm survival and adequate financial performance (Burgelman 1983a, 1983b, 2002, Johnson et al. 2008, Leonard-Barton 1992).

However, exploring new business models can be difficult and risky (March 2006a). Companies' strategies are often tightly coupled to existing technology, products, and target markets (Burgelman 2002). They fail to understand and react to outside trends that shape new product demands, e.g. regarding basic performance dimensions of new products (Bower & Christensen 1995, Christensen & Overdorf 2000). Managers may refrain from developing new, disruptive business models as existing metrics and performance measures are matched to their established markets and products and fail to adequately capture the new market opportunities that might arise (Johnson et al. 2008, McGrath 2010). And while companies have deep knowledge and experience in their core business, they are inexperienced with the new models, making them financially less appealing as learning effects are realised only over time (Levinthal & March 1993).

Resolving these challenges involves complex tensions and practices between the exploration of new business models, and exploitation in the core business, including difficult and non-linear “discovery” process (McGrath 2010) with a certain degree of foolishness, experiment and play (Gilbert 2005, 2006, Jansen et al. 2009, Leonard-

Barton 1992, Levinthal & March 1993, March 1991, 2006a, 2006b, Raisch and Birkinshaw 2008). Combining exploration and exploitation is difficult, as both fields are governed by different logics (March 1991:71) and require different management tools (Adler et al. 2009, Benner & Tushman 2003).

The mechanisms proposed for balancing exploration and exploitation include differentiating mechanisms like structural separation (Benner & Tushman 2003, Gilbert 2005), or the temporal cycling or sequential attention (Burgelman & Grove 2007) between the two learning modes as main options for firms to balance exploration and exploitation. As exploration often relies on core business resources, the literature also proposes several integration mechanisms, like cross-linking teams (Gupta et al. 2009, Taylor & Helfat 2009), top-management team integration (Gilbert 2005, Jansen et al. 2009), or the re-integration of new business models after a period of separation (Siggelkow & Levinthal 2003, Westerman, McFarland & Iansiti 2006). Other scholars directly insist on ‘ambidexterity’, and view exploration and exploitation as inseparable, complementary learning facets. Balancing results from managers’ ability to pursue exploration and exploitation at the same time in one unit (Raisch & Birkinshaw 2008), through factors like the diversity of team composition (Taylor & Greve 2006), processes that balance ‘paradoxical’ views (Smith & Tushman 2005, Andriopoulos & Lewis 2009) or emotional leadership (Huy 2002).

5.3.2 The role of values and value systems

Besides more tangible issues like legacy systems or incentive structures, previous research has highlighted the role of values as a key variable in processes to balance exploration and exploitation (Leonard-Barton 1992). Values can be conceptualized as an

“enduring belief[s] that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence.” (Rokeach 1973: 5, in Wiener 1988).

Values thus tend to show certain stability over time and across different contexts – they are “trans-situational” (Schwartz 1996, in Maurer et al. 2011). The definition above covers both preferences for modes of conduct, or *processes*, e.g. which kind of knowledge is highly valued, how transparent and participatory decision making should be, etc. as well as for end-states or *outcomes*, e.g. regarding the financial or social

performance of the company (Bateman, O'Neill & Kenworthy-U'Ren 2002, Leonard-Barton 1992, Walsh et al. 2003)⁴³. While every individual holds his or her own values, they are not independent of the respective societal and organisational context, but depend on social processes in which they are formed, expressed and negotiated: „Preferences and perceptions are dynamic, [endogenous], and subject to processes of sensemaking, contestation, and social construction” (Maurer et al. 2011: 435).

In this paper, the focus is on **value systems** – which, in congruence with previous literature (Liedtka 1989: 806), we define as shared, relative stable, organized systems composed of related, logically connected preferences for modes of conduct or end-states. Such value systems are more than mere collections of values, but cover values, both relating to outcomes and processes, that are related to and dependent on each other. Value systems thus encompass both individual values as well as the relationships between the different values that make up the system. These individual values in value systems thus cannot easily be replaced or adapted, and value systems can be distinguished by certain features – e.g. the breadth of values that they cover and the strength of relationships between these values.

While value systems are relatively stable over time and normally shared by a certain group of people, they are nevertheless subject to the same processes of “sensemaking, contestation, and social construction” (Maurer et al. 2011: 435) described for individual values above.

5.3.2.1 Values and organisations

In the case of values in companies and other organisations, these processes take place in the respective organisational structure (Detert et al. 2000, Fang et al. 2011, Schein 1990). The previous literature has taken different perspectives on the topic, in particular, regarding the unity or plurality of values in organisations (Linneluecke & Griffiths 2010: 362).

On the one hand, organisations tend to attract and select individuals with similar values and over time align the values of those inside through organisational socialisation (Fang et al. 2011, Wiener 1988: 541). Most companies are thus marked

⁴³ We base our broad understanding of values on previous insights on goal-setting that have distinguished personal, financial, customer, market, operations, product, organizational, people, competitive and strategy making goals – with people holding values (i.e. preferences) for goals in each of these different areas.

by a relatively stable and coherent system of values at the core (Hofstede 1985) – for example a preference for certain disciplines (e.g. chemical engineering) or functions (e.g. product development) – that is well-matched to the respective company’s business model and product-customer vector (Burgelman 2002, Leonard-Barton 1992). In such cases, values and processes of evaluation can be an essential component of both a firm’s core capabilities and their competitive advantage (Barney 1986, Johnson et al. 2008, Leonard-Barton 1992, McGrath 2010).

Companies with such dominating value systems can also be described as having a strong “organisational culture”, a phenomenon that has been dubbed the “social glue” or the “collective mind” of organisations (Mintzberg & Water 1985: 262, Detert et al. 2000: 851). Such dominating value systems sometimes date back to the company’s founding period, and can be key to organisational integrity and continuity, for example as in the “Toyota Way” (Hofstede 1985: 349, Adler et al. 2009: 106). The resulting coherence in underlying values can be described as an institutional “isomorphism” within organisations – brought about through socialisation, coercion, mimicry and normative pressures.

As a contrasting position, studies have highlighted different and (sometimes) conflicting value systems, or “sub-cultures”, in organisations (Lok, Westwood & Crawford 2005, Denis et al. 2007, Linnenluecke & Griffiths 2010). Such subcultures can be conceptualized as “distinct clusters of understandings, behaviours and cultural forms that identify groups of people in the organisation” (Lok et al. 2005: 495). Subcultures can result from different functional positions marked by different value systems – like marketing, sales, research and development (Barley 1983, Gregory 1983) – but also from different national or regional cultures (Hofstede 1985). Different value systems in companies require coordination and interaction – through finding paradoxical resolutions (Smith & Lewis 2011) or by establishing the priority of a certain value system through ‘tests’ (Boltanski & Thévenot 2006, Denis et al. 2007). The degree of unity in values, or the strength of organisational culture, might also differ between organisations: While some organisations have strong and coherent internal value systems, others are less coherent and accommodate more sub-cultures (Wiener 1988).

5.3.2.2 Values and (e)valuation

Value systems are reflected in organisational processes (Pettigrew 1992) of “evaluation” that underpin the allocation of resources and development of strategic initiatives (Noda & Bower 1996) and are – both explicitly and implicitly – related to companies’ business models and strategies (Johnson et al. 2008). Different value systems and evaluation procedures can play a key role in justifying activities and processes, both internally and externally (Boltanski & Thévenot 2006, Denis et al. 2007).

Such a perspective on evaluation questions “rational-choice” models of decision-making and associated “technologies of rationality” (March 2006a, Wooldridge et al. 2008). While narrow rational-choice models would assume a clear performance measure (normally, financial returns) and standardised ways to access it (normally, net-present value or similar calculations), a values-based perspective on evaluation allows a broader range of logics applied to the evaluation and justification of projects and initiatives (Boltanski & Thévenot 2000, 2006).

This is particularly salient for pluralistic organisations that are marked by value systems containing preferences for multiple goals, e.g. patient care and financial performance (Denis et al. 2001, 2007), or creativity and financial performance (Andriopoulos & Lewis 2009). But it also applies to companies with a clear focus on financial performance as an outcome variable, as the value systems in the company might still allow different process characteristics and intermediate results, and thus impact evaluation criteria like differentiation vs. focus, short- vs. long-term orientation, customer- or technology orientation, etc. (Ghoshal & Moran 1996, Detert et al. 2000, Walsh et al. 2003).

Considering values and methods of evaluation allows to understand “active slack” or “technologies of foolishness” – purposeful activities that are not directed by the dominant (financial) performance measures of a company, but by something ‘different’ (Adner & Levinthal 2008, March 2006a). Such a ‘different direction’ may be necessary to account for the fact that the actual (financial) value of radically new business models is often impossible to recognise at the outset, as “most daring new ideas are foolish or dangerous” (March 2006b). But it can also relate to value systems that cover multiple outcomes, where trade-offs between the outcomes are not rationally accessible, but depend on the (socially constructed) relations between the different values in such a system. Value systems as an alternative form of justification

thus provides a “proxy”-guidance to help businesses sort the promising from the unpromising ideas – even if all might look foolish or dangerous from a mainstream financial perspective.

5.3.2.3 Values and business model exploration

The different value systems in organisations affect the balancing process between exploitation and exploration, and, in particular, the ability to engage in successful business model exploration. Both the content, i.e. the specific preferences for processes or outcomes, as well as the structure of value systems, i.e. the number and relationship of preferences to each other, has an impact here (see Table 22).

	Value system content	Value system structure
Hindering exploration	<p>Values that stress conformity and hierarchical modes of governance (Ouchi 1980).</p> <p>Values that stress process management, control, and the reduction of variance in operations (Benner & Tushman 2003)</p>	<p>Strong and consistent value systems on an organisational level, as they can prevent exploration by oppressing new ideas, concepts, processes etc. (Leonard-Barton 1992).</p> <p>Value systems that stress planning and rational, centralised decision making (Gilbert 2005, 2006, March 2006a)</p>
Promoting exploration	<p>Values that stress the “empowerment” of individual managers to initiate, facilitate and champion divergent initiatives (Leonard-Barton 1992, Floyd & Lane 2000)</p> <p>Values that promote play, experimentation, slack etc. (March 1991)</p>	<p>Open, diverse and flexible value systems in organisations can provide spaces for new ideas (Gregory 1983, Maurer et al. 2011).</p>

Table 22: Direct and indirect impact of values on exploration-exploitation (Source: Own elaboration)

Regarding the content dimensions, value systems that contain process preferences like conformity, hierarchy, control, and efficiency are likely to enhance exploitation, including “exploitative learning” around the current technologies, products and business models (Gupta et al. 2006), but inhibit the exploration of new business models (Benner & Tushman 2003, March 1991, Linnenluecke & Griffiths 2010). In contrast, values that promote “play” or “experimentation” (March 1991), or are related to empowerment and agency of middle managers will most likely enhance the

exploration of strategic alternatives in organisations (Leonard-Barton 1992, Floyd & Lane 2000).

Similarly, value systems that stress rationality, planning and deliberate decision-making, primarily based on evaluations that consider revenue and profit potential, will likely inhibit exploration by creating or enforcing rigidities and short-termism (March 2006a). In contrast, a focus on intermediary variables like organisational learning, creativity, innovation or customer satisfaction can foster exploration (March 1991, Floyd & Lane 2000, Gilbert 2005, Wooldridge et al. 2008, Andriopoulos & Lewis 2009).

Beyond the content, it is also the structure of value systems that affects exploration. Strong and consistent organisational value systems can prevent exploration as they oppress new ideas, concepts and processes, and promote deliberate strategies in the scope of the dominant ideology (Mintzberg & Waters 1985, Leonard-Barton 1992). In the case of “dynamic conservatism”, value systems can fuel the mechanisms in place to “dampen deviations from the status quo” (Adler et al. 2009: 101), even when explicit change initiatives are introduced. These mechanisms are often not conscious, but still underlie key process dynamics:

„In any business, a fundamental understanding of the core model often fades into the mists of institutional memory, but it lives on in rules, norms, and metrics put in place to protect the status quo“ (Johnson et al. 2008: 59)

Finally, both content and structure of value systems affect the agency of different groups in the company. Values with a preference for control and strong roles of top-managers can stifle exploration, as creating new business through top-down mandates often fails – one reason being that top managers tend to enforce “rigid routines” as they are trapped in their values and assumptions about the causes of success, rooted in past (Gilbert 2005, 2006). Similarly, strong and coherent value systems favouring dominant actors that are strongly connected to these value systems can inhibit contributions from marginal actors or disciplines in the company (Leonard-Barton 1992).

In contrast, values that promote contributions from actors on multiple levels allow organisational learning processes and open spaces for “emergent strategies” will enhance exploration (Mintzberg & Water 1985, Wooldridge et al. 2008). Similarly, open and flexible value systems are more open to contributions from lower-level or

marginal actors. Still, weaker value systems, i.e. a lack of a strong and dominant corporate culture, could also lead to strategic drift and confusion in the company.

5.3.3 Research gaps

As the discussion on values above has shown, there is a diverse and complex relation between value systems and exploration-exploitation balancing.

While the content dimension has been relatively well explored, there are fewer studies relating to the structure of value systems. Most studies relating to the structure of value systems are dominated by a more unified view of ‘organisational culture’ and have mainly focused on the impact of values on maintaining an organisation’s coherency and focus, on values as a ‘social glue’ (Detert et al. 2000, Adler et al. 2009). They have neglected how value systems can promote divergent and exploratory behaviour in organisations (Levinthal & March 1993, March 1991, McGrath 2010), and, more specifically, how different and competing value systems in companies enable new business model creation exploration.

Similarly, research has focused on values on the organisational (Leonard-Barton 1992) and individual (Schein 1990, Floyd & Lane 2000) level, including the interplay of both (Leidtka 1989). This neglects the impacts on intermediary levels like departments, strategic initiatives or projects. Still, these intermediary levels are often the places where sub-cultures with divergent value systems develop and value tensions materialize. This is also relevant for understanding established approaches for exploration, like structural separation (Benner & Tushman 2003, Gilbert 2005) or sequential attention (Burgelman & Grove 2007), on business model creation, which is affected by value tensions arising between the mainstream company and the separate initiatives that develop and implement the new business models.

Third, the lack of attention to value systems on intermediate levels also concerns the role of values connected specifically to business models. As we will describe below in more detail, many business models are marked by divergent value systems, including preferences for non-economic values or different “justification” regimes (Denis et al. 2007, Boltanski & Thévenot 2000). These value systems are often rich and complex, and shared by people connected to the business models – transcending the respective organisation, and extending to the broader institutional field of the business model (Hoffman 1999, Maurer et al. 2011). Value tensions thus arise from differences

between the ‘organisational culture’ and the ‘business model culture’, a phenomenon difficult to understand when mainly focusing on the uniformity of organisational values.

Last, while non-economic motivations – e.g. relating to aesthetic or social outcomes – are important features of many value systems, there is a lack of research that provides insights into non-economic values and intrinsic motivations that transcend the narrow focus on economic wealth creation and financial performance in new business model creation (Walsh et al. 2003, Ghoshal & Moran 1996). A focus on value systems, which can include preferences for multiple outcomes, can capture how value systems that include values related to non-economic outcomes can help to overcome business myopia.

To address the questions above, we thus focus on business model exploration as cultural change and, in particular, on the role of value system structure in the exploration of new, value-laden business models. We are interested in finding out how incumbent firms manage the tensions between different value systems – in this case, their dominating value systems that could be referred to as their organisational culture, and new value systems that are related to potentially disruptive business models.

5.4 Methodology

To study the micro-level mechanisms of the impact of values on the exploration of new business models, we have conducted a longitudinal, interpretive, real-time case study of a large, leading and globally active financial service corporation (Eisenhardt 1989, Leonard-Barton 1990, Pettigrew 1990).

We cover a unique setting of embedded cases during two episodes of potentially disruptive new business model exploration – two episodes with business models marked by strong and typical, yet distinct, value systems. While the existing literature often deals with the macro (company) level, having the same company context across our episodes and embedded cases allows us to move towards a more micro-level, contextual analysis and theory building covering the inner dynamics and interactions of different value systems (Dyer & Wilkins 1991, Yin 2003). Here, we are primarily concerned with discovering and understanding mechanisms and underlying causal relationships based on observations in the specific context of one company (Tsoukas 1989, Barley 1990, Dyer & Wilkins 1991, Siggelkow 2007). To further increase

validity and generalizability of the findings (Gibbert et al. 2008), both researchers have studied a second, comparable company during the respective period in similar depth, even though the cases are not explicitly included in this study (see Figure 13)⁴⁴.

5.4.1 Initiative selection and sampling

The researchers were able to cover a set of embedded cases in both episodes (Eisenhardt 1989, Yin 2003). This comparative research design, both within and across the episodes, allowed to develop more valid findings based on a larger number of observations, and at least a basic theoretical replication of our findings for a broader range of business model exploration (Eisenhardt 1989).

The initiatives were selected partly based on convenience and access, making use of opportunities to enter initiatives at an interesting point in their development, but also to cover a set of initiatives that show diversity in terms of their setup. This diversity relates, first, to the way in which the initiatives reflect parts of the new value system that have a higher or lower congruence with the company's core culture, and, consequently, the location of the initiatives in the company. While all initiatives were located in the company's periphery, some were more integrated and related to the company's core, while others were designed and executed in stronger separation and with fewer exchanges involved.

Regarding the **initiative performance** as a dependent variable, a broad and complex understanding of success was used. This understanding includes a broad set of outcome variables, e.g. financial success (revenues, profit, cost compliance), project implementation (time to market, effectiveness of project activities), agenda setting (getting awareness from higher-level managers and outside parties), etc. Beyond that, it is also *complex*, considering that these variables cannot be easily aggregated into a single (quantitative) measure, as they are at least partly contradictory and dependent on contextually and situational dependent discussions and negotiations. Considering

⁴⁴ *Company L* and *Company Z* are smaller, but still among the leading companies in the sector. They were faced with the challenge to develop e-business and BoP business models, respectively, showed broadly similar strategic responses, and the data was collected in an analogue way to *Company A*. Even though not explicitly included in this paper, the findings mainly replicate in the cases of the complimentary companies.

value systems, as defined in this paper, cover a broad range of outcome variables that are related in complex ways, such a broad definition is also appropriate from a theoretical perspective. Last, it coincides with definitions used by the practitioners observed, which stressed multiple intangible benefits and outcomes in internal discussions as well as in the interviews.

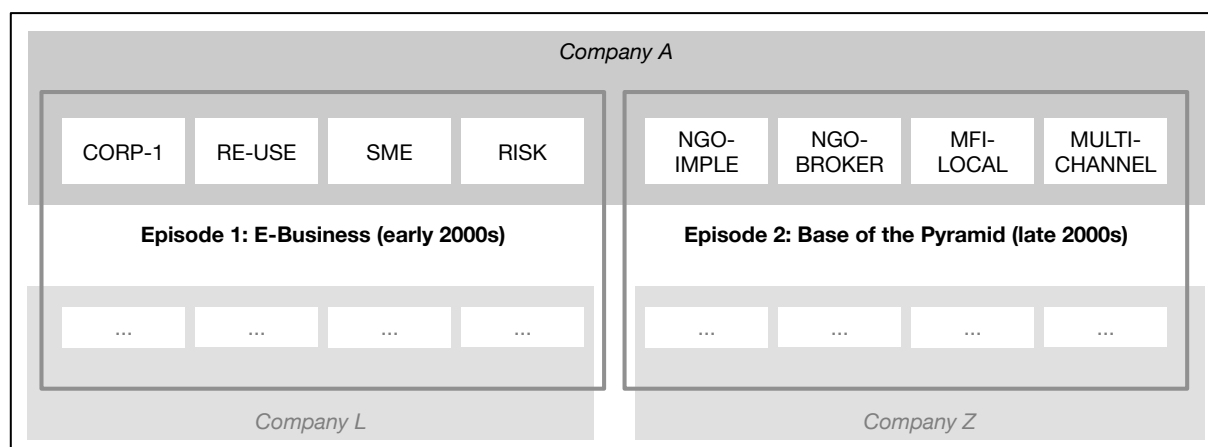


Figure 13: Embedded case setting – only cases from Company A are used for this analysis

5.4.2 Observation and data gathering procedures

To assure that the empirical material covering the two episodes is consistent and comparable, the observation and data gathering procedures for the second episode have been designed based on the protocols in the first episode, including similar stays in the respective companies, similar interview settings, etc. This also involved repeated feedback and guidance from the researcher who had conducted this first data collection.

Data was gathered during key phases of the initiatives on-site in the companies over the course of several months, by combining different methods (open and closed interviews, observation, informal interactions, document analysis) that allowed getting a full and rounded picture of the initiatives (Yin 2003). Time was spent on-site both at the headquarters and in selected subsidiaries, in particular in the Base of the Pyramid cases, as the special context of subsidiaries in developing countries made on-site data collection important (Yang et al. 2006). The long-term and close interaction assured that the research was guided by questions with high relevance for practitioners (Vermeulen 2005), and that researchers could capture the ‘hidden’ agendas and assumptions that turned out to drive key dynamics in the company (Barley 1990).

5.4.3 Analytical procedures and theory building

Both researchers have worked extensively with their data independently, yielding insights and understanding of the specific dynamics during the respective periods. Working through the empirical material in separation has also helped to generate a diversity of perspectives on exploratory initiatives that served as the basis for theory generation at later stages.

After this in-case analysis, the case studies and frameworks developed were combined and a cross-case analysis was conducted to specify and corroborate the findings (Eisenhardt 1989). The research question was iterated and adapted during this period, and the contrasting of the seemingly dissimilar cases allowed uncovering the importance and mechanisms of the focal issue of the paper – the role of value systems – in two markedly distinct contexts.

During the data analysis, tabular displays were used to compare the cases (both parallel displays of the cases and 2*2 matrices). These displays served to display both similarities and differences with and across cases on various levels of theoretical abstractness (Bourgeois 1979). Working across two datasets, this process of dialogical interpretation and parallelization of the underlying data helped to uncover new patterns in the data and validate interpretations and findings on the individual level.

While there is a range of differences across the two episodes, in terms of top-management attention and resource allocation, the paper still focuses on similarities, as it adds to generalizability and contextual richness of findings (Dyer & Wilkins 1991, Weick 2007) and is, simply, interesting to reveal the deeper, underlying similarities among the superficially visible and apparent differences in the original material (Davis 1971).

5.4.4 Validity and reliability tests

The validity and reliability of the cases is an important issue in qualitative research (Gibbert et al. 2008), and achieving these criteria is deeply embedded in the research design and methods. The validity, reliability and generalizability of the findings was assessed through a dialogical process – with each researcher processing and questioning the cases and conclusions of the research partner on a continuous basis, to avoid a single-researcher bias and allow a second, un-biased perspective on the material.

5.5 Data Overview

With over a hundred years of history, our case company had become one of the global leaders in the insurance and financial services industry, and was active and financially successful across a number of product categories and markets on a global scale. Both its long history, including the survival of two world wars, a brand name widely known among customers and its current financial success made it confident of its core business model. It had the reputation of being a highly stable and reliable, but slow-moving and bureaucratic organisation: A company that valued strength over agility even in its mission statement. The long innovation and product development cycles in the sector reinforced the conservative bias of the organisation.

We thus develop our insights based on observations in the extreme context of a large, incumbent market leader with a clear dominating value system, i.e. a strong, coherent corporate culture, and high levels of inertia. While other companies might be more agile and used to change, innovation and multiple value systems in general, we believe that observing how managers cope with new business models in such an extreme context allows valid and reliable insights on how business creation happens at the fringe or outside the scope of current markets and distribution channels in general.

5.5.1 Two episodes of business model creation

The cases we observed cover initiatives to develop new business models in two main episodes – e-business (early 2000s) and BoP (late 2000s).

In the first episode, ranging from 1997 to 2003, the company was faced with the rise of **e-business** as a potentially disruptive business opportunity (Hamel 1999, Amit & Zott 2001). While the company was initially a laggard, several high-profile models in related industries showed the feasibility and financial potential of building business models that used online platforms as new distribution channels for financial services.

After initial experiments, mostly on a subsidiary level, the company started developing a series of online-based business models for the distribution and servicing of insurance products in several markets. For the implementation, teams worked out business model sketches and, after board approval, received substantial resources to write full business plans, develop technical specifications and, finally, build the respective technical platforms.

From the e-business period, the following initiatives were include (see Table 23):

- CORP developed out of existing online experiments to support the sale of life insurance contracts through the human resource (HR) departments of partner companies. While CORP first aimed to provide the partners' employees, the final clients, access to full financial planning and transaction services, it was later changed into a platform for the HR staff, and a tool to improve data exchanges and reduce transaction costs.
- RE-USE started with plans to build a globally active online insurer operating under an own brand. The business model relatively soon was adapted towards a re-usable, modular platform for online distribution backed up by a regional data centre, to be implemented at the respective subsidiaries alongside their core business processes.
- SME aimed to distribute insurance packages to start-up companies and SMEs through partner portals serving these target groups. While sufficient sales through these portals were never realized, the platform was later integrated into the company's regular website, and the scope successfully widened to target corporate clients in general.
- RISK started as an initiative to build a 'risk market place' for insurance companies and brokers to transform the insurance market. To develop the online platform and acquire partners, it was set up as independent company with substantial investment.

The projects mostly started with high levels of ambition, especially RISK and RE-USE (in the early phases), and substantial resources from the company were committed for the large-scale plans for market transformation and domination. Regarding actual outcomes, the initiatives had a mixed performance. The least successful, RISK was terminated without tangible results, as no insurance company or broker committed itself to the market place before a critical deadline. The others, COPR-1, RE-USE and SME, made significant adaptations to their initial ambition and approach throughout the process, but were all launched, partly in versions with reduced features, and generated revenues at the end of the observation period.

	1997	1999	2000 Q1	2000 Q2	2001	2002	2003
RISK	-	-	Development of business model during one-day brainstorming Presented at holding conference, commitment of 1 million USD for business plan development Launch planned for 2001	Project team with 30 employees set up "greenfield", high autonomy, strong role of external consultants Development of platform specifications Start of negotiations with other insurers and brokers, initial interest but hesitance	Initiative unable to sign up insurers or brokers (as partners & additional investors) Search for external investors to save project in 'dot-com' crisis Termination of project due to lacking expectations	-	-
CORP	First internal experiments to improve data exchange in corporate staff insurance schemes through online solutions	-	Start of corporate e-business activities, development of business model with external consultants Development of business plan, with relatively modest investments, approval by board and sponsorship by key divisions	Development of online platform for corporate staff insurance Debates between external consultants and internal experts on scale and ambitions Adaptations after market research: First version of portal mainly for expert use by HR departments	Pre-release of intermediary platform for newly launched, government-subsidised pension scheme Development of main online platform delayed Struggle to access internal personal resources due to conflicting priorities in the company	Launch of main application in several steps till May 2002 Installation at 30 corporate customers, use as internal tool, successful offer to brokers	Continued investments and expansion in initiative Several hundred corporate clients active on platform

How Value system Structures affect New Business Exploration: The Case of a Global Market Leader

RE- USE	-	First activities in subsidiaries to set up direct online sales channel to improve profitability of local distribution unit	Plans developed to set up independent online insurer offering competitively priced products globally Piloting of platform targeted in six countries Team of 5 consultants starts work at corporate headquarters, 3 months for development of business plan Approval after critical discussions Plans adapted: Re-usable online platform to be implemented by local subsidiaries and a regional data processing centre	Selecting of pilot country (market conditions / subsidiary positioning) Shift from external consultants to corporate IT and e-business department Challenges in pilot country – shift away from corporate design guidelines, installation of local project manager	Delays in platform development Regional data centre dropped due to regulatory concerns Platform finally launched in March with minimal features, but within time and budget Still questioned in executive meetings, but successful role-out to several subsidiaries after renewed efforts	New discussions about regional data centre, initiative judged as successful	-
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Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

SME	-	-	Development of plans for distributing insurance products to start-ups partnering with online portals Organised as cross-cutting project with dedicated project leader Low attention from executive leadership due to conflicting priorities	Board approval Sped-up development of online portal, challenge to access internal resources First partner platforms signed up, but difficulties (delay in launch / insolvency of one major platform) Launch at first portal, low internal attention	Change – new project leader and stronger corporate buy-in Expansion to corporate clients beyond IT-start-ups, integration into corporate website Generation of significant business leads and sales	Replication of platform in other countries	-
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Table 23: Initiatives observed during the e-business episode

Timing:	2004	2005	2006	2007	2008	2009	2010
MFI-LOCAL	-	Start of simple product / (compulsory credit-life) based on bidding process / standardised product formula	Proposal by subsidiary to work on a variety of more challenging products (life, housing, health) Start of development of life product Intermediary develops dummy flyers for more challenging products	Launch of voluntary life insurance (January), initially low sales, but stronger from May on. Training and marketing at the level of the distribution partner	Stable revenues and profitability, overall low attention to product.	Minor change in product / sales interruption in October 2009 Negotiation on expansion of products, development of proposals for distribution partner on housing contents and theft	Start of formal, competitive bidding process as the distribution partner aimed to acquire formal bank license Main contract (for credit-life & voluntary life) lost to competitor Leverage of political influence, without success, termination of business relation on life insurance

MULTI- CHANNE L	-	-	-	First discussions between large local microfinance institution and subsidiary CEO, decision to work on savings product	Product developed and rolled-out through distribution partner, savings product offered by microcredit agents Substantial sales, expansion of product to other, smaller distribution partners	Closer cooperation, company buys stake in key distribution partner	IPO of largest distribution partner, wide-spread attention and critique of sales practices Major microfinance crisis in target market triggered by political intervention Concerns about sales practices and client education in headquarters team Involvement of external partner to improve sales practices
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Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

NGO- IMPLE	First attention to low-income markets due to major natural disaster in key target market (December)	Start of negotiations with humanitarian relief organisation based on charitable donation by staff members. Partner proposes working on business proposition instead of charity relationship, relationship handed over to subsidiary	Signing Memorandum of understanding with partner. Demand study shows potential, but difficulties in affordability. Strong discussions about feasibility of project and project scope, resistance in subsidiary. Key meeting between local partner and subsidiary, positive decision after corporate intervention	Development of innovative product suite (health, combined products) and training of distribution partners. First marketing and enrolment campaigns in selected pilot locations	Product licensed by regulator, start of official sales activities and role-out. Distribution area hit by major cyclone, 16,000 claims filed by clients in large, remote area, high losses in portfolio	Debate about product pricing, external pricing experts show that product is 7-10 times under-priced. Price doubled at end 2009, plans for expansion to diversify risks. Continued discussions about role of subsidiary and partner, who wants to hand over the project	Further internal pricing discussions. External study on social impact commissioned by corporate BoP team, difficult discussions on result interpretations. Product changed, innovative but under-priced components cut
NGO- BROKER	-	-	-	NGO proposes and develops first local microinsurance activities between MFI and (partly-owned) subsidiary in one target market. Company acquires full stake in subsidiary	Expansion to other countries, with NGO as key partner for the company, relatively simple and standardised products. Discussion on equity stake, without results. First involvement of headquarters staff	Regular meetings between headquarters staff and partner. Challenges with "lost premiums". Slow expansion of programme, few partners added. Discussions on more innovative products, crop and health insurance, start	Plans to work on mobile insurance, but difficult discussions, projects never materialised. Relationship maintained, but on low level. Company builds up parallel accounts directly with subsidiary staff alongside normal operations

Table 24: Initiatives observed during the BoP episode

In the second episode, the company was faced with the rise of emerging markets and the **Base of the Pyramid (BoP)** paradigm (Prahalad & Hart 2002, Prahalad 2004), and engaged in several initiatives to develop and distribute standardized products for low-income markets in developing countries. While the initiatives originated both at the headquarters and subsidiary level, it was a “BoP champion” in the company’s Corporate Social Responsibility (CSR)-department that promoted several of them, and felt that the pursue of the social component of BoP was an important issue. The projects were repeatedly communicated through press releases and featured in main media outlets, with a focus on the social benefits and impacts on the ground.

From the BoP period, the following initiatives were include in the analysis:

- NGO-IMPLE was mainly driven by an NGO, with a global and local presence, that developed a set of highly innovative BoP products with a subsidiary of the company. They were distributed using the partner’s working relationships with rural women self-help groups (SHGs)⁴⁵ in remote coastal areas.
- MFI-LOCAL is based on a partnership with a local, relatively well-established Micro-Finance-Institution (MFI) in a Latin American subsidiary, to develop a set of BoP products and distribute them using the MFIs existing agents and client base.
- MULTI-CHANNEL started as a product development project with one key partner (a large, local MFI), and later evolved into distribution partnerships with a diverse group of organisations reaching BoP clients, in particular agricultural cooperatives, rural banks, and other MFIs.
- NGO-BROKER was implemented with a global NGO working in the microfinance field, which brokered relationships to MFIs in range of developing countries where BoP opportunities in the sector were not yet broadly explored. While the company and its partner NGO jointly developed the product, distribution was mainly handled by the partner organisation.

Overall, NGO-BROKER was a project with difficult outcomes – expansion plans were substantially delayed, and operational challenges occurred between the different

⁴⁵ Such self-help groups are relatively wide-spread phenomenon in the country, and aim not only at financial support, in particular the provision of credit, but wider measures of empowerment and well-being (Tesoriero 2006)

partners. NGO-IMPLE had a mixed record – while the project has resulted in repeated media coverage and was highly regarded for its innovative character, it remained a challenge in terms of scale and profitability. On the success side, MFI-LOCAL yielded positive financial results over several years, even though the product diversification planned was not fully implemented, and the account finally lost in a competitive bidding process. Through MULTI-CHANNEL, finally, the company has achieved sales of an innovative, socially relevant product through a variety of distribution partners, reaching profitability and recognition both inside the company and externally.

		Dimension 1: Initiative performance		
		Successful	Mixed cases (success after re-orientation)	Less successful
Dimension 2: Episode	Episode 1: E-business	CORP	RE-USE SME	RISK
	Episode 2: BoP business	MULTI- CHANNEL	MFI-LOCAL NGO-IMPLE	NGO- BROKER

Table 25: Dimensions for cross-case comparisons with the polar-case method.

5.6 Theory development

With the model, we seek to capture the paradoxical and sometimes conflicting role that value systems play in initiatives for new business model creation. Across both episodes, value systems affected how the company reacted to external trends – by deterring and delaying a reaction at the company core while simultaneously inspiring managers at the periphery (Regnér 2003) to set up initiatives to develop new business models in the respective markets. While the tensions between the different value systems were oppressed or deferred for a while, they surfaced again, as managers tried to integrate or co-ordinate the new (and still contested) business models with the core activities of the company (Taylor & Helfat 2009).

Comparing initiatives in two episodes where a large, incumbent company managed to master this dilemma, we will show how the structure of value systems can explain how companies are able to recognise opportunities, even if these contradict established company knowledge (Leonard-Barton 1992, Webb et al. 2009a) or do not fit established performance criteria (Johnson et al. 2009), how they form initiatives with

adequate, i.e. reduced, level of oversight but high internal cohesion (McGrath 2001, Ouchi 1980), and later master the necessary re-integration that allows to draw on the core resources required to integrate the business model.

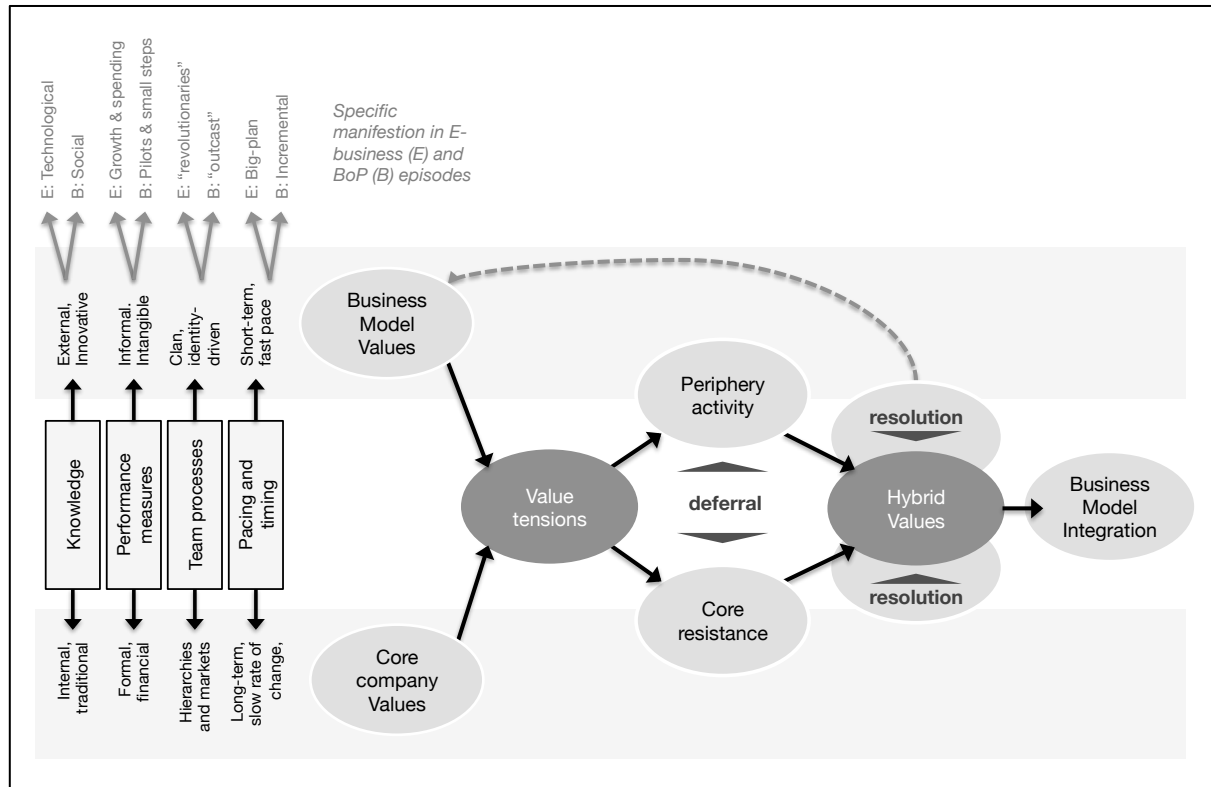


Figure 14: Model overview – the role of value tensions

5.6.1 Signalling through value systems

While our company displayed the typical features of a strong ‘organisational culture’ with a strong and coherent value system (Detert et al. 2000, Adler et al. 2009), we observed ‘value tensions’ related to the existence of competing value systems around the new business models. The value tensions thus did not result from inner tensions in the company (as in Gregory 1983), but from strong, coherent and partly conflicting value systems related to the new business model, value system that developed out of shifts in the institutional field (Hofmann 1999, 2001, Maurer et al. 2011).

In both episodes, the company was faced with external trends – e-business and BoP – with specific value systems that were held and co-created by actors in the institutional field of the respective companies (DiMaggio & Powell 1983, Hoffman 1999, Maurer et al. 2011). These value systems were not uniform, but contested and continually

shaped through the interaction of actors in the institutional field (Hoffman 1999, 2001).

While the financial prospects of disruptive business models are, almost by definition, difficult to judge from the onset, as they fall outside of established performance criteria and evaluation processes, we propose that the signalling effect of value system *richness* – i.e. the number of values covered – and *connectedness* – i.e. the number of relationships between them – play a key role in allowing middle managers to judge the attractiveness and importance of value systems. Both richness and connectedness are costly to achieve, as they result from extended processes of interpretation and sensemaking involving a diverse set of actors with sometimes conflicting perspectives, with this underlying process being a key indicator that a disruptive business model proposition is in fact viable and attractive⁴⁶.

To show how business model formation affects richness and connectedness of value systems, we will provide a brief review of the process in the two case episodes.

Value system formation in e-business

In the e-business episode, the company experienced the challenge of a potentially disruptive, technology-driven business model – the provision of financial services through online channels. While a new technology lay at the core of the new business model, the application in specific business models was connected to a new institutional field and a new value system (Delbeq & Weiss 2000, Hamel 1999).

These values developed in an institutional field marked by high dynamism and connectedness – and significant contradictions. While the technological infrastructure was set in place by large and well established institutions, partly of a state or military background⁴⁷, e-business also had early roots in social, partly underground movements

⁴⁶ These arguments are structurally similar to those that explain why non-imitable, non-substitutable and rare firm resources that are the result of path dependent, socially complex processes explain sustained competitive advantage (Barney 1991) – with the different that firm resources can be directly be used in profitable business models, while complex value systems merely signal non-obvious business opportunities whose exploration and exploitation may rest on a prolonged discovery process (McGrath 2010).

⁴⁷ For example, the ARPANET, the predecessor of the Internet in the late 70s that already used some of the key technologies still in place today, was implemented by the US Department of Defense.

promising a grass-root cultural revolution symbolized by the ‘Hacker culture’ marked by new levels of transparency, widespread participation in discourses and politics and a new global conscience (Rossetto 2008, The Mentor 1986). At the time of our observation, the disruptive force of Internet technology was widely discussed as a new and exciting business opportunity – labelled as the E-business revolution that would change entire industries, and new, promising commercial business opportunity as symbolized by the entrepreneurial and partly aggressive Silicon Valley / start-up culture (Hamel 1999, Delbeq & Weiss 2000). At the time of observation, several highly successful start-ups had proven that online distribution and service models could work, from retail (Amazon) to online brokerage (Charles Schwab).

Despite its differences, the e-business value system shared certain features with its predecessors – the early hacker culture: A preference for disrupting legacy systems, breaking established industry rules and challenging incumbent players (Rossetto 2008). The significant conflicts and discourses over that period marking the sensemaking process around the new technology, were still visible in the partly conflicting values and preferences held by key players in the system. E-business was thus not simply a market-disrupting business model, but included values relating to the “Hacker ethos”, technical autonomy, transparency etc. that were related to each other in multiple and complex ways.

Established industry players saw the new business models both as an opportunity, to expand sales, and as a threat to their core business (Gilbert 2005, 2006). The success of online banking and financial brokerage, as symbolised by the online client numbers and market valuation of Charles Schwab, for example, was repeatedly discussed by managers in our case company, and the company’s executives were exposed to pressure and demands from both financial market analysts and media outlets.

As the company started to discuss whether and how to develop e-business models, significant tensions appeared between the value systems connected to e-business and the legacy value system of the company. Some of these were rooted in certain core characteristics of the business model. E-business promised the sales of standardised insurance products through online systems at large scale, with a minimum of human interaction and on a low cost basis (Amit & Zott 2001). In contrast, the company had traditionally relied on a dense network of locally embedded distributing agencies with high autonomy and close, personal contacts to clients (Gilbert 2005, Granovetter 1985, Uzzi 1996). While e-business potentially allowed sales on a global scale, country

subsidiaries valued the national (and regional) autonomy of their subsidiaries and agents, often embedded in local networks with high levels of social capital (Uzzi 1996). The e-business values thus threatened the position of powerful coalitions in the company (Leonard-Barton 1992).

	E-business	BoP
Origins, low compatibility	<p><i>'Hacker culture'</i></p> <p>Promise of total transparency, decentralization and a 'grass-root' economic revolution, hacker ethics (The Mentor 1986)</p> <p>Challenge to established social, political and economic institutions, non-economic incentives (technological achievement, political progress).</p>	<p><i>'Social protection'</i></p> <p>Opportunity to foster income generation and provide social protection to marginalized and (economically, politically, culturally) excluded segments of the population (Yunus 2003, Polak 2008).</p>
Development, higher compatibility	<p><i>'Start-up culture'</i></p> <p>New business opportunity to create market-dominating, winner-takes-all businesses</p> <p>Development of Silicon Valley / venture capital scene, early wave of technology-driven start-up and IPOs/buy-outs (Amit & Zott 2001, Hamel 1999)</p>	<p><i>'Market creation'</i></p> <p>New opportunity for business growth in low-income segments of developed markets, as established markets are saturated or declining (Prahalad & Hart 2002)</p> <p>Focus on break-through efficiency, standardization and scale (Akula 2008)</p>

Table 26: Extremes in the emergent value fields

But there was also a wider system of values that created tensions. The dominant e-business values perceived were that of entrepreneurialism, informality and creativity (Delbeq & Weiss 2000, of risk-taking, fast and aggressive growth, a fast pace of events, bold investments and “disruptive” change (Hamel 1999) – inspired by several fast-growing companies in related sectors and the “winner takes all” paradigm of online distribution (Amit & Zott 2001)⁴⁸. They favoured fast decisions, high investments, and rapid growth (as symbolized to the ‘burn ratio’), with the vision to

⁴⁸ The prevailing values system of the time can be found in quotes as the following: “Out there in some garage, an entrepreneur is forging a bullet with your company's name on it. Once that bullet leaves the barrel, you won't be able to dodge it. You've got one option: you have to shoot first” (Hamel 1999: 72)

transform and dominate markets and ‘revolutionize’ the industry. In contrast to these e-business values, the company was focused on stability and evolution, and on optimizing and incrementally adapting existing portfolios, distribution channels and products, often over the course of decades, to develop solid revenue streams in established markets.

Value system formation in BoP

In content, the values around the Base of the Pyramid business proposition were different, and sometimes directly opposed, to those in the e-business episode. Here, the company was faced with the proposition that emerging countries, and especially the low-income segments, promised a large and important businesses opportunity to reduce poverty and improve well-being through socially responsible business approaches (Polak 2008, Prahalad 2004, Yunus 2003, Yunus, Moingeon & Lehmann-Ortega 2010, see Table 26)⁴⁹.

The beginning of BoP discussions in the industry coincided with a period of growing public discontent with a narrowly understood mainstream capitalism (Walsh et al. 2003) and the rise of alternative frameworks like that of “social business” (Yunus et al. 2010). These discussions even go back to earlier grass-root development approaches, stressing the need for low-tech, simplified “appropriate technology” and of involving poor people’s expertise and a critique of top-down, public development aid (Schumacher 2010, Easterly 2008). BoP was thus not technology-driven, but started with a ‘socio-economic’ revolution to reach out to underserved, marginalised, excluded customers (Brown 2001, Prahalad & Hart 2002, Prahalad 2004, Churchill 2006).

The BoP business models embodied a corresponding system of values – of “eradicating poverty through profits” (Prahalad 2004) and of care for marginalised and excluded communities. In the sector itself, discussions focused on affordable pricing, measures to assure “client value”, and on approaches to evaluate the social impact that products and services have on the vulnerable and marginalised customers in terms of livelihood and well-being (Churchill 2006). Early discussions were largely dominated

⁴⁹ In the context of the insurance industry, the first approach was also labelled as the “social security” approach, with the goal to protect vulnerable sections of society against disastrous expenses through a variety of means, whilst the second was symbolised more by the “emerging / growth market” framing.

by NGOs and development organisations, who were main innovators and project collaborators in the space (Dahan et al. 2010, Yunus et al. 2010). To reach BoP population, companies were asked to develop long-term, trustful relations with key partners from the social sector like microfinance institutions, NGOs or development actors (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007). While the company did not have a strong record of dealing with such institutions, BoP business models were an issue for the media, high-profile national and international policy actors and civil society organizations, and local industry regulators that increasingly promoted and rewarded coverage of low-income populations.

The social motive as well as the strong role of partnerships with social organisations in BoP created tensions with the company's core values, which were focused on financial issues and data-driven decisions, the provision of high-quality products to upper-income segments, and direct customer contact through the company's agent network, rather than indirect sales of pre-defined products (see Table 27).

	E-business Early 2000s	BoP business Late 2000s
Market Context	Development of new technology that allowed potentially "disruptive" changes in distribution High-profile success stories in related sector that created sense of urgency	Attention to previously excluded customer groups in low-income markets, the "Base of the Pyramid" Potentially large customer segment, but limited initial revenue potential, intangible value drivers (reputation, brand awareness)
Value system – process preferences	<ul style="list-style-type: none"> - Domination of sales channels - Directly approach customers and circumvent existing channels - Bold investments - Rapid process of business model expansion - Standardisation of products and channel transactions (potentially on a global scale) 	<ul style="list-style-type: none"> - Trustful cooperation with NGOs, cooperatives, public agencies, etc. - Approach clients through trusted and well-established intermediaries - Sharing of knowledge and experience - Careful investment - Slow process of expansion, checks & balances - Co-creation of products with partners
Value system – outcome preferences	<ul style="list-style-type: none"> - Market dominance / high market share - Competing for existing segments - Financial returns 	<ul style="list-style-type: none"> - New market creation - Extend reach to previously un- or under-served customers - Cost coverage - Social contribution

Gap to company's value system	Company still focused on personal, trust-based sales process through independent network of sales agents Favours step-wise, evolutionary, solid growth (Mission statement features "strength" and not "agility", for example)	Favours serving up-scale (private and commercial) clients through personal, resource-intense sales process
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Table 27: Market context and value systems

Value system richness and connectedness

In both episodes, there were structural similarities in the development of the value systems: The company was both exposed to and part of an industry-wide 'co-creation' of new business models, and the respective institutions that supported it – for example, IT and e-business consultancies during the first episode, and NGOs and development actors with private-sector experience in the second. The developments of the respective value systems span several decades in both episodes, and are marked by diverse arrays of actors, with sometimes competing interests and perspectives that become institutionalized only over time (Hoffman 1999, 2001, Garud et al. 2002, Maurer et al. 2011).

As a result of the extended processes of value system formation, both value systems are marked by *richness*, i.e. they contain a large number of process and outcome preferences that stem from the different phases of the value system formation⁵⁰. The value system richness reflects the high number and diversity of actors and perspectives behind the process of value system formation and is a credible "signal" or proxy indicator for the viability and attractiveness of the business model proposition.

Second, the value systems are marked by *connectedness*, i.e. the different values are logically connected in diverse ways. This connectedness can be seen as the result of the sensemaking and negotiation processes through which actors deal with the parallel or sometimes conflicting values over time to achieve coherency in the value system. This value system connectedness, shared by a broad institutional field, is "costly" to achieve and difficult to imitate for other fields that attract less actors or a less diverse

⁵⁰ The distinction between richness and connectedness is similar to that of "differentiation" and "integration" for cognitive structures made in Walsh (1995: 298).

set of actors. As a proxy, the connectedness thus also holds significant signalling value regarding the attractiveness of the underlying value proposition.

These relationships can be summarised as follows:

Proposition 1: Value systems related to new business models formed by broad institutional fields and extended processes of change-making signal business model attractiveness through a high degree of *richness* – i.e. a diversity of process and outcome preferences – and a high degree of *connectedness* – i.e. a high number of relationships between these preferences.

5.6.2 Value systems and initiative formation

The structural features of the value systems led to similar reactions in both episodes. While actors at the core were aware of and interested in the business models, the interplay of richness and connectedness of the new value systems nevertheless deterred and delayed the development of substantial and radically new initiatives at the company's core. This was different at the periphery (Regnér 2003), where both richness and connectedness enabled and accelerated the formation of initiatives for business model exploration. This section first summarises the reactions in both the E-business and BoP cases, before describing the underlying causal mechanisms.

In the case of the **e-business initiatives**, top-level managers were highly aware of the new business model, as dominant players in the institutional fields, especially from the capital market, had repeatedly inquired about activities in the area and urged the company to move.

Still, the company was a laggard in investing in its e-business activities on a large scale. In late 1999, at the height of the e-business boom (Hamel 1999), it had only minor experiments that addressed operational challenges in client interactions (CORP) or tried alternative approaches in remote subsidiaries (RE-USE). While being pressured by media and financial market analysts, decisions makers at the core feared internal political conflicts, for example between the powerful independent agents and the efforts to build up new, independent online channels, and were strongly hesitant to 'cannibalize' the core business (Leonard-Barton 1992, Gilbert 2005). To increase its engagement in the field, the company approved a range of initiatives after a 'business model competition'. They were all implemented by separate teams, partly led by managers that had only recently joined the company (RISK) or relied on strong input

from external consultants (SME, CORP). In particular the more radical and innovative proposals – to build a separate online insurer (RE-USE) or an online risk marketplace (RISK) were strongly driven by outsiders, and seen critical by insiders and high-level executives due to their ambition and aggressiveness.

During the second period, the rise of the **Base-of-the Pyramid (BoP) paradigm**, the situation was similar: While the issue was recognised as interesting and relevant by top-managers, they expressed only limited interest to actively explore the segment (Dawar & Chattopadhyay 2002), and initiatives were mainly implemented in the periphery. These often started by small-scale experiments – in remote subsidiaries, driven by regulatory requirements or chance encounters (MULTI-CHANNEL), through partnership proposals from external organisations (NGO-BROKER) or as side-interests of managers originally working on other issues (NGO-IMPLE). Due to the low income of potential clients (some projects targeted clients earning less than 2 Dollars per day) and competing priorities in higher-income segments or turnaround situations, traditional metrics judged BoP projects as having only limited commercial potential⁵¹. Middle managers also expressed concerns about political risks, exposing the company to discussions about its relationship to poor clients, and warned subsidiary managers of engaging in BoP businesses, due to the difficult career prospects.

Corporate responses to value system structures

The values tensions described above are linked to this initial reaction of the business – resistance in the core, initiatives at the periphery – through several, though interlinked causal mechanisms.

First, the value system structure affected the **kind and source of knowledge** considered in the development of initiatives, as it legitimised new knowledge and expertise, and de-legitimised the knowledge and experiences at the company core (Leonard-Barton 1992, Gilbert 2005, 2006). While it was difficult to precisely judge the validity and consequences of new information related to new business models (Levinthal & March 1993), the business model values in both episodes reflect new and

⁵¹ A BoP manager at a competitor remarked, „The fastest way to clear a room of insurance people is to say the word ‚microinsurance‘”, referring to the (initially) low perception of financial opportunities in the BoP sector

partly still diffuse trends in society. In their richness and connectedness, helped managers to intuitively understand and make sense of the varied processes and outcomes relating to the new business models, and to validate a body of external knowledge whose implications were difficult to fully understand for the company on a rational basis (March 1991).

As the different values were strongly logically linked to each other, they “de-valued” established company preferences not fitting into the value system, and thus helped to avoid that the new business model exploration was being trapped in the established, internal knowledge base that was accepted as common sense in the company (Leonard-Barton 1992).

In e-business, the new technologies were thought to render previous sector knowledge and experience invalid. Due to the connectedness of the value systems, established knowledge at the core – about regulation or the need to carefully nurture customer and broker relationships – was disregarded in favour of external knowledge, brought in from consultancies and information gathered in first online experiments.

BoP managers equally rejected “conventional” sector knowledge, drawing on insights and experiences from social sector organisations and development actors that lacked credibility in the company. The coherency of the business model value system helped to justify the new knowledge internally, and protect the initiatives. In *NGO-IMPLE*, for example, it took several months to convince the subsidiary managers to embark on the initiative, which was regarded as infeasible based on their sector expertise. While an expert study was commissioned, the final decision happened in an emotional, personal meeting. While the richness of the value system assured that identification opportunities on at least some values existed, the connectedness of the value system assured that the initiative was set up in a way that reflected the general BoP proposal. Having partners involved that represented the value system was another crucial step in finally convinced the subsidiary managers to try the project, despite the formal assessment showing only limited commercial potential⁵².

⁵² For example, the outcome preference for a social contribution through BoP was attractive through a compliance / regulatory relationship perspective, as the regulator was implementing first measures to direct company activities towards BoP markets. Still, the subsidiary managers disagreed with other values connected to BoP and had to be convinced over a lengthy discussion process.

	E-Business	Base of Pyramid (BoP)
Source and type of knowledge	Knowledge from external consultancies and first experiments and trials Benchmarking, adoption of success models in the market from start-ups and corporate competitors	Knowledge from social actors (NGOs, development cooperation agencies) and independent consultants specialising on BoP issues Knowledge about social impacts, development processes and actors
Performance measures	Size and speed of investment, risk taking, future revenue and profit projections	Social impact, customer awareness, revenues as 'proof of concept', external recognition
Team processes	Entrepreneurial excitement and opportunity to contribute to big and disruptive initiative;	Social contribution, personal fulfilment, rebellion against corporate mainstream
Pacing and timing	High speed of implementation, large designs and resource commitment for initiatives, accelerated aim for "revolution"	Careful, incremental learning, small steps, fast iterations and adaptations with partners, marginal resource allocation and resource 're-definition'

Table 28: Mechanism how values impact initiative formation & business model development

Second, value systems challenged established **performance measures**. To justify initiatives, the company normally applied established performance measures in its core business that were widely shared and understood in the company (Johnson et al. 2008, McGrath 2010, Power 2003). While they reflected generic financial concerns, relating to gross revenue and profitability, the specific implementation of the measures was highly sector specific.

While both value systems included financial profit as one outcome variable, the value system richness allowed complementary, novel forms of justification (Boltanski & Thévenot 2006) for the company to determine whether the divergent activities to develop the new business models were legitimate or not (Denis et al. 2007). As could be expected, the forecasted financial benefits of the new business models in both episodes were lower initially (March 1991, London & Hart 2004). Additionally, in both episodes, the business models relied on scale, and early experiences with revenues, if existent at all, were difficult to extrapolate to a full-scale business

model⁵³. Their business models were thus under-valued by the company's established performance metrics – a fact leading to corporate “myopia” (March 1991, Levinthal & March 1993, Adner & Levinthal 2008), that has previously been observed for both e-business and BoP (London & Hart 2004, Olsen & Boxenbaum 2009) initiatives.

With the difficulties in assessing the initiatives according to the company's established metrics, the richness of the value system connected to the business models provided a “proxy” indicator capturing the implications and (still vague) future profit opportunities. While the initiatives would thus not ‘fit’ the established measures for business expansion, the value systems provided alternative, and often intuitive and emotional (Huy 2002) ways of justifying the activities on alternative performance dimensions (Boltanski & Thévenot 2006). At the same time, the connectedness in these value systems prevented an early, selective integration of single values from the new value systems into corporate initiatives. In contrast, the connectedness fostered the creation of sub-cultures with different modes of justification that were applied in the initiatives.

In e-business, showing bold and entrepreneurial behaviour and targeting future market transformation opportunities was valued higher than the usual, backward-looking financial analysis regularly applied by the company. While initiatives like RISK had formal business plans, these were mostly based on assumptions, not on ‘hard data’ as initiatives in more conservative areas. Similarly, in BoP, justifications did not evoke immediate profitability, but issues of social protection, responsibility and reputation, and being part of the ‘BoP story’, a discourse that often relied on ‘motivational’ arguments to persuade managers and decision makers (Walsh et al. 2005). Other justifications included political ones, especially the relationship to regulators and the home government, and brand awareness among BoP clients, who were expected to

⁵³ In the normal business, the company faces substantial variable costs for its sales (due to commissions and the need to maintain and expand the agency network). The e-business models assumed rapid and large sales, sometimes on a global basis, through an initially costly, but then universally available online platforms. Similarly, the BoP business models relied on the assumption of winning distribution partners with large membership or client basis, ranging from several thousand to several million potential customers, that it could reach out to. In both cases, the evaluation of the financial attractiveness of the new business models was substantially more difficult than evaluating investments in the established business model.

become ‘real’, non-BoP clients in the future – both justifications with high levels of uncertainty.

The impact of value systems could also be seen on the **personal and team level**. Joining such innovation projects is a risky move in a company environment dominated by stability and prudence, a situation of potential role conflict and tension that inhibits dedication to new initiatives (Floyd & Lane 2000). This is especially relevant for managers at the company’s core that close identify with the company’s value system. The richness and connectedness of the value systems around the new business models implied that being strongly associated with these business models required a commitment to outcome and process preferences in conflict with those of the dominance corporate culture – a fact that deterred core actors from committing themselves to the initiative. Still, core actors often featured as ‘champions’ that provided their strategic support, justified by drawing on selected values related to the new business model⁵⁴, but without embracing the full value system.

In contrast, managers at the periphery were attracted to and sometimes fascinated by the rich and complex value systems, internalized them in apart, and build their decision to engage on the new values. These personal convictions were also evident in team processes, as they catalysed team formation and dedication (Ouchi 1980, Huy 2002). They effectively created “sub-cultures” within the company that showed high internal consistency and understanding, but only limited compatibility with the rest of the company. Common values have already been found important in the ‘clan’ modes often dominate new initiatives (Ouchi 1980), as hierarchical or market modes dominating the company fail due to the high uncertainty and goal in these new fields (McGrath 2001).

In the case of e-business, the personal values and motivations revolved around the promise of entrepreneurial, fast and exciting initiatives, even if that meant taking significant personal risks. BoP projects, with their “social” component, were often

⁵⁴ For example, executives would confirm the company’s BoP commitment and the obligation of the company to make a social contribution along its previous CSR efforts – but would internally reject the notion that BoP business would require to significantly alter business processes. Similarly, executives supported e-business based on the promise of financial performance, but did not embrace the need to circumvent established sales channels and agents and “de-personalize” contacts to clients.

misunderstood in companies, leading to internal resistance and, in part, ridicule⁵⁵ (Olsen & Boxenbaum 2009, George et al. 2012). In the case of our BoP initiatives, they still attracted managers, both because they promised a responsible ways of doing business and making a social contribution as well as, in the case of NGO-IMPLE, elements of rebellion and resistance to the “mainstream”.

Last, the value systems related to **pacing and timing** as they justified new practices and modes of innovation adoption (March 1990, Detert et al. 2000). While managers at the company’s core expressed irritation about the initiative planning, managers at the periphery could establish different justifications regarding the process characteristic of their initiatives for business models exploration.

In the e-business cases, managers aimed for higher speed, wrapping many development steps into single releases, justified by the sense of urgency and immediacy required to acquire broad market reach and lock-in (especially in RISK and at the beginning of CORP). This collided with traditional company values – stressing long-term development cycles and small iterations to existing legacy systems⁵⁶. But it matched the sense of entrepreneurialism and aggressiveness in the e-business initiatives (Hamel 1999) – the perceived need to make a “big bet” that could not be realised by experiments and cautious progress, and should not be hindered by compromises with legacy systems.

In the BoP episodes, managers deviated from the company’s regular way of proceeding by accepting the (sometimes) longer development processes with partners from the social sector, and by pursuing initiatives in an experimental and incremental way. As managers valued independence from corporate structures and agility, they preferred ad-hoc solutions (like spreadsheets in NGO-BROKER) that could easily be set up for first trials and later modified. This also responded to the need for close

⁵⁵ In several of the BoP cases, managers experienced internal ridicule and resistance from top-level managers, e.g. regarding the size of initial revenues generated or the perceived career prospects of working on BoP issues.

⁵⁶ IT systems in the industry are maintained sometimes for decades. As contracts in some product areas can run decades, systems need to accommodate the requirements of these legacy contracts in a highly reliable way, a hindrance to large-scale system turnover internally. The practices in the e-business field were thus highly irritating for the company core staff.

interaction and repeated cycles with the distribution partners and the expressed need to test and experiment on the ground.

Structural separation and corporate sub-cultures

The richness and connectedness in value systems observed thus helped the company to mimic the models and processes exhibited and observed in the respective institutional fields in two ways. The interplay of richness and connectedness in these new value systems implied that, first, value tensions exist due to the diversity of different values in the new value system and that, second, a piecemeal integration of the new value systems is not possible due to the high number of linkages between these values. The resulting value tensions led to resistance and hesitance in the company's core, preventing that legacy knowledge and systems were applied to the new business models or that core staff representing the corporate culture dominated the initiatives (Gilbert 2005).

As a result:

Proposition 2: Richness and connectedness in new value systems lead to a low level of acceptance and activity for new business model development at the company's core, as they create and sustain tensions between selected process and outcome preferences in the dominant and the new value systems.

Second, richness and connectedness helped to translate the normative demands from the outside (DiMaggio & Powell 1983) into consistent internal justifications that helped managers in the periphery to overcome internal barriers, escape close oversight, achieve team cohesion (McGrath 2001) and establish their own experimental space. The relatively high value coherency within the initiatives, especially in the more structurally separated ones, create an internal "sub-culture" that allows with effective development of new business models without formal oversight (Ouchi 1980, McGrath 2001), while the high value distance to the rest of the company prevented hierarchical interference from core actors:

Proposition 3: Richness and connectedness in value systems strengthen initiatives for new business models in the company's periphery, as they create a sub-culture and enhance coherency in the peripheral initiatives.

As the value tensions were not resolved in this early phase and the value systems remained relatively intact in the sub-cultures of the structurally separated initiatives,

they were only ‘deferred’ during initiative formation, but continue to exist in the background.

5.6.3 Value systems and initiative integration

For successfully exploring new business models, structurally or culturally separating new exploration initiatives from the company’s core is only a first step. Especially once the initiatives progress, re-integration often becomes necessary (Gilbert 2005, 2006, Siggelkow & Levinthal 2003). In our cases, such re-integration also led to a restructuring of the business model value systems in the strategic initiatives – through a combination of reduced richness and connectedness in combination with a re-configuration of value linkages that allowed a fusion of the dominant and peripheral value systems.

The main reason observed was the need to draw on established business resources (Burgelman & Grove 2007, Siggelkow & Levinthal 2003, Taylor & Helfat 2009). Embedding new business models in established corporate structures had been discussed and proposed by outside actors in both episodes, with the promise of “Bringing Silicon Valley Inside” to realise profit opportunities in e-business for large corporations (Hamel 1999, Amit & Zott 2001), or for drawing on the resources of large, multi-national companies to effectively reach out to BoP populations (Prahalad 2004, Prahalad & Hart 2002: 11). But integration was also required once higher-level decisions had to be taken on the initiatives – for resolving challenges appearing in the initiatives, adapting initiatives to new insights or market conditions, or for renewing and expanding resources commitments (Burgelman 1983a, Burgelman & Grove 2007).

In both episodes, initiatives were in operation for several years at the time of observation, and had a mixed record in terms of success and failure. In observing how managers deal with this situation, we could see how the value systems in both episodes created persistent tensions in the initiatives, many of which could be traced back to inherent conflicts with established values and practices to manage the well-established core business.

All of the e-business initiatives encountered challenges and the need for significant adaptations over time. In the case of the most isolated, RISK, the value tensions were never resolved, which made a re-evaluation or integration of the initiatives

increasingly difficult. The initiative was terminated after substantial investment without tangible results, as no insurance company or broker had committed itself to the market place before a critical internal deadline. In contrast, RE-USE significantly reduced their initial ambition and approach relatively early throughout the process, and was launched as a partial solution that better integrated into the existing core business and started to generate revenues at the end of the observation period. Similarly, CORP was reduced in ambition, and successfully implemented in a more step-wise, coordinated fashion. The last, SME, was widened in scope, from start-ups to commercial clients in general, and reduced in ambition and complexity, as the approach of reaching out to the start-up scene through partner websites was shifted to improving sales via the existing company website.

Similarly, in the BoP episode, the value tensions that were instrumental in the creation of the various initiatives later became relevant when challenges and problems surfaced. In the case of NGO-IMPLE, miscalculated premiums and high losses due to a natural catastrophe made significant adaptations necessary – which were taken after drawing on both external and internal pricing expertise. In NGO-BROKER, the expansion was slower than initially aimed for, and operational challenges persisted – the initiative’s importance was reduced over time and “normalised”. In the case of MFI-LOCAL, the product was managed as a side-business without major innovations for several years, and later lost in a competitive bidding process. Still, the subsidiary had accepted BoP as a viable business opportunity, and taken steps to further explore the opportunity. MULTI was the most successful of the products, and also the one that drew strongest on core resources of the company, in particular the subsidiary.

Value system structures and initiative progress

The adaptation and integration of the initiatives coincided with changes in the value system structure – through a differentiated selection of values and reconfiguration of relationships that increased the ‘fit’ of the business model value system with the core value system in the more successful and integrated initiatives, and reduced the fit for initiatives that developed to be less successful⁵⁷. This selection and reconfiguration of

⁵⁷ These relationships observed were not uni-directional, causal relationships, but rather represent a repetitive, lengthy process with various feedback loops at different stages of the initiatives (Langley

values often happened through interactions and negotiations between middle managers and executives and affected the four different areas already featured above.

While structurally separating the initiatives from the existing **knowledge** base of the company worked for the initial phases, it created challenges over time (Taylor & Helfat 2009). It not only inhibited drawing on lessons and insights from the company's experience. It furthermore limited the potential to re-integrate the experiences made in these new fields to refresh the depreciating core knowledge.

In the e-business cases, initiatives were initially implemented with strong reliance on external (consulting) knowledge, and cultural barriers prevented teams from accessing the technology, market and product expertise at the company's core. RISK's aim to build an online, industry-wide marketplace broke with industry traditions focusing on personal, long-term and often exclusive relations between decision-makers. While the project team lacked the sector expertise to understand this barrier, which finally led to the project termination, industry insiders from the company core had repeatedly pointed out the difficulty earlier in the project development. Initiatives that better resolved the value tensions were able to get access to core resources, and avoid critical failures. For example, RE-USE initially targeted sales on a global level under an own brand, an ambition that conflicted with basic regulatory requirements to hold (costly) licenses in each target market and furthermore would have led to strong internal political conflicts. As the initiative early on re-connected to staff members with a stronger sector background, the basic planning could be adapted, and the initiative successfully implemented.

Similar issues occurred in the BoP projects. As teams without deep sector expertise and background⁵⁸, or even outside the corporate boundaries, set up initiatives and implemented first versions of the respective business model, access to traditional knowledge was difficult. In NGO-IMPLE, the team had only limited access to pricing expertise, sourcing it from other departments in the company or even externally, and could only slowly react to the high initial losses. In NGO-BROKER, a lack of

1999). The propositions below capture these practices and processes rather than displaying a clear relationship between two constructs (Pettigrew 1990, 1992).

⁵⁸ The key responsible person on the corporate level was a former journalist working in the PR department, without formal insurance training.

accounting knowledge and the use of ad-hoc solutions, while initially helpful for the experimental phase,⁵⁹ led to “lost premiums”. Such challenges were avoided in the cases of MFI-LOCAL and MULTI, where managers re-framed the initiatives and reduced the value tensions by focusing on certain operational or distribution features of BoP business⁶⁰. In MFI-LOCAL, managers could access traditional pricing and distribution knowledge, as they were also responsible for larger, traditional accounts alongside the BoP accounts.

Second, while the alternative **performance measures** and methods of justification protected the new business models against the threat of indiscriminately applied legacy metrics (Johnson et al. 2010, Olsen & Boxenbaum 2009) or premature profit expectations (March 1991, London & Hart 2004), they also prevent closer scrutiny and analysis later. While there were several warning signs relating to underlying challenges in the different cases, the company continued most of them for a prolonged period of time. As the values systems favoured goals that were de-coupled from the experience of the core business, it “immunised” the initiatives to criticism from decision makers at the core. Still, in the more successful initiatives, managers increasingly accepted traditional metrics, and moved from intuitive and qualitative justifications to more quantitative, data-driven approaches. Subjecting themselves to such more conventional measures helped the initiatives to focus on innovations that could be re-integrated into the company later, and decision makers from the core to re-evaluate the benefits of the initiatives in light of their personal agenda and role.

In the e-Business cases, the values that favoured bold and aggressive goals made a closer examination of the initiative’s contribution to the business goals in the core business difficult. This can most clearly be seen in RISK, a project that never realised any revenues or closed distribution contracts, key performance measures in the core business. RE-USE and CORP were initially driven by a “grand vision” and managed to avoid closer scrutiny, i.e. demands to prove its business model by realising early

⁵⁹ The partner mainly relied on generic spread-sheets that were developed and extended according to the project development, while products at the company’s core were administered using large-scale, tested, custom-made systems.

⁶⁰ In MFI-LOCAL, one subsidiary resisted the ‘BoP’ or ‘microinsurance’ labelling for the initiative, even though it fulfilled various formal criteria to be considered a BoP / microinsurance initiative, and was referred to as such by other members of the company.

revenues. While this ‘evasion’ continued in RISK, managers in both RE-USE and CORP gradually accepted key metrics from the core business, and were able to prove their viability – through revenue-generation, as both RE-USE and CORP realised first sales after the launch of first versions, and cost reductions and efficiency enhancement (Amit & Zott 2001), especially in CORP.

During the BoP episode, NGO-IMPLE was continued for several years, even though the established performance criteria pointed to underlying profitability and pricing problems⁶¹. Similarly, NGO-BROKER was lacking on key performance dimensions, including revenue generation and programme expansion, but was continued as it helped the company to showcase the values related to BoP initiatives in several complicated, challenging African markets, an issue valued by the BoP team⁶². In contrast, NGO-LOCAL and MULTI had collected and tracked revenue and profitability data relatively early, and thus had higher levels of internal recognition among decision makers.

	E-Business		BoP	
	<i>More successful</i>	<i>Less successful</i>	<i>More successful</i>	<i>Less successful</i>
Source and type of knowledge	Consider established expertise for dealing with brokers, distribution partners etc. (RE-USE, SME) Respond to existing challenges in company’s business (CORP)	Marked by dominance of external consulting expertise Resource abundance leads to “drifting” (e.g. RISK) Unable to draw on core expertise and depreciation of existing knowledge (“old” vs. “new” economy etc.).	Link with established knowledge base (bancassurance, affinity, costing & pricing, reinsurance) Reframe initiatives in these terms (MFI) Involve broader range of internal experts and departments (MULTI);	Disconnect from core expertise due to lacking internal priority and partner demands (NGO-BROKER; NGO-IMPLE);

⁶¹ One underlying profitability metric exceeded the traditional limit set in the company by a factor of ten, leading to disbelief and inquiries from higher-level managers regarding the data correctness.

⁶² While the market had experienced strong growth in Asia and Latin America by 2010, Africa was still severely underserved, and coverage of countries in the region was considered a special social contribution through targeting clients in target markets with particularly difficult conditions.

Performance measures	Leverage e-business efficiency to lower cost ratio in core business (CORP) or increase revenues (SME, RE-USE)	Evasion of requirements to generate revenues or profit by insistence on “big win” solutions Implemented in a single stroke, resisting traditional, evolutionary model of change (RISK)	Step-wise application of traditional performance measures (MULTI, MFI)	Evasion of traditional requirements due to perceived obligation to social goals / the social agendas of distribution and innovation partners (NGO-BROKER; NGO-IMPLE);
Team processes	Take-over of other divisions / mainstream staff in successful initiatives (RE-USE)	Organised in separate organisations Low engagement of company core staff (RISK);	Transition of “mainstream” staff to BoP initiatives Stronger interaction with regular experts (e.g. reinsurance for pricing) BoP leaders become mainstream (or move to other areas) (NGO-IMPLE, MULTI, MFI)	Organised in structural niches (CSR dep), clan-mentality (Ouchi 1980) in team as well as across organisational boundary (“the microinsurance crowd”); (NGO-BROKER)
Pacing and timing	Decelerate overly fast e-business implementation by adapting them to existing IT implementation cycles (SME) Launch intermediate, scaled-down versions, piloting of versions in different countries (CORP, RE-USE)	Continued plans for rapid, full-scale launch of market-dominating solution requiring large-scale buy-in due to winner takes it all-paradigm (RISK)	Move BoP schemes to a more “long-term”, deliberate strategy Decelerate cycles of development (from weeks to years) Formalise and codify relationships (MFI, MULTI)	Traditional, long-term systems (IT, legal) do not support incremental development and fast adaptations and refinement Work with ad-hoc, proprietary solutions, bricolage at the border of official mandates and outside of the corporate radar (NGO-BROKER, NGO-IMPLE)

Table 29: Mechanism how values impact initiative progress and implementation

The value tensions and the structural separation also affected the **team processes**, as the groups that cluster around the new values tended to be isolated from the company staff, and often difficult to control using traditional means (Ouchi 1980, McGrath 2001). Such isolation can also foster group thinking and politicality of initiatives, reduce their performance (Ancona & Caldwell 1992), and limit their impact on the general strategic orientation of the company (Jemison 1984). The resolution of value tensions involved team exchanges in various directions: In some cases, core members embarked on the initiative, in others, initiative members that strongly identified with the respective business model values left the initiative teams to take up other responsibilities (inside and outside the company).

In RISK, the tendency of team isolation was most visible: The (sizable) project team, mostly comprised of external consultants, remained almost fully decoupled from the headquarters or other parts of the company. Few staff members of the parent company joined, and social contacts between the initiative team and core staff were extremely limited. Teams in RE-USE, CORP and SME were closer to the company: While RE-USE managed to attract experienced managers from the core over time that joined the initiative, CORP was taken over as a project by one of the company's established product divisions and continued as a regular business initiative.

In BoP, the values affected team processes in similar ways. In NGO-IMPLE, external staff, from the partner NGO, mainly managed the initiative with coherent values distinct from the company. While core staff members of the headquarters visited the project, out of humanitarian interest and attracted by the different values, the subsidiary staff showed low levels of interest, contact persons were changed frequently, and the project never developed strong internal buy-in from the company. The situation was similar in NGO-BROKER, where company staff members took a more observing position, with few operational responsibilities, preventing the company to fully support the initiative over the long term. In both MFI-LOCAL and MULTI, however, core staff took over responsibilities for the initiatives, and integrated them into their regular work processes. In the process of reducing value tensions, selected team members also left the BoP initiatives – focusing on other innovation-oriented activities in the company.

Last the differences can be seen regarding the issue of **pacing and timing**. While locating the initiatives at the periphery allowed differentiated pacing and timing, the value tensions reappeared once pacing and timing had to be synchronised to draw on core resources. Beyond being a mere technical issue, the tensions observable in these occasions exposed deep-seated beliefs about the best way to structure initiatives in time, set priorities etc. In the more successful of the initiatives, the value tensions could be reduced over time, allowing managers to better synchronise initiatives with the core business to access resources, and finding pacing and timing patterns that allowed the initiative to accommodate both the established sector norms as well as those brought in by the new business models.

In the case of e-business, the expectations regarding speed of progress and the perceived need for large, holistic project designs, formal planning and projections made it difficult to adapt projects during the implementation phase. RISK, as the

extreme case, never abandoned such a “big win” approach – and failed to demonstrate the incremental, but tangible, successes that could have convinced internal stakeholders or potential partners. In contrast, successful projects decelerated their approaches, allowed more and smaller iterations instead of big plans, and thus better integrated into the existing structures and processes. CORP interrupted their initial plan of launching a fully-fledged platform for an intermediate version that took advantage of a newly introduced, publicly subsidised and widely discussed pension product. While it increased the overall workload, it showcased the platforms potential to the company’s corporate clients, and allowed to realise crucial lessons regarding the customer interface. RE-USE underwent a similar shift – the team abandoned the development of a global platform for the launch in a selected pilot country, and paused development on a regional data centre – a large and central, but difficult to realise, component of the original plan – that was added later once the platform had proven its potential to reach out to end-customers.

In BoP, the pacing and timing tensions mainly revolved around the quick and un-bureaucratic access to internal business resources for experiments and pilots, which created tensions, as the company valued long-term planning and reliability. NGO-IMPLE maintained a portfolio that combined several innovative products and distribution approaches. While managers aimed to move the initiative from such an experimental stage to a more standardised, scalable model, processes were never sufficiently adapted, and the subsidiary lost interest. In contrast, while MFI-LOCAL was initially set up to experiment with and develop a series of products, it became more stable and standardised over time, and could be managed alongside the company’s other, non-BoP distribution channels. Similarly, MULTI moved out of an experimental mode relatively fast, and implementing a standardised and stable product across a broad series of distribution channels over several years without major modifications.

Value system selection and reconfiguration

Reducing tensions was crucial in the initiatives observed, as the separate sets of knowledge, performance metrics, team dynamics and process characteristics developed in the initiatives were often insufficient for the initiatives’ mid- to long-term success, and sometimes their survival in the corporate structure. The sector experience in the core, while potentially stifling at the beginning of the initiative,

gained importance during the more large-scale implementation of the new business models, even if this reduced their degree of exploration.

In this process, the value systems were altered through two main mechanisms – selection of values and reconfiguration of relationships – with the effect of these mechanisms depending on the initiative performance over time.

In the more successful initiatives, the selection of values from the business model value system favoured values that had a higher degree of congruence to the existing company value system. In their efforts to champion their successful initiatives for high-level approval (Floyd & Lane 2000), managers stressed those process and outcome preferences that had a high congruence with the dominant value system. In the subsequent negotiations, higher-level managers mirrored these arguments and approved of the ‘shifted’ value set.

Taking the case of CORP: The values around standardisation and simplification of products were maintained and played an important role to implement the system in one of its main sales channels – HR departments of other companies where staff members without an insurance background could rely on the system to re-sell the products to employees in the target companies. However, preferences for direct customer access and market dominance were dropped – and replaced with the traditional industry value of close personal contact and solid relationships, as mediated by the staff in the partner companies.

Reconfiguring the relationships in the value system supported this process as it allowed managers from the core and the periphery to re-interpret values as compliant with the dominant value system in the organisation. In the example of the successful MULTI-CHANNEL product, the preference for social sector partnership was re-defined. While initially BoP products were framed as ‘social services’ provided by the company through a social sector partner, the operational and financial success of the main distribution partner, who even underwent a well-recognized IPO, and the addition of other, more traditional sales channels signalled the reconfiguration in the value system. While the social contribution was seen as a final outcome initially, it was reframed as ‘product quality’ and served as an intermediary variable important to create customer loyalty and satisfaction, retain customers and revenue and support negotiations with regulatory agencies and distribution partners.

In both cases, the initiatives were integrated into mainstream business processes, with a reduced distinctiveness of the initial business model value system over time. The tactics jointly applied by middle managers and executives can be labelled as “confirmative selection and reconfiguration” – based on a joint commitment to resolve the value tensions and integrate the initiatives into the company mainstream:

Proposition 4: In successful initiatives, the selection of values from the business model value system increases the importance of values with a high degree of compatibility with the dominant value system to ease integration of the initiative with the core business.

Proposition 5: In successful initiatives, the reconfiguration of relationships in the business model value system increased the compatibility of the new value system with the dominant value system to ease integration of the initiatives with the core business.

In less successful initiatives, on the other hand, the selection and reconfiguration of values favoured values and configurations that marginalise the initiative. When explaining failures or challenges in initiatives, middle managers stressed the incompatible outcome and goal preferences for justification. By doing so, they evaluated performance according to the more radical, less compatible standards in the respective business model field and not the company mainstream – in ‘in-group’ comparison to protect against the stigma of failure (Crocker & Major 1989). For example, the failure of RISK to get market traction could be explained by referring to other tech-startups that failed to achieve a critical mass of clients and had to be terminated around that time – rather than comparing it to more mainstream initiatives in the company. Similarly, in NGO-BROKER, managers stressed the social value and learning opportunities in reaching out to difficult, under-served low-income markets, when explaining the persistent failure to scale the products as envisioned by the partner, vis-à-vis a company strategy to focus on “high-growth” emerging markets. In turn, the incompatibilities in the value systems allow higher-level executives to take ‘tough’ decisions on the initiatives, without compromising their initial commitment.

This process of a selection and reconfiguration in the respective value systems in turn affected the company resource commitment and created a “negative spiral”, in which the initiatives were increasingly marginalised and kept alive with a low level of attention and resources (NGO-BROKER) or, in some cases, were terminated (RISK).

The value system dynamics in the less successful initiatives were thus market by “marginalising selection and re-configuration”, reducing their compatibility with the parent company:

Proposition 6: In less successful initiatives, the selection of values from the business model value system increases the importance of values with a low degree of compatibility with the dominant value system to marginalise the initiative.

Proposition 7: In less successful initiatives, the reconfiguration of relationships in the business model value system decreases the compatibility of the new value system with the dominant value system to marginalise the initiative.

The observations also allowed drawing conclusions on the effectiveness of deferring vs. resolving value tensions. While the deferral was an effective tool for setting up initiatives, resolving tensions became crucial over time, to reduce micro-level political conflicts, barriers to knowledge exchange and difficulties in team dynamics and role definitions between the initiatives and the company core. While the sub-cultures in the initiative thus challenged more uniform views on corporate culture, the processes of socialisation, coercion, mimicry and normative pressure reduced the value tensions over time and restored the “social glue” of the organisation (Detert et al. 2000, DiMaggio & Powell 1983, Wiener 1988). Especially for business model development that realises the promise of connecting core resources to new business models (Hamel 1999, London & Hart 2004), such a resolution is more effective over time than continued separation.

5.6.4 Feedback effects on the business model values

In both episodes, the adaptation of the value systems through selection and reconfiguration did not remain a purely internal, company issue, but interacted with broader value shifts in the institutional field that had been the origin of the business model value systems in the first place. While the company only represents one case among many in the sector, we observe that the experiences coincide with those made by other players and, together, had a collective feedback effect on the sector. This feedback effect does not depend on our selected case studies, but the way they were

perceived and discussed in the sector nevertheless provides a first idea of the direction of this influence. And as the company had become a major player in the field⁶³, the company's experts repeatedly communicated and spread their experience in sector forums as well as internal discussions.

The e-business field, in general, had experienced several high-level and spectacular failures that, similar to the company's more disruptive models, had aimed at market domination but failed to generate sufficient revenues and profits (Wolverton 2000). With the burst of the "dot-com bubble"⁶⁴, investors and entrepreneurs took a more careful approach. They re-emphasised the importance of actual value creation (Amit & Zott 2001) and sound analysis, customer retention and revenue generation. These issues had played only minor roles in the earlier phases where entrepreneurs valued spending and growth over profitability to build companies that can achieve market domination.

The shift in the strong business model also occurred in the BoP area. While the defining characteristic of the new field – helping the poor, focusing on social value creation – was maintained, financial considerations and linkages to mainstream processes played an increasingly prominent role in the sector discussions (Akula 2008, Simanis & Milstein 2012). While early publications talked about the financial "sustainability" required for BoP business models, over time the discussion returned to more traditional "profitability". With the example of microfinance, a prominent example for BoP business models (Walsh et al 2005): While Yunus (2003), had always stressed the social mission of microfinance, later microfinance practitioners (Akula 2008) prominently advocated for applying sound business principles to

⁶³ This feedback is probably due to the exposed position of the company, which is one of the global industry leaders. While the e-business activities were less public, the company was listed as the BoP industry leader in a rating presented on the leading BoP sector conference in 2010.

⁶⁴ In fact, by the time that the e-business projects had started, the dot-com bubble had already burst. As a key indicator for the financial expectations regarding e-business models, NASDAQ fell from about 4600 to about 1300 points mid-2000 to mid-2003, the period during which most of the e-business initiatives were developed.

developing and distributing BoP products and services, leading to an intense debate within the sector⁶⁵.

A co-evolution of value systems

Between the company and the sector, the business model value systems thus co-evolved – albeit in an unequal way. Within the company, a higher congruence with the dominant value system was achieved through integration vs. marginalisation, but in the institutional field, the value system maintained its diversity.

The more successful cases served to introduce more mainstream (financial and other) concerns into the institutional fields. For example, in the BoP field, studies concerned with profitability and business models became increasingly common towards the end of the observation period, while previous studies were more concerned with customer acceptance, product impact etc. This increased the richness of the general BoP value system, as another step in the institutional sensemaking process around the initial proposition. To accommodate the range of values in the value system, new linkages were introduced and discussed – for example, between profitability, resource access, scale and customer value, thus re-interpreting the newly introduced values in terms of the established BoP outcome values.

Contrary to expectation, even the less successful cases were confirmative of the overall richness and connectedness in the institutional field. The failure of the company to gain traction in highly challenging, marginal markets in NGO-BROKER and in establishing a solid working relationship with a socially-oriented NGO in NGO-IMPLE were interpreted as a confirmation of the required “BoP mindset” and of the failure of established companies to embrace the required value system. Similarly, failure of large companies in e-business projects was more ascribed to company’s legacy structures and failure to embrace the radical, market-domination mindset that was part of the original value system.

While causality is difficult to establish, we have observed that internal and external process of resolving values tensions around new business models tend to coincide, and partly interact⁶⁶:

⁶⁵ He later acknowledged that part of this criticism was actually justified, and that his stress on business principles and the importance of private capital had been wrong (Thirani 2012)

Proposition 8: Business model value systems co-evolve in strategic initiatives (in different companies) and the institutional field – where both integrative and marginalising selection and reconfiguration in the company increases the richness and connectedness of value systems in the initial field.

5.7 Discussion

The model captures how value tensions resulting from shifts in the institutional field of new business models affect business model exploration in large companies. Initially, richness and connectedness in value systems deter and delay reactions in the company's core, while facilitating and accelerating business model initiatives at the periphery (Regnér 2003). The resulting 'sub-cultures' in the initiative provide a safe space for experimentation and play (March 1991), alleviating the burdens created by legacy knowledge (Leonard-Barton 1992, Levinthal & March 1993), customer relationships (Burgelman 2002), performance metrics (Johnsons et al. 2008), team dynamics (Ouchi 1980, Floyd & Lane 2000) and process requirements for business model development.

These 'deferred' tensions often reappear once initiatives seek to connect to core business resources (Taylor & Helfat 2009) or require decisions on initiative adaptations or further resource commitments (Noda & Bower 1996). Addressing these challenges, during initiative progress and business model implementation, requires resolving the value tensions, by integrating and coordinating the different values and reconfiguring the value systems. This process of resolving value tensions coincides with similar but broader developments in the institutional field.

These results are both relevant for a more fine-grained understanding of values in organisations and the processes of business model exploration, but also contribute to the mid-range theories on e-business and BoP.

⁶⁶ We expect this influence to be stronger in the case of large or well-known companies in markets with few participants (as is the case with our case company) than with small or marginal players in markets with a high number of participants.

5.7.1 A dynamic perspective on values system integration and differentiation

In the background section, we have highlighted two perspectives on values in organisations – the (dominant) perspectives focusing on the uniformity of values in organisations and the existence of an ‘organisational culture’, and the (less prevalent) ‘differentiated’ perspective, highlighting differences and tensions (Linnenluecke & Griffiths 2010). Previous research has been biased towards value coherency, the ‘social glue’ of organisations (Detert et al. 2000) and the mechanisms to assure such coherency (DiMaggio & Powell 1983).

We expand this thinking by considering a dynamic perspective on value integration and differentiation, and in particular, value tensions. While previous research has described value tensions mainly related to different logics in pluralistic organisations (Denis et al. 2007), e.g. the tension between creativity and profitability (Andriopoulos & Lewis 2009), we extend this notion by showing that such value tensions might be a process characteristic even in organisations with a strong, unified corporate culture.

In the case of new business model exploration, such tensions originate in the institutional field of the business models (Hoffman 1999, Maurer et al. 2010). Our model highlights the (productive) role of richness and connectedness in such divergent value systems – in structuring the corporate response by creating ‘sub-cultures’ of peripheral initiatives (Linnenluecke et al. 2009). While such initiatives themselves often show high internal congruency of values, or, a ‘clan’ mentality (Ouchi 1980), these value tension with the corporate mainstream affect how the initiative progress. While this challenges more uniform perspectives on organisational values, our model includes later efforts to resolve value tensions and return to a higher degree of conformity in the organisation, once a stronger integration and coordination of the new value systems with the core business is required.

This approach stresses the procedural character of values: In our model, individuals or groups in organisations are constantly ‘integrating’ or ‘differentiating’ values. They do so by taking up external impulses, here on business models (Gilbert 2005: 755), and by using internal socialisation (Wiener 1988) and control (McGrath 2010) measures. The degree of value coherence, and thus the strength of the organisational culture, in a certain area is thus continuously and repeatedly negotiated between the different actors (Maurer et al. 2011: 435) – allowing for sub-cultural pockets of diversity as well as for later re-integration (Linnenluecke et al. 2009).

5.7.2 Cultural separation in business model exploration

The model also expands existing notions of business model exploration in large companies. While the literature has previously primarily focused on the tangible role of metrics in new business models (London & Hart 2004, Johnson et al. 2008, McGrath 2010), we highlight the more intangible, underlying values and patterns of justification (Denis et al. 2007).

The role of values in exploration has been repeatedly appeared in the literature (March 1991, Leonard-Barton 1992), relating either to the resistance of a uniform ‘organisational culture’ to the exploration of new business models or the effects of generic values such as “empowerment” (Leonard-Barton 1992). We expand these two perspectives by highlighting the role that ‘value systems’ play in helping innovators in the company to escape the ‘straightjacket’ of organisational culture, and by showing how these value systems affect the arrangements for business model exploration.

These findings confirm earlier accounts of “structural separation” (Benner & Tushman 2003, Gilbert 2005, 2006, Jansen et al. 2009) by expanding existing theories on how external impulses (Gilbert 2005: 755) in the forms of specific business model values affect the initial setup and development of such structural arrangements. We find that structural separation is often accompanied or even replaced by “cultural separation”, where initiatives are not primarily separated by structural devices (e.g. formal project structures), but by differences between the value systems prevalent in the strategic initiatives and the core business. Such a cultural separation is more flexible and situational than fixed structural devices, with the initiatives’ boundaries being open to re-interpretation (Maurer et al. 2011) and testing (Boltanski & Thévenot 2006) depending on the respective values accepted in a specific situation. They also affect the process of resolving value tensions when re-connecting the previously separated exploration activities to the core business (Jansen et al. 2009, Taylor & Helfat 2009).

5.7.3 Contribution to e-business and BoP theory

The contributions also apply to the more nuanced understanding of the phenomenon and related mid-range theories in our two episodes. While both episodes are marked by specific phenomena that have driven the recent interest in business models (Zott et al. 2010), they have both led to a series of mid-range theories – on e-business (Amit &

Zott 2001, Hamel 1999) and BoP (Chesbrough et al. 2006, Olsen & Boxenbaum 2009, Prahalad 2004, Yunus et al. 2003) – that our contributions helps to expand.

5.7.3.1 E-business as a cultural phenomenon

While e-business has often been described as a technological-driven business model (Chesbrough & Rosenbloom 2002), we highlight the implications of the strong values system connected to e-business – understanding it as a ‘cultural’ rather than a mere technological or business phenomenon. Beyond the technological disruption, the ‘silicon valley’ or ‘startup’ spirit (Hamel 1999) was challenging, if not incompatible, to core business values of the incumbent industry players. As our company had a long-standing experience with the computer and network technology required, the adoption path of e-business was less determined by technological knowledge, but by the underlying value tensions. This allows better understanding the development of e-business – in particular, initial resistance and hesitance of large companies and the importance of peripheral initiatives in these times, as well as the later re-integration and normalisation.

5.7.3.2 BoP as a cultural phenomenon

Regarding the BoP literature, the models helps to understand the internal, organisational barriers faced by BoP practitioners in large companies from a values perspective (London & Hart 2004, Olsen & Boxenbaum 2009). BoP was initially seen as unique due to its orientation on social values (Prahalad 2004, Walsh et al. 2005). We suggest the processes around BoP business model development could be better understood by comparing it to other fields with a presence of (i.e. creative and entrepreneurial or civic) non-financial values that create similar tensions to the company’s core values (Andriopoulos & Lewis 2009, Maurer et al. 2011). In particular, by highlight the paradoxical role that the values associated with business models have, the model can explain the resistance of core actors when trying to promote exploration of BoP business models based on strong values (Olsen & Boxenbaum 2009, Walsh et al. 2005), vis-à-vis the success of BoP projects resulting from peripheral projects or, stretching even beyond the organisational boundary (Halme et al. 2012, Seelos & Mair 2007).

5.7.4 Limitations and future research

As we have tried a middle path between a contextual, rich analysis (Dyer & Wilkins 1991, Weick 2007) and a more generalizable, positivist research design (Eisenhardt 1989, Gibbert et al. 2008), we believe that our analysis could be expanded in two main directions: First, by moving further to the micro-level, considering ethnographic, interpretative or practice-oriented approaches (Denis et al. 2007), or by expanding the sample width and procedural rigor towards a more positivist account. While both are legitimate, theories about the progress of research fields from ‘nascent’ to ‘mature’ would suggest the second approach (Edmondson & McManus 2007).

On a methodological level, our focus on studying one company allowed access to the internal, micro-level structures and mechanisms (Barley 1990, Dyer & Wilkins 1991), but expanding our research by a horizontal set cases showing how different companies deal with new business models could help to yield more generalizable insights. This could include companies with different degrees of value coherency, such as pluralistic organisations (Denis et al. 2007), social enterprises (Seelos & Mair 2005) or NGOs (Chesbrough et al. 2006), or with a different organisational age and maturation, and their respective reactions to new, value-laden business models.

Similarly, our research question and approach has evolved over the course of data gathering (Barley 1991, Dyer & Wilkins 1991), also to respond to challenges appearing in the field to increase the relevance of our research interest (Vermeulen 2005). A replication study could benefit from using more standardised constructs for measuring, for example, richness and connectedness in value systems, to jointly increase the validity and generalizability of our findings (Eisenhardt 1989, Gibbert et al. 2008).

Regarding the content of our model, the analysis of values tensions could be strengthened by more specifically applying existing frameworks and categorisations of values and culture (Hofstede 1985, 2006) or justification regimes (Boltanski & Thévenot 2006) to understand variety in value tensions (e.g. relating to values on goals vs. values on processes). While the general literature on organisational culture has been relatively silent on mechanisms of dealing with sub-cultures and value tensions (Linnenlucke & Griffiths 2010), accounts of value formation in nascent field, like environmental management (Hoffman 1999, 2001) or civil rights (Maurer et al. 2011), or theories on institutional entrepreneurship and embedded agency (Garud et al. 2002, 2007) could help to stronger link our accounts to larger organisational theory.

Regarding the exploitation-exploration literature (March 1991), we have mainly expanded on previous accounts of structural separation, but expect value tensions to also be relevant in time-paced development (Burgelman & Grove 2007). Future research could thus cover business model exploration that disrupts a firm's processes on a larger scale, to capture how firms defer or resolve value tensions in such a context.

5.7.4.1 Conclusions

As our contextual, in-depth, but necessarily in parts idiosyncratic account (Tsoukas 1989) on the role of value systems in business model exploration captures the cultural dimension of exploration-exploitation, it could be a first step towards a theory of 'cultural ambidexterity'. We believe that understanding the plurality and dynamics of value systems in organisations and the related waves of differentiating and integrating can provide a richer account of organisational culture and business model exploration than the prevailing static and unified accounts.

6 SOCIALLY SITUATED COGNITION AND REFRAMING PATTERNS IN EXPLORATORY INITIATIVES

6.1 Abstract

Firms that seek to develop and implement initiatives with different degrees of exploration often face decision-biases created by cognitive entrenchment and fixed reference points. Capturing socially situated cognition can explain how ‘paradoxical’ and ‘reductive’ reframing help companies to overcome these biases – through paradoxical reframing in initiatives closer to the company’s strategic processes, and reductive reframing of initiatives closer to operational processes. At later stages, initiatives switch these patterns – to respond to different challenges and adaptations in the degree of exploration. The paper is based on the analysis of shifting reference points for social and financial performance in four polar cases taken from two multinational financial service companies with a broad and diversified portfolio of exploratory initiatives seeking to develop business models that reach low-income customers in Base of the Pyramid-markets in several developing countries.

6.2 Introduction

Cognition and framing effects play a key role for organizational dynamics (Walsh 1995), in particular, when evaluating and exploring new business opportunities. While the exploration of such new business opportunities is crucial for a company’s long-term survival, such initiatives are often initially inhibited by cognitive entrenchment in the company’s core (Dane 2010) and a lack of shared mental models that fit to the initiatives – creating decision biases against exploratory initiatives and hindering corporate commitment.

By understanding the cognitive processes as social situated and negotiated in the organisational context, this paper seeks to explain how ‘reference points’ (Kahneman & Tversky 1984) adopted and changed during different points in the strategy process affect how tensions in initiatives with differing degrees of exploration develop over time. To some degree, managers always face trade-offs between different performance dimensions, e.g. between creativity and financial performance (Andriopoulos & Lewis 2009), or between performances on different technical dimensions (Bower &

Christensen 1995). While exploratory initiatives regularly under-perform on established dimensions, they often introduce and rely on new performance measures (Adner & Levinthal 2008). Here, legacy reference points and a stigma created by the reliance on new reference points that conflict with performance expectations encoded in the company's evaluation and incentive systems can create a systematic decision bias against exploratory initiatives (McGrath 2001).

As a resolution mechanism, structurally separated exploration portfolios (Gilbert 2005) with initiatives of different degrees of exploration allow to reframe decisions and organisational dynamics through new, negotiated reference points in these initiatives. We find that closeness to strategic processes, mostly at the headquarters, facilitates "paradoxical reframing" and reference point flexibility (Dane 2010), while closeness to the company's *operational* processes, mostly at the subsidiaries, encourages reductive reframing to adapt the initiative to legacy reference points and expectations. At later stages and for problem solving, initiatives often switch patterns – using reductive reframing to adapt initiatives marked by paradoxical framing to the core structure, and paradoxical reframing to capture performance gains on new dimensions in initiatives marked by reduction.

The model described above covers the development of portfolios with different degrees of exploration over time – taking the example of initiatives that aim to develop new business opportunities in low-income markets in developing countries, at the so-called Base of the Pyramid (George et al 2012, Prahalad 2004). While large, multinational companies (MNCs) could bring about the scale required to explore financially sustainable business models and contribute to poverty alleviation (Prahalad & Hart 2002), few companies have been able so far to set up projects that actually target poor customers and are profitable at the same time (George et al. 2012, Karnani 2007a). Companies struggle to develop initiatives with different degrees of exploration to reach different BoP market segments, in different countries, with different products. The model explains how the framing of BoP initiatives – as hybrids of business initiatives driven primarily by financial motives and profitability requirements, and social initiatives driven by other, intrinsic motives (Halme 2012, Prahalad 2004), is perceived as a trade-off by managers under reference point fixation and affects efforts at BoP exploration (London & Hart 2004, Olsen & Boxenbaum 2009).

The model development builds on data from two case companies with large and diversified portfolios of exploratory initiatives in BoP markets – ranging from highly exploratory initiatives – studies, experiments and pilot projects – to less exploratory initiatives – long-term commercial contracts with commission agreements. It expands previous research on BoP strategies in single units (London & Hart 2004, Sánchez et al. 2009, Seelos & Mair 2007, Halme et al. 2012), and shows how cognitive patterns in strategy processes determine how firms manage the on-going challenges of exploration and exploitation (March 1991, Raisch et al. 2009) and of combining financial and non-financial motives (Olsen & Boxenbaum 2009).

The paper will first review the existing literature on socially situation cognition and framing effects and their effect on exploratory initiatives and resolution mechanisms like structural separation. It will then present the methodology, research design and introduce the polar cases from BoP initiatives, before laying out the model itself and its implications for research on exploratory initiatives and organisational cognition.

6.3 Cognition and exploratory initiatives

Cognition is a mental, individual process – but one that is situated in social settings and has potentially strong repercussions on organisational processes as such. To prepare the ground for our model, this literature review starts with situated cognition in organisations (Bougan, Weick & Binkhorst 1977, Elsbach et al. 2005), before mapping the existing insights into cognition in exploration-exploitation balancing – both on a general level as well as for the specific case of exploratory initiatives in low-income markets in developing countries, a challenging context both in terms of market conditions as well as cognitive organisational barriers (George et al. 2012).

6.3.1 Social cognition and framing effects

Cognition and framing effects play key roles in organizations (Walsh 1995). Coordinated and joint processes of perception, interpretation and sense-making have been posited as defining characteristics of organizations as such, so that “what ties an organization together is what ties thought together“ (Bougan et al. 1977: 626, Daft & Weick 1984). If one departs from the assumption that companies are rational-choice actors, or governed by rational-choice actors and decision-making (Wooldridge et al.

2008), understanding cognition becomes important for understanding key mechanisms underlying directly observable process dynamics.

Cognition theory is concerned with “knowledge structures” that people use to process information and make decisions (Walsh 1995) – for example, the mental and linguistic templates of analogous or metaphorical reasoning used for making sense of new business ventures (Cornelissen & Clarke 2010, Mitchell & Shepherd 2010, Mitchell, Randolph-Seng & Mitchell 2011). While such templates greatly facilitate decision-making, or even allow it in the first place, they might also restrict judgement as templates become fixed and entrenched (Walsh 1995, Dane 2010).

One fundamental mechanism of cognition is the use of ‘reference points’, which can be traced back to prospect theory and early experimental economics. Prospect theory is concerned with how the framing of alternatives affects decision even in relatively simple games and experiments in a way that violates basic principles of rational choice decision-making (Kahneman & Tversky 1984, Starmer 2000, Tversky & Kahneman 1986). As one key mechanism in prospect theory, expected losses are valued stronger than expected gains –people are generally loss-averse. Additionally, people are risk seeking when facing losses, but risk-averse when facing potential gains (Kahneman & Tversky 1984). The choice of an arbitrary or the emergence of a path-dependent reference point can thus affect the evaluation of otherwise identical alternatives. Such effects have not only been found in experiments, but also when looking at industry dynamics, with the finding that firms can be “risk seeking when performance has been below target, risk averse when performance has been above target” (Fiegenbaum & Thomas 1988).

While prospect theory has potentially broad repercussions on economic theory, which in large parts is still based on expected utility theory / rational choice models (Starmer 2000), the direct transfer to the entangled, complex organisational reality is nevertheless difficult. Cognition in organisations is more appropriately captured as “(socially) situated cognition” (Clarke & Cornelissen 2011, Elsbach et al. 2005, Mitchell et al. 2011, Smith & Semin 2007). The corresponding theories and models are conceptually less formalistic, but better adapted to sometimes muddy organisational realities (Langley 1999). They capture cognition as action-oriented (i.e. coupled to behaviour), embodied (in a physical sense), situated (i.e. depending on a specific context) and distributed (among a wider group of people involved in a decision).

Socially situated cognition thus provides a useful approach to capture organisational realities, as it understands schemas or “mental models” as not pre-determined and deterministically applied to situations, but as negotiated and dependent on the local context in which a decision occurs (Elsbach et al. 2005, Walsh 2005: 305). Understanding the cognition behind decisions thus requires understanding the paths of events that precede the decision situation and affect, which frames are activated under which context, and which specific actions create and influence cognition, i.e. in the area of creating supportive cognitive environments for innovation (Elsbach et al. 2005: 431).

Cognition as captured in this paper is thus “embedded” in social practices and organisational structures (Robbins & Aydede 2008) and the question which schemas are evoked in which situation depends on the respective physical, institutional and socio-dynamic context (Elsbach et al. 2005).

6.3.2 Cognition in exploratory initiatives

As cognition is such a fundamental feature of social life, and organisations in particular, it also plays an important role in most organisational activities. Two sets of activities that organisations need to perform well, or even just survive, in the middle to long term, are exploitation – i.e. learning around the current products, markets and customers focused on efficiency and productivity – and exploration – i.e. learning around new products, markets and customers (Burgelman 2002, March 1991). While there is a debate whether these activities are exclusive, or whether “ambidextrous” organisational forms are possible that combine exploration and exploitation (Gupta et al. 2006, Raisch & Birkinshaw 2008), exploration and exploitation are definitely marked by different and sometimes conflicting logics (Levinthal & March 1993, March 1991).

The literature on exploration and exploitation has mainly focused on organisational antecedents and processes (Gupta et al. 2006, Raisch et al. 2009). Less attention has been dedicated to the underlying micro-mechanisms and cognitive foundations for and dimensions of the ability to combine exploitation and exploration – i.e., managerial ambidexterity. But organisational learning, including exploratory learning, often starts with individual-level, cognitive processes – for example, the use of intuition and interpretation to make sense of new business opportunities (Crossan, Lane & White 1999). Dealing with the different logics of exploration and exploitation often requires

dealing with conflicting logics and cognitive templates (March 1991), including forward vs. backward-oriented cognitive models (Smith & Tushman 2005), opportunity vs. threat perceptions (Gilbert 2005), creativity vs. financial as guiding principles (Andriopoulos & Lewis 2009) or causation vs. effectuation logics (Saravathy 2001).

The importance, patterns and locus of such cognitive challenges and the way in which they are resolved depends on the general organisation of exploration and exploitation activities in the institutional and social context of organisations (Elsbach et al 2005).

Earlier studies have assumed that exploration and exploitation can and should be separated – through sequential timing or structural separation (Gupta et al. 2006). In such scenarios, different cognitive patterns will dominate in the units or teams in charge of exploration and exploitation – e.g. the perception of online media and advertisement as threats to current revenues in the exploitation area, or opportunities for exploration of new business models (Gilbert 2005, 2006). While this reduces the cognitive challenges for managers in both areas, it requires that executives master the cognitive challenges associated with organising and (re-)integrating these different learning modes (Smith & Tushman 2005) – for example, when paradoxically holding both threat and opportunity framings at the top, while units work in either threat or opportunity mode (Gilbert 2005, 2006).

Other authors have stressed that exploration and exploitation must be continuously combined, especially in high-velocity environments (Brown & Eisenhardt 1997, Gupta et al. 2006). This requires that both activities must be more closely linked in organisations, including the integration of learning activities at lower levels. Such integration can reach down right the individual manager, as individuals combine diverse knowledge better than teams (Taylor & Greve 2006) and might thus be the appropriate locus for balancing and integrating these activities.

The cognitive challenges associated with integration of conflicting cognitive patterns can thus also arise for middle managers. Under continuous change, their positions have been found to be marked by role conflict, which includes cognitive aspects like “disparate beliefs or priorities“ required for employing or questioning corporate competences (Floyd & Lane 2000: 162). Such “ambidextrous managers” often need to accommodate contradictions in their daily work as they are required to both “refine and renew their knowledge, skills, and expertise“ (Mom, Frans, van den Bosch & Volberda 2009: 813) – at the extremes, engaging in activity they know will render the

expertise they acquire in parallel obsolete. Such an integration is cognitively challenging, and studies have shown how an increasing focus on exploitation and efficiency, e.g. through process training, can lead to „stunted cognitive models“ that inhibit exploration (Adler et al. 2009, Benner & Tushman 2003).

Exploratory initiatives also often involve metacognitive work – managers that “dynamic, flexible, and self-regulating in [their] cognitions“ (Hayni et al. 2010). Such metacognitive work might expand to an understanding and organising of the institutional and social context to enable cognitive patterns that allow effective exploration and exploitation in an established company setting (Elsbach et al. 2005).

6.3.3 Socially situated cognition in BoP research

While low-income markets in developing countries, the Base of the Pyramid (BoP), are challenging for a number of physical, geographic, climatic, economic and cultural reasons (Letelier et al. 2003, Rivera-Santos & Ruffín 2009), internal cognitive challenges in companies engaging in BoP markets exacerbate these problems (Halme et al. 2012, Olsen & Boxenbaum 2009), calling for an investigation of the cognitive structures and templates that are linked to the development of BoP initiative in existing corporate structures (Dowell & Hart 2011, George et al. 2012).

The external market conditions and cognitive challenges are related. The institutional and psychic distance and diversity of BoP markets can prevent managers from recognising opportunities in these markets (Sánchez et al. 2006, Webb et al. 2009a), how to exploit these successfully (London & Hart 2004, Olsen & Boxenbaum 2009), and how to build networks and local partnerships (Reficco & Márquez 2009, Rivera-Santos & Ruffín 2010). To bridge this institutional distance, companies need to radically adapt their business models (Prahalad 2004) by “acquiring and building new resources and capabilities“ (Seelos & Mair 2007). Such highly explorative activities are beset with the cognitive challenges described above (Hart & Sharma 2004).

Cognitive patterns that have been linked to successful exploration at the BoP are the use of ‘intrapreneurial bricolage’ in BoP initiatives – the mind-set of resourcefulness and the “ability and readiness to identify and deploy sometimes unconventional means at hand“ to pursue goals, even when these are not supported by formal structures (Halme et al. 2012: 763, see Sarasvathy 2011 for a similar distinction). Such mind-sets

can overcome the application of legacy metrics and incentive systems that hinder BoP initiatives (London & Hart 2004, Olsen & Boxenbaum 2009, Halme et al. 2012: 755).

Bricolage and structural separation allow a first understanding how BoP initiatives might develop, especially in their early phase⁶⁷. But to fully realise the financial and social benefits of operating in BoP markets, companies need to go beyond exploration. Due to their small revenue potential per customer, BoP opportunities require substantial scale to be profitable (Prahalad 2004). And considering the large numbers of potential customer with unmet needs – for example the billions lacking access to clean water or energy – “eradicating poverty” (Prahalad 2004) will require substantially scaling business models.

While structural separation creates spaces for exploring BoP and other business models (Gilbert 2005, 2006), it breeds new cognitive challenges. Structural separation might de-couple exploration and exploitation, problematic when the resources required for exploration need to be complemented by those in traditional, exploitation-focused business units (Taylor & Helfat 2009). This ‘de-coupling’ can also be seen in BoP initiatives. Akula (2008: 54) expresses disappointment about the speed in which the microfinance industry was able to “gain traction and deliver broadly on its promise“, calling for more exploitation of existing models, e.g. through standardisation.

Increasingly, BoP exploitation would require a focus on standardisation and reduction of experiments, rather than exploratory learning that tolerates and actually encourages trial and error (Akula 2008, Walsh 1991). As a consequence, the cognitive schemas activated in the respective context will look markedly different than those for exploration (Webb et al. 2009a, Kistruck et al. 2011). Instead of deep knowledge and understanding of BoP contexts gained by immersion as required for exploration, exploitation and gaining scale would require efficiency, standardisation and, at extremes, applying ‘McDonald’s’ or franchising principles to building BoP businesses (Akula 2008, Kistruck et al. 2011). In analogy to Benner and Tushman (2002),

⁶⁷ The fact that the BoP literature has stressed exploration over exploitation might also reflect the fact that few businesses have actually mastered exploration successfully in the first place (George et al. 2012, Karnani 2007a, Olsen & Boxenbaum 2009), creating a focus on understanding and explaining how business can move towards opportunity awareness and recognition (Walsh et al. 2005, Webb et al. 2009a).

experience in exploration initiative might create similarly “stunted cognitive models” – that now act as a barrier to exploitation.

Managers in BoP initiatives thus face similar “metacognitive” tasks as entrepreneurs (Haynie et al. 2010). Research on the micro-level mechanisms behind exploration in BoP markets (Gupta et al. 2006, Raisch & Birkinshaw 2008) thus would need to capture the situated and negotiated cognition in BoP projects in two ways: First, regarding the impacts of socio-economic context and the institutional context of the firm (Elsbach et al. 2005) on the perception and the activation of cognitive schemas in BoP initiatives; second, relating to the (metacognitive) efforts of BoP managers to deal with these impacts and structure institutional environment in a way that removes cognitive barriers to successful exploration and exploitation in low-income markets.

As situated cognition is concerned with the interaction of different schemas in organisational contexts, it is also an interesting approach to explain phenomena at the borderline of financial and social motivations, i.e. the interaction of the related cognitive schemas, and the development of projects that defy formal decision protocols (Elsbach et al. 2005: 430). This is reflected by applications that include studies on how decision frames of investors can trigger or suppress socially responsible investments (Glac 2009) or how consumer behaviour is affected by company efforts to implement corporate social responsibility (CSR) initiatives (Secchi 2009, Sen & Bhattacharya 2001).

6.3.4 Research question

In summary, this paper seeks to capture socially situated cognition in the process of developing and implementing initiatives with different degrees of exploration in larger companies, including the metacognitive efforts of managers to both self-regulate their cognition and actively shape institutional context that affect the cognitive processes of sensemaking and negotiation in the company (Elsbach et al. 2005).

It explores these questions for the case of exploratory initiatives targeting low income-markets in developing countries, drawing on material from embedded, polar case studies from two large multinational companies that successfully engage in both BoP exploration – by developing new products and working with new partners – and BoP exploitation – by increasing sales and turnover in the low-income segments applying their resources to scaling and replicating the models developed.

6.4 Methodology and Research Design

This paper uses a qualitative approach, with data gathered using participatory and partly ethnographic methods (van Maanen 1979, Ybema, Yanow & Wels 2009) to elaborate the “how” and “why” of processes at the BoP (Dyer & Wilkins 1991, Pettigrew 1990, 1992, Weick 2007). The qualitative approach also responds to the emerging nature of BoP research as well as of BoP business activities in themselves (Edmondson & McManus 2007, Ricart et al. 2004).

Data was collected at two financially successful, multinational insurance companies (Roth & Kostova 2003). The initiatives range from experimental pilots to established, profitable business activities in diverse institutional settings with different degree of available infrastructure to conduct BoP business. They thus provide an expansion of existing empirical research that has mainly dealt with single BoP projects in companies (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007, Webb et al. 2009a)⁶⁸.

Two “polar cases” (Pettigrew 1990) from each company have been selected as the basis for analysis in this paper, representing high and low degrees of exploration within the respective BoP portfolios. While they are not (statistically) representative of BoP initiatives in the company, they illustrate the diversity of projects of BoP activities in the two MNCs, the differing roles headquarters and subsidiaries and the processes associated (Yin 2003).

	Company A			Company Z		
	General	Case A-NGO	Case A-MFI	General	Z-MOBILE	Z-BANK
Interviews	BoP manager responsible for global BoP coordination (1*3) Other staff members responsible for regional oversight, etc. (3*1)	BoP manager at headquarter involved in A-NGO <i>Manager at partner-NGO (2*1)</i>	Subsidiary managers (3) in charge of initiative and partner relation <i>Local partners (2*1, microfinance bank and insurance intermediary)</i>	BoP manager at headquarter (4*1)	Company BoP managers in headquarter (2*1) and subsidiary (1*1) <i>Distribution partner (3*1)</i>	HQ project manager (1)

⁶⁸ To the knowledge of the author of this paper, this is the first study with access to companies running a portfolio of multiple, diverse BoP initiatives in different country settings in headquarters and subsidiaries.

Observation and Documents	2 month stay at headquarter, including participation in internal meetings, conference visits and negotiations with potential business partners	Interviews and field notes from secondary investigator. Well-documented by secondary research	2 month stay at subsidiary Field visits to partner headquarter and branches	2 month stay at headquarter, including participation in internal meetings and negotiations with potential business partners	2 month stay at subsidiary, including several meetings with distribution partner Field-visits to sales offices and promotional events	Strong documentation available
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Table 30: Interview and complementary material for polar initiatives (Number of interviews in brackets, external interviews in italic)

For **data gathering**, we followed Yin's (2003) call for multiple sources of evidence, combining direct observations of the strategy processes during two research stays with open (McCracken 1988) and semi-structured interviews and a document analysis (see Table 30). The interviews were split in two parts – an open part with five key “trigger” questions and a semi-structured part that was conducted using a standard questionnaire to capture data on the single initiatives and the partnerships set up under them. The individual interviews lasted 30 minutes to 2 hours, and up to 3.5 hours for respondents where several interviews were conducted. All interviews were conducted by the same interviewer, in the working language of the respondents, and afterwards transcribed and organised in a database. They are complemented by extensive notes from internal and external meetings and informal discussions taken during the stays within the companies.

The **constructs** used in this paper were developed and refined during and after the case research, to be open to insights emerging from the data, and to exploit the opportunities of multiple research sites (Eisenhardt 1989: 542). In this process, attention to the real-life challenges of practitioners was paid to assure the relevance of the research project (Gulati 2007).

As a first **data analysis** step, the processes observed were interpreted and organized using exploration-exploitation theory, to yield more robust constructs and propositions with a stronger theoretical grounding (Gibbert et al. 2008) and to describe the main patterns from an established theoretical viewpoint. The result was a “first-level” or “middle range” theory that is still relatively close to the data and mainly explains how the concepts of the exploration-exploitation theory are manifested in this particular

case (Weick 1974). While this step makes only a minor theoretical contribution, it still shows how the theory can help to understand this particular context and thus validates it in this special setting (Floyd 2009, Zahra & Newey 2009).

Second, the first level interpretation of the data was re-examined for prominent and interesting themes and patterns. As several themes were related to concepts used in cognition theory (Walsh 1995, Gilbert 2005, 2006, Mitchell et al. 2011), ideas and frameworks from cognition theory were match to the case data, to generate interesting explanations and causal mechanisms for the relationships and patterns observed (Weick 1989). As no specific instruments were used to measure cognitive structures during the data analysis, this data analysis relied on the linguistic accounts in which these structures become visible, manifested, negotiated and actionable (see the dialogue between Mitchell et al. 2011 and Clarke & Cornelissen 2011). Starting from two central concepts, “framings” and “reference points” that were found in the first-order sensemaking⁶⁹, the literature on managerial and organizational situated cognition was then utilized to develop and understand the underlying mechanisms behind the relationships observed.

The resulting theory is thus neither purely inductive nor purely deductive, but has developed out of a repeated process of using theoretical lenses to gather and interpret data and using the concepts arising from the data to building and refine theoretical frameworks (Shepherd & Sutcliff 2011, Suddaby 2006).

6.5 The Data

While both case companies are headquartered in Europe, they have a strong global presence, including a range of developing countries in Africa, Latin America and Asia. Both have sizable and diverse BoP initiatives⁷⁰, through which they offer insurance and savings products to 6 and 2 million clients in the low-income segment, respectively.

⁶⁹ Partly originating from the data, partly from literature such as Gilbert (2005, 2006) that uses the concept of threat and opportunity „framings“.

⁷⁰ For *Company A*, this translates in 7.8% of their total client base (though a negligible share in premium).

In both companies, a variety of departments were responsible for the BoP business. At the headquarter level, *Company A* employed a ‘Head of Microinsurance’ in the company’s ‘Corporate Social Responsibility’ department, who was responsible for the global microinsurance portfolio and interacted with the global leadership of the company. He coordinated his activities with several other headquarter departments, including the regional departments responsible for the BoP markets, and general units like the PR department or a global reinsurance team. In the subsidiaries, different teams worked on BoP issues – normally integrated into existing sales or marketing departments that dealt with bankassurance or affinity business, commercial distribution channels that shared certain features with BoP business models⁷¹.

In *Company Z*, the basis setup is similar. A global microinsurance team was set up in the headquarters. It consisted of 3-4 persons, including one of the two staff members of the company that had initiated the microinsurance activities, as well as staff hired from other companies that had an experience of working in emerging markets. The subsidiaries had their own microinsurance teams, with the specific setup depending of the local circumstances and staff members often having other, ‘regular’ responsibilities.

6.5.1 The cases

For the purpose of the analysis, four initiatives were selected as cases from the companies’ portfolios (see Table 30: Interview and complementary material for polar initiatives (Number of interviews in brackets, external interviews in italic)). They are implemented in different countries in Asia (*A-NGO*), Africa (*Z-MOBILE*) and Latin America (*A-MFI*, *Z-BANK*).

⁷¹ As BoP distribution relies heavily on partner organisations, it is structurally similar to bankassurance (insurance sales through bank partners) or affinity (insurance sales through other partners, e.g. a mobile carrier or travel agent). As a difference, BoP distribution utilises a wider net of partners, including NGOs or cooperatives targeting the rural or urban poor, uses distribution agents with lower levels of technical training and formal certification, and distributes simpler products.

Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

Company A		Company Z		
Case	A-NGO	A-MFI	Z-MOBILE	Z-BANK
Initial Setup	Partnership between <i>Company A</i> and a humanitarian relief organization, on global (headquarters) and national (country) level. Initially driven by the partner and the headquarters BoP manager. After "back and forth" (Manager from partner), operational responsibility was taken up by subsidiary.	Distribution agreement between subsidiary and local Micro-Finance-Institution (MFI). Sales of relatively standardized and common products (life and motor insurance). Low headquarter attention (also due to language barriers), reporting of basic financial indicators.	Contact between headquarter and umbrella organization of partner. Development of break-through product. Received grant from development organization, allowed additional on-the-ground staff.	Project developed autonomously by subsidiary, together with the distribution part, a local microfinance bank. Late headquarter involvement.
Approach	Innovative product developed, including product features (inclusion of property insurance) unmatched by the market. Innovative, multi-layered distribution networks and investments in client education (has won <i>Company A</i> international recognition). Natural catastrophe in the starting year led to high loss that signaled underlying lack of profitability.	Collaboration governed by contractual arrangements that reflect local industry standards. Significant commission payments and strong role of a commercial broker. Basic (life) products sold enabled solid profits for all partners. Initial plans laid out for product innovation were not taken up for years.	Significant delays in product development. Initial pilot successful. After-launch discussions on coverage and "field mission" to sort things out.	Stable commercial relationship with distribution partner. Product profitable over the years (with one exception). Sales of additional product already offered by the company in higher markets.

Final Outcomes / Status	Management attention from the subsidiary remained low, staff responsible for project changed repeatedly. Innovative features in the product were rolled back, a process hesitantly led by the <i>Company A</i> 's headquarter BoP team. Intended handover to local partners was never seriously approached. A "social performance review" of the project led to long and difficult discussions about the specific outcomes.	MFI started transformation into a formal bank → Relationship lost in a (legally required) bidding process to competitor. New provider continued product with slight changes. Headquarter of <i>Company A</i> and global umbrella organization of the MFI aware of product, but not strongly involved.	Pilot phase judged as successful by <i>Company Z</i> 's headquarter Product financial stable, despite concerns during negotiation. Adaptation and re-pricing based on experience, negotiation ongoing at time of study.	Profitable, stable BoP project, firmly established as part of subsidiary's activity. Showcased by headquarter to prove potential to profitably run BoP activities
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Table 31: Profiles of the polar cases

The cases selected are polar cases with regard to the degree of exploration, a key concept in the exploration-exploitation literature (McGrath 2001). The more exploratory initiatives (*A-NGO*, *Z-MOBILE*) offer new products through new distribution channels, while the less exploratory initiatives (*A-MFI*, *Z-BANK*) offer proven products through channels where a previous business relationship had existed (see Table 32).

Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

	Initiative			
	A-NGO	A-MFI	Z-MOBILE	Z-BANK
Country Setting	Medium (3) Regulatory uncertainty in microinsurance sector, early start of product development compared to competitors	Low (2) Well-established and documented microinsurance industry, intermediaries & regulation in the country	Medium (3) Strong microinsurance market, high level of competition Few own microinsurance experience in subsidiary, focus on up-market clients	Low (2) Strong subsidiary, The headquarter microinsurance team had strong regional experience
Customer properties	Highest (5) Mainly illiterate clients in remote rural area Most without experience with insurance products	Low (2) Mostly micro-entrepreneurs in urban or semi-urban setting, only partly literate Some had experience with insurance products sold via other channels (e.g. funeral policies sold by funeral parlors or utility companies)	High (4) Strong BoP market, but few own BoP experience in subsidiary	Low (2) Mostly micro-entrepreneurs that already have basic experiences with other financial products
Product features	Highest (5) Innovative combined product (life, property, health) with experimental components new to the market at the launch date	Low (2) Well-established and relatively simple (life insurance) product, only small adaptations made for BoP market	High (4) Product (legal protection plan) available in market and already offered by company, but not yet sold to BoP population	Medium (3) Standard (life insurance, motor) products, partly sold to more mid-market BoP clients
Partner features	Highest (5) New partner (humanitarian relief organisation) without strong business experience Outreach to small NGOs in remote rural areas, distant from company's next offices	Lowest (1) Good experience with partner microfinance institution under conversion to a bank, behaves very "business-like". Existing business relationship with intermediary (insurance broker) before start of BoP initiatives	Highest (5) Very innovative partner (mobile bank specifically targeting BoP populations), one of first global examples of use as sales channel	Low (2) Good experience with partner, established microfinance institution with strong presence in market
Overall Exploration score	18	7	16	9

Table 32: Comparison of polar cases (0: low level of exploration/ 5: high level of exploration)

6.5.1.1 *High-exploration BoP (A-NGO, Z-MOBILE)*

The first two cases selected have a high degree of exploration.

A-NGO was an early initiative in *Company A* to distribute a product bundling life, property and health protection – a highly innovative product that neither the company nor its competitors were selling to that segment at the start of the project. The company partnered with an international humanitarian relief organisation (that did have relatively little business experience), and distributed the product through small, local NGOs operating in a remote coastal region, targeting mainly illiterate women that they organised in “self-help-groups”. It was highly exploratory for both *Company A* and the partner, *Global-NGOI*, and made possible by a donation to the partner covering costs during the start-up phase. The subsidiary only hesitantly accepted the BoP initiative. The initiative was a success in that the customer education and a creative, culturally sensitive marketing campaign got external recognition, and sales numbers were broadly according to plan. However, the product turned out to be strongly under-priced, leading to significant losses, and the company was forced to cut some of the innovative features. Additionally, managers felt that the partnership never moved out of the underlying ‘charity’ relationship as which it had started. The initiative was continued but lost importance and managerial attention later, when the subsidiary developed less exploratory, but more profitable BoP initiatives.

In comparison, *Z-MOBILE* was a relatively recent initiative, in a more mature BoP market. *Z-MOBILE* distributed a legal protection plan, a product not yet sold to BoP customers. Distribution happened via a mobile bank that employed local teenagers and young adults from mainly urban low-income communities as agents on a commission basis, most without extensive formal education. As insurance distribution is highly regulated, this unconventional channel caused significant operational and legal challenges. The initiative internally was labelled as a “proof of concept” to stress the high degree of exploration. While sales-numbers were significantly lower than expected, managers expressed satisfaction, as the initiative showed that it “can be done”. After the project, both partners engaged in discussions on how to continue with a less exploratory initiative, but a re-orientation of the partner and higher-level managers scepticism towards the partner at the subsidiary delayed progress.

6.5.1.2 Low-exploration BoP (A-MFI, Z-BANK)

On the other side of the spectrum, both companies ran BoP initiatives with lower degrees of exploration. *A-MFI* was a distribution agreement to sell both a credit-life and voluntary term-life insurance to BoP customers through one of the country's leading microfinance institutions. The product was well established in the market, and increasingly available for BoP customers through different channels, for example utility companies. Internally, the company's core staff handled the initiative, alongside other initiatives for wealthier clients. The initiative was stopped when the partners took up a business relationship with another company.

Similarly, *Z-BANK* was developed by a subsidiary with a local partner, as a relatively standardised product distribution agreement for life and, partly, motor insurance. The product had been sold for some years at a modest profit (in most years) and continued to be managed as a regular business initiative.

Taken together, these four initiatives can be seen as representing the “extremes” for the respective BoP Portfolios of the two companies. They were complemented by other initiatives, including initiatives that are of a particularly high / low degree of exploration (and could thus have been selected as polar cases) as well as “mixed” ones that are highly exploratory on some, but less exploratory on other dimensions.

6.6 Model development

While there is a multitude of issues that make exploratory initiatives difficult – many related to the vector of market conditions, client expectations and product characteristic that differ starkly from what companies regularly experience (Burgelman 2002, George et al. 2012, Webb et al. 2009a) – this model focuses on the cognitive aspects of exploratory initiatives.

In our model both top-down, schema-driven as well as bottom-up, data-driven sense-making collapse (Walsh 1995) – the first, as existing, shared schemas and mental models in the company do not fit the new the new exploratory initiatives, the second, as established performance dimensions and reference points fail to capture the value of the new initiative due to lack of data, ambiguity and uncertainty. Such stigma is overcome by two different types of reframing – reductive and paradoxical – that seek to increase coherency with established or to create and establish new mental models or schemas. They choice between the two modes is dependent on institutional

characteristics (Elsbach et al. 2005), namely, whether the respective actors are embedded in tightly or loosely coupled systems with low or high goal autonomy.

Over time, these patterns are sometimes ‘switched’, depending on the specific situation and progress of the initiatives. This switching, done consciously or intuitively, follows a mediating path between top-down and bottom-up sensemaking, over which existing schemas are altered or new ones introduced. Analogous to “abductive” reasoning (Weick 1989, Shepherd & Sutcliff 2011), this process presents dialogue between the existing “theories” (i.e., mental models and schemas) in the organisation as well as the emerging and tentative “data” or experience discovered during the process.

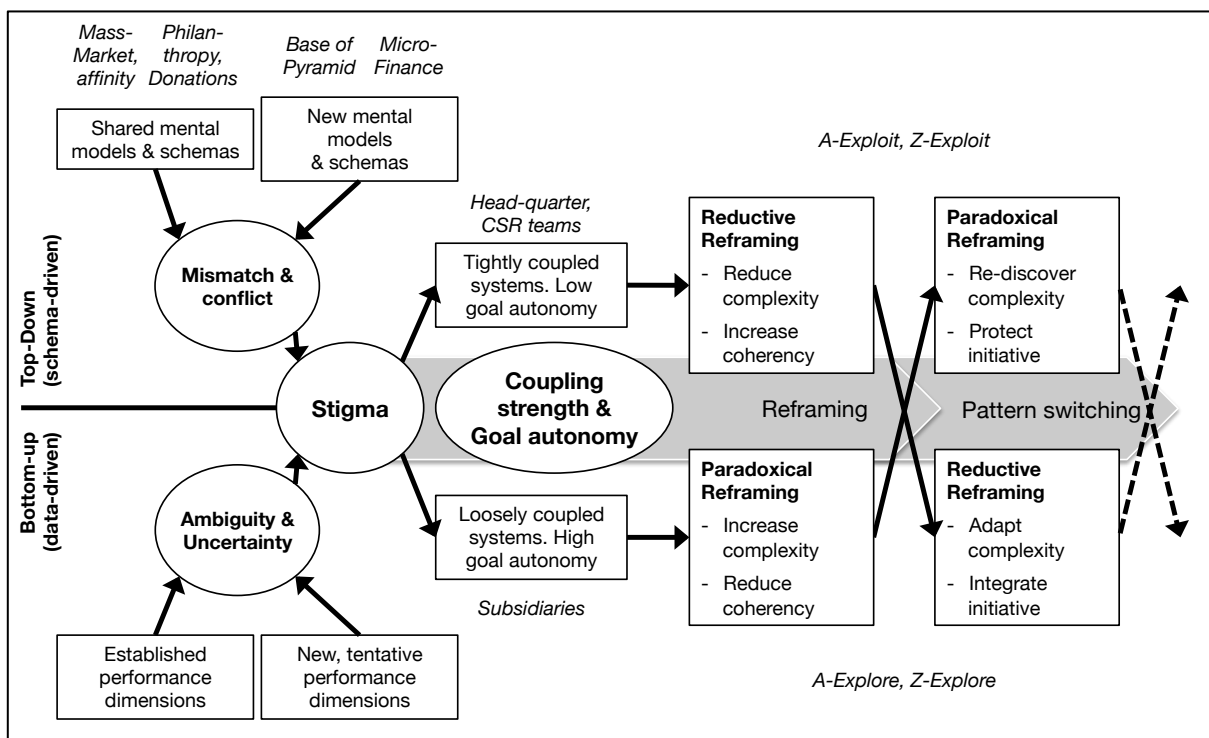


Figure 15: From stigma to pattern switching

6.6.1 The stigma of exploration

As shown in the left side of Figure 15, managers in charge of the exploratory initiatives observed faced a double challenge – related to both top-down as well as bottom-up sensemaking (Walsh 1995). This process happens in two, related and reinforcing steps. First, the shared mental models as well as the defined performance dimensions in the company reflect the existing business model – and not the new one to be developed in the exploration initiatives. Second, the development of new

schemas and the introduction of new performance dimensions does not solve this problem – but aggravates it by raising suspicion and further reducing the perceived fit and expected performance from a legacy standpoint. Both steps will now be investigated for the case of top-down, schema-driven as well as bottom-up, data-driven sensemaking.

6.6.1.1 Schema mismatch and conflict

While in many cases the relevant new performance dimensions might only be visible in retrospect, the overall ‘Base of the Pyramid’ debate had been framed significantly different from regular business development activities from the start – as the end of “corporate imperialism” (Prahalad & Lieberthal 1998) or as a market-based “poverty-reduction” approach (Prahalad 2004). These framings were intended as motivational, to create awareness of the Base of the Pyramid (BoP) as a novel business opportunity that could bridge financial and social objectives (Walsh et al. 2005).

Managers thus repeatedly expressed that they experienced strong differences between the core performance expectations of the company and those required to successfully implement BoP activities, leading to incidents where the rigidity of the core business inhibited exploratory innovation in low-income markets (Leonard-Barton 1992, London & Hart 2004). While being framed by managers as a business development project, the introduction of new performance measures irritated decision makers as the initiatives mixed traditional business and philanthropic logics:

“So, initially my role [...] included a lot more educating of people in *Company Z* on that subject, ah, that no, it's not simply philanthropy, it's not simply PR, it's not simply, ah, it's not simple!” (*BoP team leader, Company Z*).

The different frames and the personal motivation and dedication of managers to social issues led to resistance of higher-level managers. While people in charge of the BoP initiatives did not necessarily see profit and social contributions as exclusive and envisioned mid- to long-term synergies, people in other parts of the company had difficulties holding a paradoxical framing in mind (as in Olsen & Boxenbaum 2009). The difficulty to combine a “social” perspective with a “financial” one had similar consequences as described by Gilbert (2005): While the social perspective encouraged searching new and innovative ways to deliver the company’s product to a new and stigmatized target group – a highly exploratory activity – a convincing argument from

a financial perspective would have facilitated the dedication of significant financial and technical resources to build profitable activities in BoP markets.

Previous research has shown how conflicting frames for BoP can lead to a perception of trade-offs – between social and financial goals – that can function as a strong barrier to the development of successful BoP activities (London & Hart 2004, Olsen & Boxenbaum 2009). Mainstream managers will often perceive social and financial goals in these initiatives as contradictory, and regard BoP initiatives as idealistic diversion from the core competence of the company (Olsen & Boxenbaum 2009).

While the previous literature described failure and project termination as risks (London & Hart 2004, Olsen & Oxenbaum 2009), the projects in our cases were pursued by offering the initiatives place for experimentation, but committing only few resources and attention to the projects:

“[BoP] is a part, but one has to say a very small part, of our business, or also of my business. It’s a good thing (...), that means, ‘[BoP] is nice to have, but it’s not your only business’ (...) even if its often in the media (...) for us its a niche business, a side business. (...) we don’t need to make profit there, but we also cannot make any losses. “ (Regional director, *Company A*)

In summary:

P1: Mismatch and conflict of new initiatives with shared mental models and schema lead to stigma, i.e. low firm commitment, for exploratory initiatives;

6.6.1.2 Performance ambiguity and uncertainty

This mismatch was mirrored on the more tangible aspect of performance evaluation. Echoing human activity in general, all organisations feature multiple performance dimensions. Even in organisations with the overarching objective to create financial returns, as in today’s corporate, shareholder-driven capitalism (Friedman 1970, Walsh et al. 2003), performance on intermediary variables like product features, quality levels, market segment penetration etc. proliferate in day to day decision making as a manifestation of the overall corporate strategy (Johnson et al. 2008).

In our case study, multiple new performance dimensions were introduced into a company with an established and widely shared understanding of important performance dimensions –tangible like the generation of gross revenues and different cost and profit margins, but also intangible and more intermediate variables like the

prestige of clients and partners, as both companies had a preference for and focus on up-market and corporate clients, product quality and technical validity of products as measured by an established set of externally certified accounting procedures.

When evaluating these new exploratory initiatives, managers had to weigh potential losses on established performance dimensions against potential gains on new performance dimensions.

While the proposals for the initiatives aimed to address established performance dimensions, managers were aware that the performance forecasted and envisioned on these was generally below the track record of the company, i.e. concerning revenue and profitability. This coincides with findings that benefits of exploratory activities are in general “less certain, more remote in time, and organizationally more distant from the locus of action and adaptation” (March 1991: 73) and similar findings for BoP exploration – where the profits forecasted were often lower than those for normal business for an extended period of time (Hart & Christensen 2002).

In both organisations, the new performance dimensions broke with established dimensions. Due to the high levels of informality (Webb et al. 2009a)⁷² and the lack of existing sales and profit records in the markets that had to be “created” (Seelos & Mair 2007), key data was lacking that would have been required for using the established financial forecasting indicators in the company. Using non-traditional partners with strong, local networks in these markets (London & Hart 2004, Rivera-Santos & Rufin 2010) often broke with the implicit, but well established, performance dimension of partner reputation, as BoP partners were unknown or viewed sceptical by more mainstream actors.

Still, managers in charge of initiatives stressed that these *can* be run in a profitable way, but not at volumes or profit margins on which the projects can compete with non-BoP projects on a purely commercial basis:

“We're not going to win on a business case alone, [...] we don't try and compete on the profit number alone, but that we'd bring in the separate voices that say, yeah, I see some value there” (*BoP team leader, Company Z*).

⁷² In some cases, birth or age certificates for customers were lacking – a basic prerequisite in more established markets.

When evaluating the forecasted performance, managers both explicitly and implicitly relied on past performance in other business areas as “reference points”, e.g. about the size of revenues to be expected from new business development projects and about profit margins. Compared to these reference points, the established performance dimensions were perceived as a “loss”, irrespective of their absolute size. In contrast, the newly introduced performance measures were compared to low reference points from the current portfolio – e.g. in making a social contribution and being perceived as a good “corporate citizen” or in expanding to new, previously untouched client groups and building future sources of revenue once people economically advance. Lack of experience with these goals and uncertainty about their value resulted in a low evaluation by higher-level managers.

This pattern, loss aversion that considers under-performance on established dimensions stronger than potential gains on new dimensions can also be understood how partners that were mainly driven by the new performance dimensions discussed the same proposals. Agricultural cooperatives or microfinance institutions serving as distribution partners were loss averse on social indicators, fearing a mission drift away from the high social performance, while being relatively sceptic about the promised financial returns, as they were used to projects relying on public subsidies or private donations (Kistruck & Beamish 2010).

In summary:

P2: Low reference points for newly introduced performance dimensions and high reference points for established performance dimensions derived from the company’s existing business portfolio increase stigma, i.e. low firm commitment, for highly exploratory initiatives;

But there is a second mechanism, beyond an independent comparison of potential gains and losses on different dimensions: In our observations, the newly introduced performance dimensions have actually *decreased* the perceived expected performance on established dimensions.

Managers advocating BoP projects assumed that adding social or other non-traditional objectives to a regular business framing would help to convince decision makers to embark on the difficult BoP innovation journey in markets that were normally not considered as relevant (Dawar & Chattopadhyay 2002, Walsh et al. 2005). But while that approach has widely attracted attention and started a broad academic and

practitioner discussion (George et al. 2012), adding new performance dimensions or justifications in our cases has made it difficult to create the perception that reaching poor communities can be achieved through financially sound, stable business portfolios.

The difficulty of combining the different performance dimensions can be seen clearly in the company's perception of partners. In *Company Z*, which has received public support and attention, this has arisen confusion and suspicions about the commercial value of the BoP business:

“[people in the company say:] 'Gosh, why would [development partner *DevCoop5*] want us to sell [our products] to low-income people in developing markets? I don't get it?' But why do people buy [our products]? [...] its a super-critical part of life in developed economy, so, if you're in a developing economy, you better act. People don't get it, and that's the weird part. They don't understand why these other stakeholders are interested [...] this leads to this idea, "If it's profitable business, they wouldn't want us to do it, right"?"
(Manager from *Company Z*)

Managers pursuing BoP activities were thus in a paradoxical situation (Andriopoulos & Lewis 2009, Poole & van de Ven 1989): While non-traditional motives were crucial to justify BoP activities, they also stigmatised and hindered them.

In combination, the application of standard business metrics and legacy reference points to BoP projects led to low levels of interest. This dynamic can be summarised as follows:

P3: Newly introduced performance dimensions reduce the perceived performance of new ventures on established performance dimensions, increase stigma, i.e. low firm commitment, for of exploratory activities;

6.6.2 Structural separation and initiative reframing

Despite the challenges experienced (Olsen & Boxenbaum 2009), both companies nevertheless had set up and run various exploratory initiatives with different degrees of success – often by employing unconventional or bricolage tactics (Halme et al. 2012).

We find two, partly conflictive, partly overlapping, patterns how managers accommodate the competing frames and legacy performance dimensions and reference points in exploratory initiatives. They differ in the degree to which the new performance dimensions are concealed and suppressed, i.e. the initiatives are “reframed” in more conventional terms, or accepted and actively used to apply paradoxical or integrative thinking and reasoning to justify the initiative. Both tactics help to decouple reference points and overcome loss aversion and stigma of exploratory initiatives – while the main pattern chosen depends on the position and organisational context of the main actors responsible for the initiative.

6.6.2.1 Effectuation through paradoxical reframing

While reductive reframing was a strategy to increase congruence, or at least reduce conflict, with existing performance dimensions, the use of “paradoxical reframing”, as a second major pattern, worked differently. Here, managers in charge of initiatives were aware about the mis-match that the new performance dimensions in their initiatives created – but justified their initiatives’ existence by relying exactly on this newness, difference and contradictions (Smith & Tushman 2005, Mom et al. 2009). Such a pattern was mainly found around more exploratory initiatives, targeting clients in countries or regions considered particularly difficult, through new and untested distribution channels or with new products that lacked a track record in this market segment, both inside and outside the company.

	Company A		Company Z	
Case	A-NGO	A-MFI	Z-MOBILE	Z-BANK
Dominant Reframing Pattern	Paradoxical Use of multiple, overlapping and highly linked performance dimensions & justifications	Reductive Project included in bancassurance portfolio, active resistance / redefinition of BoP label	Paradoxical Strong social component, complex justification	Reductive Mainly framed as business development project
HQ role	Strong HQ initiated project and stayed active in monitoring and resolving of conflicts	Weak Project initiated and managed by subsidiary, headquarters stuff only superficially informed	Strong Initiated, implemented and evaluated by headquarters. Strong role of headquarters networks.	Weak Headquarters 'discovered' project after getting interested in BoP, now regular reporting but low involvement
Subsidiary role	Mixed Initially hesitant and skeptical of project, low attention, changed lower-level staff	Strong Project initiated and implemented by local staff.	Weak Subsidiary mainly in administrative role (note-taking), strong internal barriers, only cursory interest even by new BoP staff	Strong Project initiated and implemented by local staff.

Table 33: Structural separation and role distributions

Instead of reducing complexity in and around their initiatives, as in reductive reframing, paradoxical reframing increased complexity. The way such reframing⁷³ was applied can be understood when looking at the tension between financial and social goals. While the more mainstream view regarded these as mainly incompatible (Olsen & Boxenbaum 2009), managers in charge of more exploratory BoP initiatives stressed linkages between these dimensions to resolve these trade-offs – when arguing that

⁷³ Such a framing is paradoxical mainly from the mainstream business perspective, as it requires the assumptions of underlying trade-offs. From the perspective of the newly developed business models, synergies between the different dimensions might actually exist.

pursuing social goals was necessary to build future business opportunities, or when pursuing revenue and profit so that socially beneficial projects could be continued⁷⁴.

In both companies, the units and teams applying paradoxical reframing had high goal and decision autonomy, at least in their restricted domains. They were thus part of loosely coupled systems (Orton & Weick 1990, Weick 1982) – subject to feedback and influence of other elements, e.g. other departments or superiors only indirectly and less frequently than managers relying on reductive reframing (see below).

These managers were mostly located in the headquarters: Both *A-NGO* and *Z-MOBILE* were initiated by headquarter staff, rely on headquarter resources and are implemented against subsidiary resistance and scepticism⁷⁵. At the headquarters, impulses for the more exploratory BoP initiative usually came from peripheral actors (Regnér 2003, Halme et al. 2012). In *Company A*, the BoP manager was a non-industry-expert situated in the company's corporate social responsibility department. While he acknowledged that there could be various organisational setups, he saw the CSR department is the adequate place for coordinating a BoP portfolio, structurally separating attention to multiple objectives, especially social issues, from the commercial focus in other parts of the organisation:

“But the social component is [...] the most important issue the holding should take care of in the coordination of interests with the subsidiaries [...] Therefore, I would argue rather for placing [the BoP team at the headquarter] in an innovation or CSR department [...] if there is a counterpole on the level of the subsidiaries” (*BoP manager Company A*)

In *Company Z*, the BoP team had determined its own set of goals for the initiative, mixing personal goals that went beyond core financial or career motives initially set up the BoP projects into their official role description:

“One alternative was keep doing [my job at that time], and on the side, in my free-time, do something which is ‘closer’ to me“ [...] “this sounded quite attractive, this [BoP] is something, where we can bring in the know-how that

⁷⁴ It is similar to paradoxical tensions between creativity and business described by Andriopoulos & Lewis (2009)

⁷⁵ Due to regulatory and organisational requirements, initiatives always need to be run by subsidiaries, and carried on their profit-and-loss accounts.

we already have, well, actually, where we can bring in the know-how of the firm” (*BoP team member, Company Z*).

Later, the team was located in different units – starting in a “public affairs” department, then moving to a “special initiatives” department, and finally in the marketing department after a major re-organisation. Throughout this “journey”, demands and pressure on the team was diluted, as external expectations repeatedly changed and could be set off against each other – with the effect of an increasingly loose coupling and leeway.

On the personal level, BoP managers had high goal autonomy and often saw their activities as an expression of their personal preferences – and thus perceived social-financial trade-offs differently. Their discussions with experts “outside” of the company lead to the understanding of different reference points – e.g. by engaging with “social protection” experts whose reference point is to provide universal social protection (whether through private or public means). Additionally, engaging with issues that are not part of their core operational responsibilities helped to overcome entrenchment by allowing outside influences on the established, fixed domain schemas (Dane 2010).

The responses from other managers towards paradoxical reframing were mixed.

Managers in more tightly coupled systems, i.e. closer to the operational processes at subsidiaries, were most critical, despising social motivations or ambitions as ‘very romantic’⁷⁶, actively resisting more exploratory BoP projects marked by complex, paradoxical reasoning. Such resistance was best illustrated by the long and difficult negotiation for the setup of *A-NGO* or in the low levels of attention and resources dedicated to *Z-MOBILE*.

The scepticism persisted, even while subsidiaries developed own exploratory projects targeting low income-markets that relied more on ‘reductive reframing’ as describe below. In the subsidiary where the headquarter team pursued the exploratory project *Z-MOBILE*, the local team in parallel established a BoP project with a commercially focused partner linked to a prominent local business group, in order to create first

⁷⁶ As one subsidiary manager in charge of several microinsurance accounts expressed her perspective on the widely spread “Microinsurance Compendium” (Churchill 2006), published by ILO, an international organisation mainly involved in promoting employment and social protection.

visible sales and business volume with the expressed aim to gain local credibility and relevance in the subsidiary. The manager in charge communicated the project *Z-MOBILE* much less, and the project was mostly run by the headquarters and local, more socially oriented partners. A similar situation occurred in *Company A*, where the subsidiary responsible for *A-NGO* set up more commercially oriented BoP projects with less ambitious products, mainly life insurance, in parallel that were presented as a more regular business development projects.

The more exploratory focus of headquarters at first seems to conflict with the idea that radical exploration often happens autonomously at the periphery (a, Regnér 2003), or the idea that subsidiaries would be especially exposed to the local market context (here, of poverty), and thus engage on these issues (Birkinshaw 1997, 1999). Still, low-level exploration may backfire under certain conditions (Siggelkow & Rivkin 2006), some of which might be relevant for the BoP. For example, managers repeatedly stressed how BoP initiatives required both flexibility and coordination across different departments. As most subsidiaries were highly separated into departments, interesting in pushing such an initiative was higher at the headquarters, i.e. in units that had more staff members in ‘generalist’ positions.

In contrast, higher-level decision makers protected the projects marked by paradoxical reframing, and provided modest amounts of resources, their contacts and networks and political support within the company (Gilbert 2005, Smith & Tushman 2005). Board members, at the headquarters, were aware of the projects despite their relatively small size compared to the company’s overall portfolio. The complex and partly paradoxical justifications on new performance dimensions also helped to mobilise external media and stakeholder interest, including regulatory agencies and international organisations – aspects that attracted the attention of higher-level headquarters managers with a higher sensibility for strategic issues like brand positioning or regulatory relationships.

In summary, we can thus state that:

P4: Units and teams in loosely coupled systems with high goal autonomy are likely to adopt paradoxical framings to deal with stigma in highly exploratory initiatives.

6.6.2.2 Reconciliation through ‘reductive reframing’

The second pattern observed can be summarised as a ‘reductive reframing’ of the project to accommodate established performance dimensions and reference points.

Here, managers stress those performance dimensions that are in congruence with the company and actively suppress those dimensions that create conflict. While they are aware of, and sometimes motivated by, new performance dimensions such as social impact or the promise to reach new, previously excluded customer groups, they present projects in more conventional terminologies and use established performance dimensions.

In both companies, reductive reframing often takes place in exploratory projects that are run by teams close to regular operational processes – mostly in the company’s strong subsidiaries – as opposed to teams more in charge of overarching, strategic tasks. For example, both *A-MFI* and *Z-BANK* were initiated by subsidiaries without involvement of headquarters, and ‘discovered’ later by headquarter staff. Both were implemented with a stronger commercial orientation (Akula 2008). *A-MFI*, for example, was initiated and managed as a commercial venture, in a department that managed other BoP and non-BoP accounts. Substantial commissions were paid, to the intermediary and the distributing microfinance institution, and the overall performance was evaluated in terms of revenue, or “gross written premium”, and profitability, the “combined ratio” that showed how claim payments and expenses related to the gross written premium.

The choice for reductive reframing is also influenced by the exposure to more stringent incentive systems, as higher autonomy for goal setting and implementation normally enables exploration (McGrath 2001). In both companies, initiatives marked by reductive reframing were run by subsidiary teams that were held directly accountable for financial results, while the BoP teams at the headquarters were evaluated on softer, less tangible criteria, and thus had more decision making autonomy – i.e., subsidiary managers were part of tightly coupled systems⁷⁷.

This follows the general resource allocation in both companies that stressed local autonomy in developing systems and distribution channels, while the headquarters were more involved in softer investments, like knowledge building, stronger coupled to the highly exploratory projects (Levinthal & March 1993):

⁷⁷ One anecdotal, but symbolical, aspect were working hours: Managers at the headquarters in general started later and had longer, but less regular working hours than managers at the subsidiaries.

“we’re spending very little money from the center, again, it's understanding and the technical know-how and what have you, [...] the investment [...] is paid for locally, so the ones that are acting are seeing a return on investment within a time horizon that is sensible to them.” (*BoP team lead, Company Z*).

While the local BoP teams are aware of social issues in their respective countries, sometimes through their own personal background, these were not prominently presented in internal communication. Sometimes, subsidiaries dealt with the “BoP Stigma” by actively rejecting to label them “BoP” or “microinsurance” projects, even if the projects would fall under these categories. The managers responsible for *A-MFI* stressed that their understanding of ‘micro-insurance’ referred to the premium size, not the clientele, and that she had no interest in interference of headquarter managers regarding the social impact of these products.

One aspect of reductive reframing was thus the use of more conventional labels – e.g., “bancassurance”, “affinity marketing” or “mass market insurance” – when referring to the business development projects that targeted low-income markets⁷⁸. Referring to exploratory initiatives by established labels or analogical references to existing business initiatives (Gavetti et al. 2005) helped to reduce the perceived newness among company managers not directly involved in the initiatives.

In summary:

P5: Units and teams in tightly coupled systems with low goal autonomy are more likely to use reductive reframing to deal with stigma in exploratory initiatives.

6.6.3 Pattern switching across exploratory portfolios

The structural separation described above allowed the case companies to run both highly and less exploratory BoP projects simultaneously in the same organisation, by using different patterns to deal with initiative stigma. While the two different patterns can be broadly matched to our case studies, managers also mixed these tactics or

⁷⁸ The manager also complained about the inconsistency of headquarter positions: While generally a high profit ratio on the respective product lines was requested by line managers from the headquarters, BoP staff in *Company A* sometimes saw high profit levels as a signal for a weak social performance of certain products, and started inquiries and interventions regarding the underlying causes.

switched to the opposite patterns in specific situations to respond to contextually contingent challenges.

This situational switching occurred on different occasions with different goals.

On the one hand, in both companies, switching occurred once problems surfaced in initiatives that had worked well for a while in the respective mode – reductive or paradoxical reframing – but required adaptations. These adaptations were “mirror-inverted”: In initiatives marked by reductive reframing, introducing elements of paradox allowed to protect the initiative from demands of the core business and the impact of decisions taken based on legacy reference points. For initiatives marked by paradoxical reframing, switching to reductive reframing allowed to acquire support from more traditional actors in the company or justify adaptations that would have violated the new performance dimensions established and stressed through paradoxical reframing.

Additionally, switching patterns facilitated learning and integration activities across the different initiatives in the portfolio of exploratory initiatives (Jansen et al. 2009). These learning processes were observable in two directions: Transferring insights from highly exploratory projects to the less exploratory parts of the portfolio through introducing elements of paradoxical reframing, and by transferring insights from less to more highly exploratory activities by relying on elements of reductive reframing (Gupta & Govindarajan 2000).

This section will describe both challenges in the initiatives marked by the two patterns, as well as the way in which learning activities were organised to resolve these.

6.6.3.1 From paradoxical to reductive reframing

In initiatives marked by paradoxical reframing, reductive reframing was used as a strategy for adapting the initiative to more mainstream business expectations. As the more exploratory projects matured over time, criteria from the established core business or developed in more exploitative initiatives were increasingly applied to these, for example with regards to volume and profitability.

While the paradoxical framing of the highly exploratory projects led to high levels of motivation for the managers starting the projects and executives supporting them, it often interfered with their later progress, in particular once a wider set of internal

stakeholder and resources had to be included in the project (Olsen & Boxenbaum 2008, Taylor & Helfat 2009).

In the case of *A-NGO*, headquarter managers expressed satisfaction with the overall implementation and social performance of the project, including the responses by other players in the sector and the international media. But revenues remained low, and a natural catastrophe hit the initiative in the second year of operation, leading to substantial losses⁷⁹. Additionally, some costs in the initiative were still ‘subsidised’ – while the initial grant provided by the company to the implementing NGO had been used up, the NGO had mobilised own charitable resources. In parallel, the subsidiary had realised other BoP initiatives, with more commercially oriented partners and less complex products, and had set up an own, larger, local BoP team to manage these. This created pressures for *A-NGO*:

“Today, [our partner in *A-NGO*] is one of the many microinsurance partners in [the target country], I don’t know, some 100, surely one who offers a more challenging range of products, but in the end [...] one of many, who does not get a special treatment automatically” (*Head of BoP in Company A*)

In the case of *A-NGO*, managers repeatedly discussed to move the initiative closer to the models used in more conventional projects – by paying commissions that cover the costs of the NGO, or dealing directly with the final distribution partners. A final decision was outstanding at the end of the observation period. At the headquarters, benchmarking overviews, prepared for higher-level managers, showed the different BoP initiatives side-by-side, and higher-level managers commented on the low revenue (gross written premium) and profitability (claims ratio) of *A-NGO*. While the partner had mobilised additional funding to continue its operation, managers discussed how the initiative could be re-structured to be commercially self-sufficient – e.g. by paying commissions to the partner or dealing directly with the local NGOs, models that had worked in less exploratory initiatives of the BoP portfolio.

In *Company Z*, subsidiary managers in particular took less exploratory projects as a reference point to judge more highly exploratory projects like *Z-MOBILE*. First, local managers were more interested in products already offered and established in the

⁷⁹ The claims paid exceeded yearly premiums several times, and one department had suspected a typo in the (correct) profitability number.

market (in particular, funeral insurance). Second, the local Head of BoP expressed interest and had established first contacts with a variety of organisations targeting BoP clients that were less experimental than the partner in *Z-MOBILE* – for example, a microfinance institution that was part of a larger local, well-established business group, or a bank specifically targeting mine-workers that had a long track-record of working with BoP customers. Comparing it to these initiatives, the subsidiary had low interest to continue *Z-MOBILE*, as it did not generate direct revenues or profit, something the local manager repeatedly stated as a priority to “prove himself”.

The fact that less exploratory BoP initiatives were often driven by subsidiaries also determines the direction of knowledge flows. Both BoP teams in the headquarters regularly collect data on the BoP portfolio initiatives from subsidiaries, consolidate it, and used it in presentations and studies to showcase the commercial potential to other, more mainstream departments in the company, or upper-level managers – thereby reframing BoP in more conventional dimensions.

In summary:

P6: Initiatives initially relying on paradoxical reframing to address initiative stigma will adopt reframing at later stages to adapt the initiative and capture the performance gains on established performance dimensions.

6.6.3.2 From reductive to paradoxical reframing

Initiatives targeting low-income markets marked by reductive reframing often operated for a while as regular business initiatives and were regarded as “successful” by the managers responsible – both in terms of revenue generated and profitability. While the reductive reframing was upheld most of the time in internal and external presentations, managers over time increasingly introduced paradoxical elements. Such a change in patterns was often accompanied by changing responsibilities and shifts in managerial roles – mainly, a stronger involvement of headquarter managers in initiatives originally developed by subsidiaries.

For example, headquarter BoP managers in *Company A* repeatedly expressed concerns about social issues in the projects targeting BoP markets that were set up as regular business development initiatives. During the observation period, headquarter managers repeatedly discussed the stability and customer orientation of the distribution partners involved in a profitable, but not very exploratory BoP activities in a key subsidiary (that was also responsible for *A-NGO*). The largest distribution

partner was widely publicly criticised for certain sales practices, and there were significant doubts whether clients were adequately informed and educated about the policies they held⁸⁰. They described the “sales attitude” in the subsidiary staff, which operated in what the company had labelled as a “growth market” with the primary objective to increase revenues across segments, including the BoP segment. The following quote exemplified the difference between headquarter and subsidiary perspectives:

“Even when we [the headquarter BoP team] say: No business with [organisations] where we have concerns, you cannot ‘rule through’ here. The business will be written anyways, the [subsidiary managers] will not run around with a criteria list that we’re handing them”. (*BoP manager in Company A*)

In these discussions, the highly exploratory project *A-NGO* was often mentioned as a reference point for evaluating these and other more mainstream BoP initiatives of the subsidiary, in particular when discussing the sales and customer efforts, and the highly-adapted promotional and educational materials and practices⁸¹. Members from the BoP team at the headquarters repeatedly compared the different BoP initiatives, and later set up projects, in partnership with a public development organisation, to improve customer education in their portfolios, in particular in some of the less exploratory, more mainstream projects:

“[*A-NGO*] is internationally recognized as a best practice in consumer education in microinsurance. Weaknesses existing in bringing it together, in implementing customer education in our other portfolios and the breadths (of our business)“ (*Head of BoP in Company A, during team meeting*)

In *Company Z*, similar processes could be observed between *Z-MOBILE* and some less exploratory BoP projects in the same subsidiary. The *Head of BoP* was in negotiations with several distribution partners to reach low-income customers – including a leading retail chain and a bank targeting low-income customers, primarily as it considered the need to “prove” the commercial viability of its BoP business

⁸⁰ As microinsurance distribution, as other BoP business models, relies strongly on selling through partner organisations, the quality of the sales process cannot be controlled directly.

⁸¹ Including theater plays and songs explaining the product benefits to the largely illiterate clientele that mostly lacked any previous experience with the products offered.

model by generating revenues and aligning with partners that were considered legitimate by mainstream actors in the company⁸². While these negotiations and business leads were framed as regular, financially oriented business development in discussions with other stakeholders in the company, the local BoP manager privately admitted that the others “could be labelled a loan shark”. By comparing the potential distribution partners to the partner in *Z-MOBILE*, the innovative mobile bank focusing on the financial inclusion of poor customers, he derived criteria on how business could be conducted through such channels without inflicting harm on low-income customers⁸³. Additionally, he discussed a tri-partite partnership with the microfinance bank in question and an organisation promoting financial inclusion among low-income customers to set up projects with a stronger social motivation⁸⁴.

As the more highly exploratory projects were normally led by headquarter teams, the knowledge flows corresponding with the introduction of paradoxical reframing mainly originated in the headquarters, and were directed towards the subsidiaries (Gupta & Govindarajan 2000). While *A-NGO* was officially run by the subsidiary, it was a peripheral project there, and the initiative to implement some of the lessons learned on customer education in other projects was driven by the *Head of BoP* from the headquarters. Similarly, while the local BoP manager was involved in the *Z-MOBILE* initiative, it was led and managed from the headquarters. In this case, the transfer of lessons towards the other, less exploratory projects was done through negotiations and discussions between the headquarter and subsidiary staff.

In summary:

⁸² One of the negotiation partners, for example, was a large retail chain that targeted different socio-economic strata in the country through different store concepts, including upper-middle and upper-class customers, that was widely known throughout the company and was a potentially interesting sales channel for other departments as well.

⁸³ The local head of BoP admitted the previously problematic practices of the distribution partner, but stressed that both approach and staff had changed, and the he promised that the organisation would develop well.

⁸⁴ Having gone through a difficult period of reconciliation after a longer non-democratic regime, this partnership also aimed to bring in customers from groups that were previously economically excluded. The additional partner involved had a long history in representing parts of the population that had been politically and economically marginalised for several decades.

P7: Initiatives initially relying on reductive reframing to address initiative stigma will adopt paradoxical reframing in later stages to adapt the initiative and capture the performance gains on newly introduced performance dimensions.

6.7 Discussion

While the first wave of the BoP literature had framed BoP as a social and commercial opportunity (Prahalad & Hart 2002), mostly to motivate practitioners to embark on BoP projects (Walsh et al. 2005), later studies see the connection of social and financial objectives more critical – stressing perceptions of trade-offs and critical attitudes towards proposed social benefits as key barriers to an effective BoP engagement (London & Hart 2004, Olsen & Boxenbaum 2009). Some early proponents even turned their arguments upside down to get “back to the fundamentals” (Simanis & Hart 2012, see also Akula 2008). Still, the social motivation was and continued to be a major motivation for managers to put forward BoP proposals and for companies to embrace projects to explore these difficult markets (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007).

6.7.1 Situational reframing and situated cognition

This creates an interesting question from an organisational cognition perspective: How are exploratory initiatives perceived that introduce new, and sometimes conflicting, performance dimensions to the status quo? How can initiatives overcome the expectations based on past performance in established markets, the legacy reference points that create ‘loss aversion’ as losses from high reference points on established performance dimensions are compared to potential gains from low reference points on new performance dimensions?

In the organisational processes described above, reference points are dependent on specific organisational contexts, path-dependent and negotiated between different parties – they are socially situated and negotiated (Elsbach et al. 2005, Mitchell et al. 2011, Smith & Semin 2007). The model shows how managers actively and strategically set, negotiate and interpret reference points to overcome inertia caused by loss-aversion and initiative stigma.

The patterns employed differ in the way they stress or hide novelty and difference to the core business, and are the result of a complex interplay of individual and contextual factors. Our data and model have shown that both patterns, stressing novelty through paradoxical reframing or hiding novelty through reductive reframing, exist, depending on the closeness to operational or strategic processes in the company.

While paradoxical and reductive reframing may appear as mutually exclusive, the model captures how managers can switch between patterns depending on the situation, their respective negotiation partner and the initiative progress. The ambiguity and autonomous decision making authority created by this switching can provide the “critical openings for creativity and agency” (Mahoney & Thelen 2010) that are important for institutional change brought about through exploratory initiatives. Here, cognition becomes a much more active process than the mere application of existing mental frames or knowledge structures (Walsh 1995), but includes choosing, shaping and switching of mental templates – a conscious and purposeful “metacognitive” (Haynie et al. 2010) activity that seeks ways to alter the status quo and overcome the restrictions imposed by current framings, including the impact of fixed reference points and the stigma and suspicion associated with new performance dimensions.

The model shows how such metacognitive work happens not only in start-up settings (Haynie et al. 2010), but can also be seen in active moves to shape and frame explorative initiatives in corporate settings. While entrepreneurs are relatively free to choose their stakeholders, e.g. which investor to take money from or which customers to target, managers in companies experience a relatively fixed structure and set of stakeholders, both horizontally and vertically. The response observed involves a strategy of metacognitive presentation of initiatives (through paradoxical or reductive reframing) that interacts with the choice of and specific targeting of different groups in the company – i.e. more operational teams and departments for reframed initiatives and more strategic, loose groups for initiatives that rely on paradoxical reframing.

As a next step, research could explore the individual antecedents and characteristics of such metacognitive work – including the physical and “embodied” aspects of situated cognition (Mitchell et al 2011, Mom et al. 2009, Robbins & Ayde 2008). Switching between and consciously or unconsciously manipulating mental templates is a difficult, but exciting task that will most like be determined by individual values, preferences and emotions. One example might be the almost physical sensation of excitement when “pushing the boundary” among BoP managers, and the sometimes

equally emotionally charged resistance, among fellow managers and the company's executives. Overcoming such resistance most probably only happens through managers experiencing the physical reality of new markets, products and clients. Again, involving higher-level managers in the often demanding and physically challenging BoP context was repeatedly stressed by one BoP manager as a tactic that could offer interesting venues for future research on metacognition in exploratory portfolios.

6.7.2 Different patterns of exploration

While the previous literature on company's efforts to balance exploitation and exploration has already recognized that both can be seen as a continuum – with initiatives that differ in degree of exploration existing on multiple levels in the company (Gupta et al. 2006, March 1991, McGrath 2001), our paper stressed that how such initiatives are perceived as high or low exploration depends on local, situational framings and perceptions. The degree of exploration is thus not only a key variable for setting up strategic initiatives, but also a contested, negotiated construct depending on specific situations. Whether an initiative is framed and perceived as a (less exploratory) regular business development initiative or a more exploratory initiative depends not only on the objective features of the initiative, i.e. how close or distant the market, client and product features are as compared to the core business, but also on the context and positioning of the actors involved in decision making around the initiative.

As managers use different patterns to deal with decision-making bias against their initiatives, they increase the perceived degree of exploration through paradoxical reframing and reducing the perceived degree of exploration through reductive reframing, the degree of exploration is not only an outcome of the strategy process, but its determination is a key tactical component. From a methodological standpoint, that calls for the development of solid survey instruments that capture the degree of exploration independently from manager's individual perception, or that further explore the different perceptions through in-depth studies.

As a second addition to the exploration-exploitation debate, the paper highlights how the introduction of new performance dimensions, not limited to but including social motivations and justifications, can affect tensions between exploitation and exploration (Leonard-Barton 2009). By specifying the mechanisms through which

these new performance dimensions create obstacles for exploratory initiatives, loss aversion and stigma, it helps to better understand the different patterns required to reconcile tensions in exploration-exploitation alongside different performance dimensions, for example between creative and financial objectives (Andriopoulos & Lewis 2009).

6.7.3 BoP and mainstream business

The early BoP literature had thought to solve the challenge of radical exploration by appealing to the social motivation of BoP: If eradicating poverty in a profitable way was possible, the literature assumed, companies would surely engage with BoP markets (Prahalad 2004, Prahalad & Hammond 2002, Prahalad & Hart 2002, Walsh et al. 2005). But both the earlier, ‘motivational’ (Walsh et al. 2005), as well as the later, more neutral, BoP literature neglect how the social motivation and promise behind the BoP proposition can actually, and paradoxically (Poole & van de Veen 1989), hinder the implementation of BoP initiatives. What should be an argument to embark on BoP businesses, and take measures to deal with the tensions between exploration and exploitation, can turn into a barrier.

This paper helps to better understand how the diverse motivations with which companies enter BoP markets affect the already difficult balance between BoP exploration and exploitation (Levinthal & March 1993, Gupta et al. 2006). As managers face difficulties in dealing with the partly contradictory, partly synergetic social and financial motives for BoP businesses (Olsen & Boxenbaumy 2009), the tensions between exploration and exploitation actually become more difficult to understand and deal with. For example, while initially lower profitability in exploration projects will often be understood as a normal and regular feature of the innovation process (March 1991), in BoP exploration, the justification of initial losses as necessary will be interpreted as an ‘excuse’ of BoP managers to engage in their ‘pet projects’ to satisfy their personal objectives, instead of dedicating their time to advancing the commercial objectives of the company (Halme et al. 2012).

These tensions can be dealt with through structural separation, differentiated role distributions, and integrating learning activities within companies. In that, companies will often develop a broader “BoP portfolio”, with initiatives that are perceived and reframed in different ways depending on the institutional environment (Elsbach et al. 2005). By allowing and encouraging the co-existence of purely commercially and

more socially framed initiatives in different parts of BoP portfolios, the “trade-off view” between social and financial objectives that increases the tension between highly and less exploratory initiatives (Olsen and Boxenbaum 2009) can at least partly be resolved. Switching these patterns later in the initiative process can be seen as a part of the on-going struggle to integrate such initiatives with the corporate mainstream.

With regard to the phases of the entrepreneurial process described in Webb et al. (2009a), the model shows how different phases marked by different degrees of exploration can be organised in parallel, with specific trade-offs and synergies between these overlapping phases in different countries, regions or products. In translating approaches from the exploitation-exploration literature to BoP research, the paper thus expands the existing literature at the BoP and shows how existing theory on strategy processes can be expanded to explain BoP phenomena (Hart & Dowell 2011: 13).

While the paper captures socially situated cognition in the strategy process, it does not expand to the individual schemas and attitudes of BoP managers – the cognitive structures that motivate them to engage on BoP projects in the first place, and to implement them against the structural obstacles faced (Halme et al. 2012). Future studies could overcome the methodological limitations of this study by using more specific data gathering protocols, increasing the sample size in terms of individual BoP managers covered and including control groups of middle managers that could engage in BoP activities, but do not.

6.7.4 Limitations and future research

As a study of two MNCs that have full BoP portfolios, the study significantly expands previous studies mainly concerned with single pilot projects and highly exploratory initiatives (Halme et al. 2012, London & Hart 2004, Seelos & Mair 2006, Webb et al. 2009a). While crucial to understand the phenomenon of ‘BoP Portfolios’, this also helps to resolve some of the difficulties in theory building based on the comparison of initiatives in different companies, countries and sectors faced by other studies (London & Hart 2004), or by comparing projects from for-profit and non-profit organizations (Karnani 2007a). As the study used participatory, ethnographic methods of data

gathering, it alleviates some concerns relating to secondary sources or only interviews⁸⁵.

Still, the research faces several limitations. The case selection was limited to large, commercially oriented organizations to increase the internal validity of findings. This limits the generalizability of findings to a broader set of other organizations, as dynamics might differ in other industries, in firms of smaller size or in those with a different vision and purpose, for example in social (Seelos & Mair 2007) or community-based enterprises (Peredo & Chrisman 2006).

Regarding the data gathering, the participatory, in-depth nature of the study was crucial in developing the empirically “grounded” model in this research. As a next step, larger survey studies of BoP initiatives across different companies could test the propositions developed in this and other BoP papers⁸⁶.

6.7.5 Summary

Decision making on exploratory initiatives is not unbiased – but depends on previously shared and negotiated mental models and performance expectations. As exploratory initiatives often fail on established performance dimensions, due to the difficulty of overcoming novelty or as they rely on new business models that require new metrics, managers in charge of exploratory initiatives face a conundrum – of introducing new performance dimensions without creating stigma. By creatively and tactically applying different patterns of reconciliation, depending on the local context they face, managers can overcome such challenges and create the ambiguity in which their autonomous experiments at the borders of the status quo can flourish.

⁸⁵ For example, managers in *Company A* repeatedly overstate the extent of top-level support for their initiatives in public talks, publications or interviews with other researchers. The trust relationship established in the current research project allowed a much more in-depth evaluations of such relationships.

⁸⁶ While quantitative research on the BoP is restricted by the relatively low number of companies engaging in the segment, running surveys that cover differences in initiatives or subsidiaries could significantly increase the number of data points in future studies.

7 THE IMPACT OF PARTNERSHIPS ON STRATEGY PROCESSES IN HIGHLY EXPLORATORY INITIATIVES IN NASCENT MARKETS⁸⁷

7.1 Abstract

Highly exploratory initiatives in nascent markets are often difficult to accommodate in existing organisational structures, in particular in large incumbent companies that focus on stability and efficiency to serve established markets. This paper shows how ‘proto-structures’, established between a company and its partner(s) in highly exploratory initiatives, can help managers to overcome structural constraints and increase their managerial agency to explore nascent markets. The presence of flexible, fixed or open features in such proto-structures creates ambiguity – which managers can leverage in different phases of the strategy process to establish and adapt initiatives, as well as to acquire resources to implement them. The model is developed in the context of business initiatives to target low-income markets in developing countries, the so-called ‘Base of the Pyramid’, and based on embedded case studies from two multinational financial service companies.

7.2 Introduction

Drawing on earlier discussions in the field of strategic management (Burgelman 1983a, Mintzberg & Water 1985), there has recently been a revived interest in the relationship between organisational structure, strategy and market environment (Brown & Eisenhardt 1997, Davis et al. 2009, Santos & Eisenhardt 2009). Going beyond simplistic distinctions such as “more or less” structure or “more or less” dynamism, models have begun to explore the interaction and contingency effects of market variables such as velocity, complexity, ambiguity, and unpredictability with differentiated structural responses such as structural separation, semi-structures, future probes etc. (Brown & Eisenhardt 1997, Gilbert 2005, Gupta et al. 2006).

⁸⁷ Note: This is the revised and extended version of a paper that has been submitted to and accepted for presentation at the AOM Meeting 2013.

Operating in nascent markets – with unclear definitions of clients, products and competitors – is particularly challenging for established companies (Santos & Eisenhardt 2009). While different structural solutions are proposed for companies to combine the exploitation of established with the exploration of nascent markets (Gupta et al. 2006, Raisch & Birkinshaw 2008), it is often start-ups and entrepreneurs who seize these new opportunities (Santos & Eisenhardt 2009).

Building on these discussions, we present a model how “intrapreneurs”, i.e. entrepreneurially minded and acting managers in large companies, can explore business opportunities in nascent, emerging markets by drawing on partnerships that transcend and challenge organisational boundaries (Santos & Eisenhardt 2009).

Our model is based on observations in two large, incumbent companies operating in nascent markets at the so-called “Base of the Pyramid” (BoP), i.e. targeting low-income customers in developing countries (Dahan, Doh, Oetzel & Yaziji 2010, London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007, Reficco & Márquez 2009, Rivera-Santos & Rufín 2010, Webb et al. 2009a). While businesses have engaged in market creation in this context with varying degrees of success (Karnani 2007), they have often drawn on a multitude of partnerships to learn about the market context, access clients and acquire and deploy complementary capabilities (Seelos & Mair 2007, Webb et al. 2009a).

Our model highlights how managers use these partnerships to address the often pervasive, internal organisational barriers towards an effective engagement in and a strategic commitment to these markets (Halme et al. 2012, London & Hart 2004, Olsen & Boxenbaum 2009). Companies experience strong tensions when trying to balance the exploratory discovery processes required for nascent markets with the more standardised exploitation processes at the core business (Gupta et al. 2006, Levinthal & March 1993, March 1991, Raisch & Birkinshaw 2008). Relying on established project evaluation criteria, business metrics and incentive systems can prevent managers from dedicating the resources to projects in nascent markets that would be required to make them successful (McGrath 2001, London & Hart 2004: 358).

To understand how and why partnerships resolve these challenges, this study develops the concept of “proto-structures”⁸⁸ – structures that are established between the company and the partner for a limited (but not necessarily defined) duration, in which some features are rigid (set by the company or the partner), some are flexible (and thus open to negotiation), and some are (deliberately or unintentionally) left open.

These proto-structures help managers to deal with the organisational barriers created by operating in nascent, emergent markets at the BoP: The business model frictions resulting from the high levels of informality (de Soto 2000, Ghemawat 2001, Webb et al. 2009a, McGrath 2010), the trade-off thinking and role conflicts relating to the presence of social issues in low-income environments (Floyd & Lane 2000, Olsen & Boxenbaum 2009, Rivera-Santos & Rufín 2010, Seelos & Mair 2007), and the planning and evaluation difficulties due to the characteristics of emergent business models.

The model explains how managers resolve these tensions over the different phases of the strategy process. By leveraging the inherent ambiguity created by the simultaneous presence of fixed, flexible and open elements in such proto-structures, managers can expand their ability to develop, protect and implement strategic initiatives over time that are not supported by the current corporate structure and fall outside of the current product-client orientation (Burgelman 2002). The model thus also relates to broader questions of structure and managerial agency: When strategies and structures are tightly interlinked (Burgelman 1983), managerial agency is key to overcoming strategic lock-ins and inertia (Garud et al. 2007). While BoP is one core example for such a ‘breakout’ (Dawar & Chattopdhyay 2002, George et al. 2012, Halme et al. 2012), the findings are potentially applicable to other cases of structuring at the organisational boundaries to support business model innovation and discovery in nascent markets (McGrath 2010, Zott et al. 2010).

The model development is based on the observation and analysis of strategy processes in six case studies of BoP partnerships in two multinational insurance companies, in which the companies distributed microinsurance products (including life, funeral, health, property) to millions of low-income customers in a diverse set of countries around the globe.

⁸⁸ following a definition of Brown & Eisenhardt (1997)

The paper first maps the existing knowledge on nascent markets, organisational barriers and partnerships. It then presents the methodology and research design used to capture the internal, process-related impacts of partnerships, and describes the companies and partnership cases selected. For the model development, the paper defines and discusses the notion of “proto-structures”, before analysing the causal mechanisms behind such partnerships during the strategy processes. The discussion section shows the relevance of the findings for research on business strategies in low-income markets and the broader strategy process literature.

7.3 Background

In matching structure, strategy and market context, large incumbent companies often face a fundamental challenge: As their core markets are often highly stable and predictable, the companies have tight, rigid structures to assure productivity and efficiency in serving existing, well-known client groups (Adler et al. 2009, Burgelman 2002, March 1991). In contrast, operating in new, nascent or emergent markets to explore future business models and revenue opportunities requires generally less structure and a higher degree of autonomy for managers (McGrath 2001, Santos & Eisenhardt 2009). This paper tackles the challenge of reconciling these two logics for the exploration of business opportunities in nascent markets through entrepreneurial, boundary-spanning activities in large companies.

While many of the previous studies have relied on the context of the technological innovation (Brown & Eisenhardt 1997, Santos & Eisenhardt 2009), this study develops its model based on the second large field of current business model development identified by Zott et al. (2010): The exploration of business opportunities in nascent markets around low-income customers in developing countries at the so-called “Base of the Pyramid” (Prahalad 2004). The literature review will cover the analysis of nascent markets in low-income countries, the organisational barriers and requirements for successful exploration of such markets and the role of boundary-spanning activities and partnerships.

7.3.1 The nature of nascent markets

In contrast to well-established markets with clearly defined boundaries, target groups and product features, nascent markets are marked by unclear boundaries, shifting,

diverse and unstructured target groups and the absence of clearly defined products – they are “unstructured settings with extreme ambiguity“ (Santos & Eisenhardt 2009: 644). This ambiguity is different from uncertainty or risk – while these concepts might refer to, for example, uncertainty about the response to a certain product by a certain client or the risk of a competitor entering the market, under ambiguity, the definitions of products, client groups and competitors themselves are contested and under discussion, and often only constructed retrospectively (Weick, Sutcliffe & Obstfeld 2005).

Markets among low-income customers in developing countries exhibit many features of such nascent markets – clients are not perceived as clients, not even by themselves (Letelier et al. 2003), formal products and self-made, ad-hoc solutions blend into each other, and the competitive landscape is blurry and ridden with politics and contradictions (Collins et al. 2009, Easterly 2006, Polak 2008). Such markets are also characterized by institutional failures, or “institutional voids” (Banerjee & Duflo 2011, Mair et al. 2007, Webb et al. 2009) – i.e. formal market institutions are lacking and/or replaced by informal, political or social substitutes (Rivera-Santos & Rufín 2010). The challenges include high and persistent levels of informality (de Soto 2000, Webb et al. 2009a), customers that are often illiterate, lack experience with modern products and services (Letelier et al 2003: 80), and different, more political, localized and embedded kinds of network structures that dominate formal, contractual relationships (Rivera-Santos & Rufín 2010).

Further complicating matters, these difficulties are also highly context dependent, and low-income markets feature high levels of heterogeneity – both across countries and within countries, comparing rural and urban, farmer and fishermen, mountainous and coastal regions, etc. This has significant repercussions on the business models required⁸⁹. The “BoP customers” range from the very poor, the “Bottom Billion” in conflict areas or failed states (Collier 2007) to the aspiring middle class in emerging economies (Banerjee & Duflo 2007, Parker 2009), and “BoP products” from simple water filters to smart phones and tablets.

⁸⁹ As an anecdotal example, the credit and saving constraints resulting from the differing cash flows of occupational groups (e.g. farmers with a yearly crop vs. fisherman with a daily catch) would require almost opposite payment schedules for the same product or service (see Collins et al. 2009).

7.3.2 Strategies and capabilities in nascent markets

The extant literature has been relatively sceptical about the ability of organisations to simultaneously operate in stable, established and ambiguous, nascent markets – to exploit and explore (Bower & Christensen 1995, Gupta et al. 2006, March 1991)⁹⁰. For example, at the BoP, low-income markets lack many preconditions for regular business strategies (Dowell & Hart 2011), and require new and radically different business models (Prahalad 2004). Large companies have thus often avoided such markets. Instead, when entering developing countries, they have focused on the emerging middle and upper classes in the formal sector of these economies (Dawar & Chattopadhyay 2002) and avoided the difficult task of tackling the ambiguities in “market creation” (Santos & Eisenhardt 2009, Seelos & Mair 2007).

The work in creating and constructing markets under conditions of ambiguity has thus often been taken on by entrepreneurs (George et al. 2012, Tracey, Philips & Jarvis 2011) who are less restrained by existing organisational structures to (re-)define their products, client groups etc. and can follow their impulses, rather than rational deliberation or strict routines and protocols (Adler & Obstfeld 2007, Benner & Tushman 2003, Easterly 2008)

This pattern is also observable in nascent markets at the BoP. While low-income markets in developing countries have been promised to be a profitable business opportunity where large companies’ resource could be meaningfully employed (Prahalad 2004, Prahalad & Hart 2002), this promise has been difficult to realise in practice (George et al. 2012, Karnani 2007). The resulting pattern has been summarised as the “paradox of size and scale”: While large companies have the resources to develop sound business models for nascent markets, they often lack the motivation to do so, or find it difficult to accommodate the respective initiatives in their existing structures (George et al. 2012).

⁹⁰ Technically, exploration also refers to activities in markets involving products and clients that are well-established and clearly defined, but new for the company based on its development trajectory. Still, we focus our understand of exploration on the more challenging case of exploration in nascent markets – i.e. markets that are new for both the company and its (potential) competitors.

Building on the external, market-related challenges that companies face, the later BoP literature has thus highlighted the internal “organisational barriers”⁹¹ to an effective engagement at the BoP (Olsen & Boxenbaum 2009, George et al. 2012, Halme et al. 2012) – barriers that strongly resemble those described in the exploration/exploitation literature.

As a result, successful projects often take “bricolage” approaches and operate at the border or outside of official corporate mandates – at least in earlier phases (Halme et al. 2012). These bricolage approaches match some of the patterns identified for companies operating in nascent fields dominated by ambiguity – i.e. the presence of minimal and simple rules (Davis et al. 2009), combined with easy and practical “future probes” and informal experiments (Brown & Eisenhardt 1997). Managers under such conditions can leverage the resulting ambiguity from the absence of strict formal structure to enact step-wise, accumulating changes that can, ultimately, bring about the institutionalization of new markets and the corresponding business models (Gupta et al. 2006, Mahoney & Thelen 2010)

7.3.3 Organisational boundaries in nascent markets

Reflecting the ambiguity in nascent markets, not only organisational strategies, but also organisational boundaries are often contested – an important challenge for entrepreneurs that resort to dynamic forms of social capital to form alliances and make acquisitions that enable organisational survival and market definition and control (Maurer & Ebers 2006, Santos & Eisenhardt 2009). External impulses play an important role in the organisation of exploration and exploitation activities in companies – including high-level relationships that trigger structural separation (Gilbert 2005, 2006), findings that middle managers in boundary-spanning or central network positions are more strategically active (Floyd & Wooldridge 1997, Pappas & Wooldridge 2007) or accounts of companies exploring future scenarios through strategic alliances (Brown & Eisenhardt 1997).

For nascent markets around low-income clients, similar tendencies have been observed, as partnerships play strong and multiple roles in successful BoP initiatives. They include, in particular, cross-sectoral partnerships that involve MNCs and non-

⁹¹ Compare the definition of organisational barriers listed by Hannan & Freeman (1984: 149)

governmental organisations (Dahan et al. 2010), or relations with other “fringe” or “non-traditional” partners that are different to the type of organisations the company normally engages with (Hart & Sharma 2004, London & Hart 2004)⁹². Such partners can help companies to overcome the significant gap between the formal and informal economies in developing countries (Webb et al. 2009b) by enabling them to, first, learn about such markets and, second, to get access to the resources required to develop working BoP business models. Such partnerships can help companies to build inclusive value chains – in which both partners deploy their respective competences (Seelos & Mair 2007, Reficco & Márquez 2009).

While partnerships can play a key role to overcome both the external and internal barriers described above, the extant literature has focused on their contribution to tackle external market challenges (George et al. 2012: 667, London & Hart 2004, Sánchez et al. 2006, Webb et al. 2009a) – to reach customers spread in low-density, rural areas (Karnani 2007), different kind of infrastructure gaps (Fisman & Khanna 2004), market failures (Reficco & Márquez 2009) and institutional voids (Mair et al. 2012). This leaves open the impact of such partnerships on organisational processes (George et al. 2012: 667), an impact that could help to understand how managers deal with the internal, process-related challenges described above (Olsen & Oxenbaum 2009).

But while entrepreneurs and young, entrepreneurial companies naturally organise their strategy process through using partnerships and alliances (Maurer & Ebers 2006, Santos & Eisenhardt 2009) – up to the point of resolving and shifting organisational boundaries, as is evident from the high rates of mergers and acquisitions among start-ups – exploration in companies still follows an overall “internal” model of strategy making.

7.3.4 Research question

This study seeks to expand the current thinking on structure, strategy and markets by showing how entrepreneurially minded and acting managers in large companies, so-

⁹² Within the target countries, many of these partners would actually be considered “traditional” – for example community-based organisations or village elders – compared to the “modern” enterprises trying to partner with them. In this article, we stay within the terminology of London & Hart (2004).

called intrapreneurs, can explore business opportunities in nascent markets by drawing on partnerships that transcend and challenge organisational boundaries (Santos & Eisenhardt 2009).

While structural arrangements for disruptive (Christensen & Bower 1996) or dynamic and hyper-competitive (Brown & Eisenhardt 1997) markets are already described in the literature, we expand this coverage to the question how companies can deal with nascent markets with high levels of ambiguity (Eisenhardt 2000, Santos & Eisenhardt 2009), and how they can “mirror” such ambiguity in a company setting dominated by structure that aims to reduce ambiguity (Adler et al. 2009, Mahoney & Thelen 2010). While this process involves activities of defining and constructing markets, through negotiations and experiments with partners, we focus on the internal dimensions of such partnerships – how managers leverage the structure created between the company and its partner to justify their own, divergent activities and establish and protect space for experiments (Floyd & Lane 2000).

This research question also captures a broad, open issue on the level of the emerging frameworks and models around nascent markets in low-income countries – namely, how partnerships can help companies to master the “paradox of size and scale” (George et al. 2012) and how managers relying on bricolage approaches (Halme et al. 2012) to develop exploratory initiatives can leverage partnerships to overcome internal resistance or deal with operation challenges such as the dominance of legacy performance standards and incentive systems (London & Hart 2004, Olsen & Boxenbaum 2009). It expands instrumentalist perspectives on partnerships that mainly consider how partnerships help to resolve *external* challenges, by acknowledging how partnerships affect the strategy process directly (dotted lines in Figure 16), above and beyond companies autonomously acquiring knowledge from their partners or learning over the course of projects.

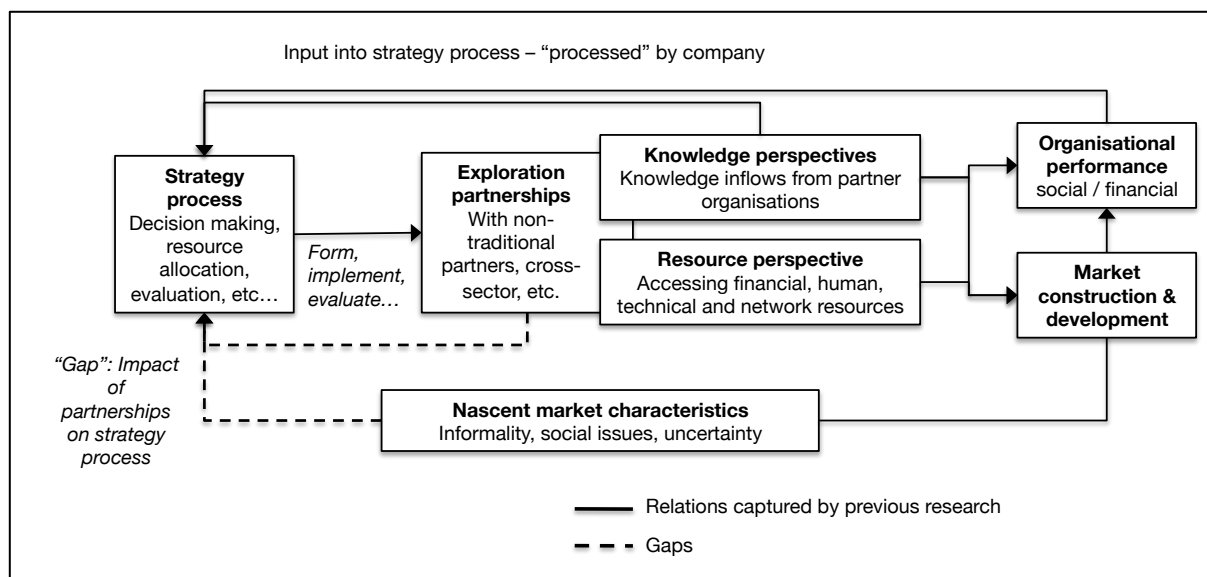


Figure 16: Summary – perspectives on exploratory partnerships in nascent markets

7.4 Methodology

Similar as previous studies (London & Hart 2004, Seelos & Mair 2007, Webb et al. 2009a), this one uses a comparative case study methodology, responding to the emerging nature of BoP research (Bruton 2010, Edmondson & McManus 2007, George et al. 2012, Ricart et al. 2004) and the nature of the research questions asked (Yin 2003). It takes a “post-positivist”, critical realist position, trying to study phenomena in their “natural setting” and being open to interpretations and “emic” viewpoints (Guba & Lincoln 1994).

It uses embedded case studies (Yin 2003), including multiple initiatives and partnerships in the two case companies, and thus expands existing empirical research that has mainly dealt with single BoP projects in companies (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007, Webb et al. 2009a, Halme et al. 2012)⁹³. This research design allows both cross-case comparisons in the same company, as well as a cross-company comparison of similar partnerships, to yield more robust insights on the impact that different partnerships have over time in similar corporate settings.

⁹³ To the knowledge of the author of this paper, this is the first study with access to companies running a portfolio of multiple, diverse BoP initiatives in different country settings on a headquarter and subsidiary level.

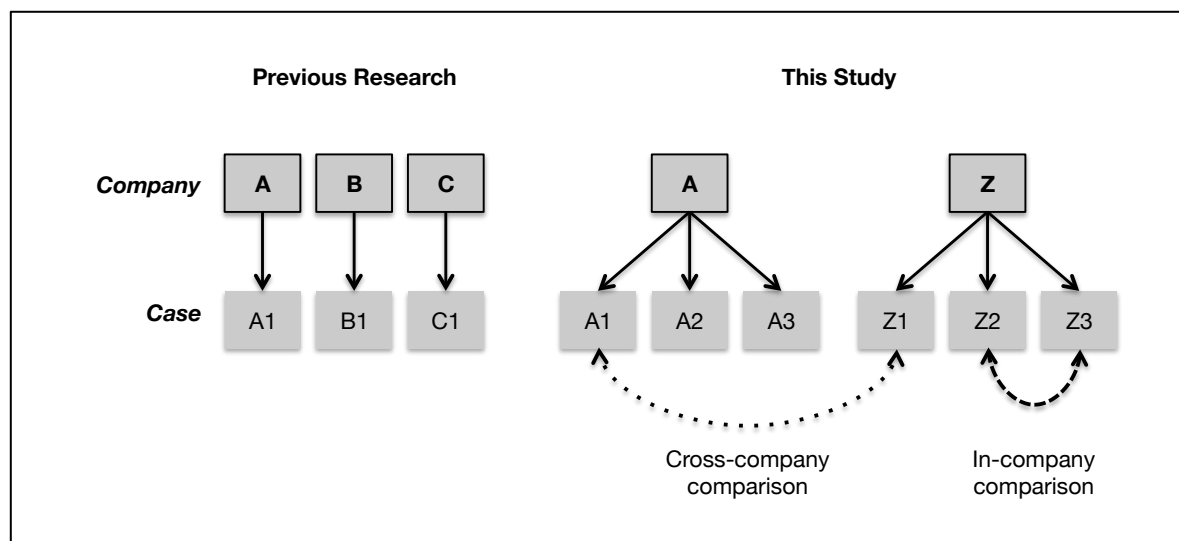


Figure 17: Embedded case setting (following Yin 2003)

The research process started from a rather broad scope and research question – the intent to understand strategy processes for initiatives that target low-income markets in developing countries in large, multinational companies. Over time, these research questions were refined and differentiated drawing on established literature as well as the real-life challenges of practitioners (Gulati 2007) – in particular the difficulties managers faced to maintain internal support for their initiatives, and the tactics they used to assure initiative survival and progress.

7.4.1 Data gathering

Data was collected at two insurance companies, each with a strong global presence, including activities in a series of developing countries. Both have diverse BoP initiatives, labelled as “microinsurance” or “emerging market consumers”⁹⁴, with varying degrees of exploration depending on the products offered, markets targeted etc., and different partnership patterns.

At the companies, data was gathered using interviews as well as participatory and partly “ethnographic” methods (van Maanen 1979, Ybema et al. 2009), following calls

⁹⁴ Microinsurance targets clients in BoP markets as with insurance products, and has been defined as this: “Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved“. (Churchill 2006: 12)

for multiple sources of evidence to deal with the potential pitfalls of informant bias (Yin's 2003, Eisenhardt & Graebner 2007: 28). The researcher was able to stay with the respective BoP teams for periods of two months in four different settings, participating in meetings, both “BoP-internal” as well as with other departments or superiors, and joining team members on conference visits, negotiations with partners and “field trips”. The data consists of field notes from the direct observations and participation during research stays at headquarters (2*2 months) and selected subsidiaries (2*2 months) of both companies; transcripts of the open and semi-structured interviews conducted (45 interviews with 34 interview partners, some repeated) and documents collected at all four sites.

The participatory approach was chosen to capture the micro-level “how” and “why” of partnership processes at the BoP (Dyer & Wilkins 1991, Pettigrew 1990, 1992, Weick 2007). It corresponds closely to the subject of this study – the impacts on the strategy process and managerial tactics around ambiguous proto-structures to increase their agency – that required extensive engagement and trust-building, as opposed to previous research focusing more on the ‘instrumental’ and less politically sensitive impacts of partnerships, which can rely more on external observations or available, secondary resources like project plans or documentations.

7.4.2 Data analysis and theory building

The challenge in the data analysis and theory building was to move from the raw data encompassing different events on different levels, and different layers of meaning, interpretation and deception⁹⁵ towards intelligible, simple models without betraying the underlying complex and messy organisational reality (Pettigrew 1990, van Maanen 1979) – an extended process of “sensemaking” (Langley 1999). To prepare this process, the researcher mapped all organisational units (20) and partners (38) of the two case companies that were involved in the BoP activities at the two companies and

⁹⁵ For example, while one leading BoP manager stressed the strong high-level mandate for his work in external presentations (“the board asked me to...”, he later described his struggle and frustration to secure a corporate mandate for his BoP activities in internal interviews and admitted to “tell the story differently” in public. The observed activity confirmed that a significant part of the actual work conducted, some years into the BoP activities, consisted in discussing and implementing strategies to securing high-level support.

identified key cases with a high degree of exploration that were compiled to organise the multitude of interlinked, overlapping stories from the field.

For the data analysis in this study, six cases were sampled that were representational of the phenomenon, interesting, well covered by data and diverse enough to explore different manifestations of the phenomenon and different avenues for explanation (Eisenhart & Graebner 2007: 27, Yin 2003). Cases were scanned for important themes that occurred within and across the cases. These themes were identified based on observed behaviour as well as stories and interpretations from the managers themselves as first-order concepts (Guba & Lincoln 1994: 109, Langley 1999: 693, van Maanen 1979: 541), taking their interpretation and ‘theories’ as starting points and inputs for the theory building. Case profiles for selected BoP partnerships of the companies in tabular form helped to identify patterns within and compare them across cases (Eisenhardt 1989: 541).

The emerging constructs were then matched to existing theoretical frameworks in the BoP and the exploration-exploitation literature (March 1991, Raisch & Birkinshaw 2009). During this step, behaviours were ‘synthesized’, i.e. clustered and condensed into more robust constructs and propositions with a higher level of abstraction and stronger grounding in existing theories (Gibbert et al. 2008, Langley 1999: 704). As a plausibility and consistency check, the different constructs were related to each other in systematic ways as “thought trials” (Weick 1989: 522), mentally testing rival relationships and causal explanations, and choosing and adapting concepts and relationships. This phase led to the emergence of two “alternate templates” (Langley 1999: 698) to understand partnerships – the more (deductively arrived) ‘instrumental’ and the (more inductively developed) ‘tactical’. The final model does not seek to confirm or disconfirm these templates, but rather make use of the interdependence of the two perspectives and their mutually supportive explanatory value (Langley 1999: 699)⁹⁶. In this trial-and-error phase of “disciplined imagination” (Weick 1989), graphical representations and lists of propositions to capture and display the

⁹⁶ In the model presentation below, this approach is explicitly visible in the introduction and definition of proto-structures, and implicit in the different hypotheses more strongly stemming from the ‘instrumental’ (P 1-3) and ‘tactical’ (P 4-6) view on BoP partnerships, respectively.

relationship between the different components were iterated several times⁹⁷. The process was repeated until a balance of clear and unequivocal patterns on the one hand, and a precise and valid relation to the reality as captured in the data on the other hand had been established (Langley 1999: 706, Weick 1989)⁹⁸.

In the write-up, evidence from case stories was included for all major steps to illustrate the more general principles and relationships between the constructs developed and present the case material in a way that is closely related to the theory presented (Eisenhardt & Graebner 2007: 29). They also serve to expose the underlying mechanisms as well as the “laymen theories” of the managers involved (Guba & Lincoln 1994). While these write-ups were repeated several times for different stages of the theory-building process, as a test of how well the model matches up with the stories that make up the different cases, the final model has been “sanitized” for the sake of comprehensibility (Suddaby 2006: 637).

7.5 Data overview

The data was collected in two well-known, globally leading, incumbent companies in the insurance industry – an industry that is relatively slow moving in terms of new products and distribution methods. The companies, *Company A* and *Company Z*, were successful in their core business activities, where they focused on up-market and middle-class clients, mostly in developed markets⁹⁹. As classical “defender” organisations (Miles & Snow 1978), they would thus represent the typical cases of companies likely to have low level of divergent managerial activity (Floyd & Wooldridge 1992) and, as a result, few activities to actively target potential customers at the Base of the Pyramid (Dawar & Chattopadhyay 2002).

⁹⁷ Intermediate results like previous lists of propositions, the matrix tables used to “test” for the robustness of relationships etc. have been archived and can be obtained from the author on request.

⁹⁸ As an inherent trade-off exists between clarity and simplicity of constructs and the precision which they capture exists ‘reality’ and patterns emerging in the data, the model’s clear linkages between the different constructs will never match the complex, multi-level and entangled data produced by qualitative research (Langley 1999, Pettigrew 1991).

⁹⁹ Combined, the companies had total revenues of around 150 billion USD in 2011, and 200,000 employees. Both exist for more than a hundred years.

7.5.1 The microinsurance portfolios of the two companies

Still, both companies have established a substantial number of initiatives to target low-income clients in developing countries, reaching around 2 and 6 million clients respectively. These initiatives addressed customers with a variety of so-called microinsurance products (Churchill 2006), including life, funeral, health, and property, in markets on all major continents. Due to this variety, the initiatives have strongly different degrees of exploration, ranging from very experimental pilots (or “proof of concepts”) to commercially driven, mainstream business projects.

With few exceptions, the initiatives of the two companies are implemented in countries with existing local subsidiaries due to the strong regulatory requirements in the insurance industry¹⁰⁰. They thus allow observing how companies manage the tension¹⁰¹ between these exploratory initiatives and their existing core business in established markets, and their efforts to draw on complementary resources in their organisation – like experts and operational staff, first contacts to local networks in BoP markets, and existing company IT systems.

As a general mechanism, highly exploratory initiatives are mainly run by headquarters teams dedicated to microinsurance, supporting the observations of Olsen & Boxenbaum (2009), and in separate projects that have a fixed duration that are not tied to the regular business activities of the company. Less explorative projects are in the majority of cases led by the subsidiary, with a stronger integration into the core business activity and systems.

7.5.2 The cases – six microinsurance partnerships

Six highly exploratory initiatives and the corresponding partnerships, three for each company, were selected as the basis for the data analysis and model development.

¹⁰⁰ Companies need to undergo a timely and costly licensing process in each country (and sometimes, in each province or state), depending on local regulation, to ensure solid operations and avoid damages to companies through fraud or insolvency of insurance companies. In some countries, the company is active through joint ventures, mainly due to regulatory limitations, or through so-called “fronting partners” with which it has established business relationships.

¹⁰¹ A tension that has other authors led to recommend starting „greenfield“ operations for BoP to be avoid the liabilities of incumbent structures (London & Hart 2004).

They were all initiated and led by the dedicated teams in the headquarters of the respective companies. Two of the cases (*A1* and *Z1*) were “umbrella” agreements with large, international development actors to support the general engagement of the company with the topic. The other ones (*A2* and *A3*, *Z2* and *Z3*) involved more specific, targeted efforts to introduce new microinsurance products or build up new distribution channels (see Table 34). Partnerships that had a stronger focus on exploiting already existing market opportunities in both companies were excluded from the analysis.

	Case	Partner description	Partnership description	Governance structures
Company A	A1	Large, international public, bi-lateral development institution from the firm's home country	3-year strategic alliance under a “development partnership” programme Aimed to explore key markets through market research, develop first micro-insurance products and connect to key distribution partners	3-year framework agreements governed by MoU and yearly plans, regular meetings Sourcing of external expertise for market studies (with public good character)
	A2	Large, international NGO Traditional focus on charitable and humanitarian work, but increasing openness for business issues Strong local presence in variety of countries	Joint initiative to distribute innovative BoP products (bundled life and property, health) in rural region in Southern India Strong focus on customer education and awareness raising Integrated into existing networks and experiences of partner organisation (especially, contacts to local NGOs)	Global and local Memorandum of Understanding (MoU), regular meetings between local and global staff Sourcing of external expertise, for example for an (early) market study and a (later) social performance review Regular operational exchange on country level
	A3	International microfinance intermediary and consultant Contact to existing microfinance institutions targeted as microinsurance distribution partners	Partnership to distribute BoP products (mainly, life) across a variety of (smaller) African markets Joint product development, administration mainly through partner, distribution through existing microfinance networks	Global Memorandum of Understanding (MoU) and local contracts for product distribution Quarterly review meetings, ad-hoc negotiation of new product proposals Regular operational contacts on the subsidiary level
Company Z	Z1	Public development institution from company's home country, number of country offices Main contact with central office	Long-term strategic alliance to promote BoP projects (across product range) Openly defined in terms of target markets and products	Global framework agreements, yearly plans defining outputs and deliverables, especially on “thought leadership” Partly tri-partite agreements involving other development-oriented institutions

Z2	International network of micro-finance institutions Long-standing experience in a diverse set of BoP markets	Project to launch an innovative BoP product (health microinsurance) in a new target market.	Global and local collaboration, Memorandum of Understanding (MoU) Regular meetings, several rounds of joint product development
Z3	Local mobile bank in a developing country with a strong BoP focus Started explicitly to promote financial inclusion among low-income groups.	Project to test mobile sales as a new channel for distributing microinsurance products Aimed for 'proof of contact' rather than establishment of distribution channel	Multi-party agreement and strong reliance on outsourcing (funder, university, technical support providers) Weekly, headquarters-led calls, several country trips to support implementation

Table 34: Basic profiles of case partnerships

All partnerships went through certain discernable, though sometimes overlapping, stages and have undergone significant changes over their duration (Webb et al. 2009a). As one example, while the importance of the partnership *A1* was stronger during an early phase focused on awareness raising and exploration of opportunities, it proved less important in the development of specific business proposals and the development of distribution channels. In comparison, the partnerships *A2* and *A3* were more stable over time, with a high importance during microinsurance product development and rollout, and a diminished importance once projects reached maturity.

7.6 Model development

Partnerships to develop business models in nascent markets exist for a variety of good and sound reasons, many of which have been well described in the literature (Webb et al. 2009a). Companies are well advised to form partnerships with non-traditional players (London & Hart 2004), to carefully select the right partners for different phases, and to implement partnerships thoroughly. The partnership patterns found in the study broadly confirm the objectives behind partnerships as found in the existing BoP literature (Webb et al. 2009a): Both companies use them to acquire knowledge – both about microinsurance customers and existing business models (London & Hart 2004) – and to access certain resources required to successfully implement the business model (Seelos & Mair 2007) – for example, established distribution chains that can be used to sell microinsurance products to dispersed customers.

7.6.1 Introducing “proto-structures”

Still, the model presented here highlights an additional and often overlooked dimension: The impact that partnerships have on the strategy process and the persistent organisational barriers that companies face (Olsen & Boxenbaum 2009, Halme et al. 2012). Such barriers stand in the way of a successful resource re-configuration for initiatives in nascent markets – for setting up initiatives and getting internal resource commitments (Taylor & Helfat 2009), areas where previous initiatives failed (London & Hart 2004, Olsen & Boxenbaum 2008).

A core reason can be found in the existing structure of organisations, that is normally tied to the established (non-BoP) business and thus un-supportive towards highly explorative and autonomous initiatives (Burgelman 1983a, Gilbert 2005). Organisational barriers as described in the literature (Halme et al. 2012, London & Hart 2004, Olsen & Boxenbaum 2009) were clearly visible in the two case companies, and in the individual cases, and they were a salient concern for practitioners interviewed, especially those directly working on initiatives in nascent markets.

In all our cases, managers were able to set up their initiatives – at the border of their official mandates and despite the lack of strong corporate endorsement. While they employed a variety of tactics, a key commonality of these was to rely less on the internal, corporate ‘structure’, but on what this paper calls ‘proto-structure’ that was formed to govern these partnerships.¹⁰² While there were other, more official reasons to justify the partnerships, the proto-structures that these created nevertheless played a dominant role for managers internally dealing with organisational barriers.

Building on the definition of semi-structures in Brown & Eisenhardt (1997) that explain corporate responses to dynamic market environments, proto-structures can be defined as:

“organizational setups created between a company and its partner(s) for a limited (but not necessarily defined) duration, in which some features are rigid

¹⁰² Note that not every partnership creates a „proto-structure“, but might stay on a more superficial, transactional level that does not impact the strategy processes in either organisation. As the core partnerships analysed as part of this paper all led to temporary “proto-structures” between the partners, the terms “partnership” and “proto-structure” are thus used interchangeably for most of the paper.

(set by the company or the partner), some are flexible (and thus open to negotiation), and some are (deliberately or unintentionally) left open.”

Such proto-structures exist in the space “between” the company and its respective partners (see Figure 18). In general, proto-structures are less formal than the companies’ own structures, and allow greater space for flexible, adaptive learning. While they share certain features with the “semi-structures” identified as enabling environments for innovation (Brown & Eisenhardt 1997), proto-structures differ in that they are organisational mechanisms that work across organisational frontiers.

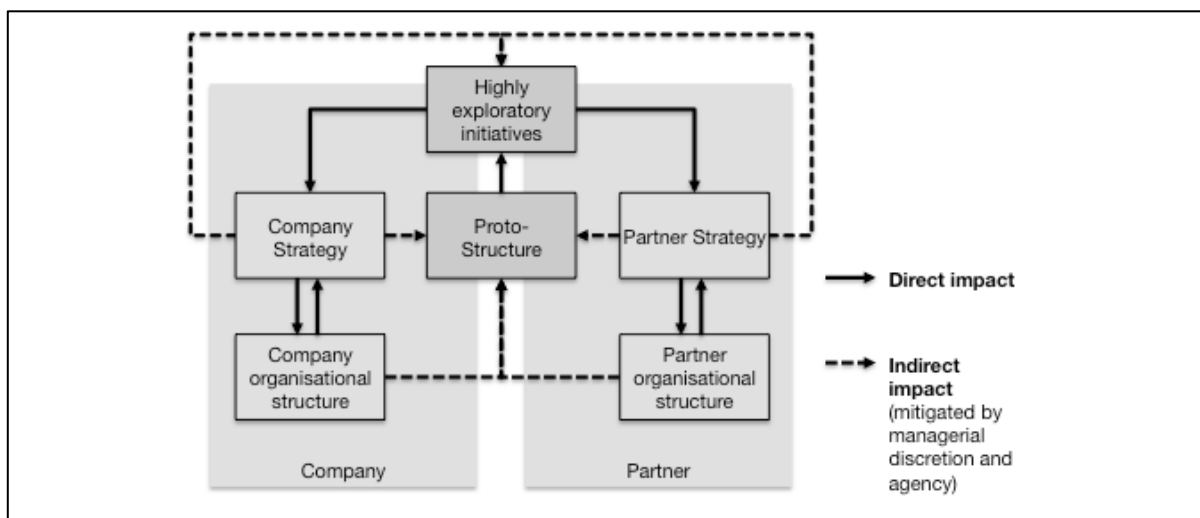


Figure 18: Structure, strategy and proto-structure (based on Burgelman 1983c: 65)

The role of proto-structures in the company’s strategy process is two-fold.

First, they “bridge and buffer” between the ambiguity in nascent markets and the structured, well-defined company environment. They are often designed specifically to overcome structural constraints, and can combine the different logics of the company and its partners – for example, that of a private-sector company and a non-governmental organisation or a development-cooperation actor. Such a process of bridging between different institutional logics has already been used to explain the emergence of new organisational forms through “bridging institutional entrepreneurship” (Tracey et al. 2011). While of a similar nature, proto-structures are embedded in the existing structures and organisational forms of the two partners involved on each side, and are often resolved once the new BoP business model to be developed has reached a certain level of maturity. On this first level, proto-structures are contingent on and determined by the high levels of ambiguity in nascent markets

(Rivera-Santos et al. 2012, Webb et al. 2009) – the presence of informality and contested social issues, the lacking clarity on customers, products or competitors – and reduce the negative impact of these market properties on the company’s strategic commitment to BoP markets.

But proto-structures also have a discursive and tactical dimension. They change the structural context for strategy making in the company, and allow deliberate efforts of middle managers to influence the strategy process directly. As stated in the definition, proto-structures are composed of a mix of flexible, rigid and open features. Which elements of the proto-structure fall into which category is dependent on the specific, tacit relationship between the managers involved in these initiatives – and thus partly disguised from higher-level decision makers in the company. As shown below in more detail, this ambiguity creates a space of agency and autonomy (Mahoney & Thelen 2010) that managers use tactically to avoid corporate demands that they feel mismatch the requirements of the strategic initiatives in question (or, their personal agenda). Proto-structures can thus help managers, especially those on the middle or lower levels (Floyd & Lane 2000), to overcome structural constraints in the company by creating and/or claiming structural constraints resulting from the respective BoP partnerships¹⁰³.

The rest of the model development explores these two layers – first, how proto-structures in the two companies helped to bridge and buffer the contingencies and liabilities of the difficult market environment and the organisational barriers that result from the clash between the “local village” and the “global” company (Rivera-Santos

¹⁰³ This double nature of proto-structures can be summarised in the analogy (Gavetti et al. 2005) of a ‘magicians show’. The audience sees and takes part in a series of activities, boxes are moved, knots are made, a person enters a cabin, a logic of events that follows and confirms the logic of the audience. But many of these events have a ‘hidden layer’ – where the magician (and his or her accomplices) tries to steer the attention of the audience towards or away from a certain fact, create or maintain certain perceptions, etc. The ‘magic’ or ‘surprise’ effect of the tricks presented results from the intermingling of the two layers.

A successful magician’s trick seems to defy the conventional logic of nature in a similar way as successful strategic initiatives defy the ‘conventional’ logic of companies. Still, they both work, as a hidden layer of directing attention and expectations is ‘enveloped’ in the course of events. In the cases observed, the proto-structures played a key role in this management of attention and expectations.

& Rufín 2010), and, second, by showing the hidden, tactical dimension along different key steps of the strategy process.

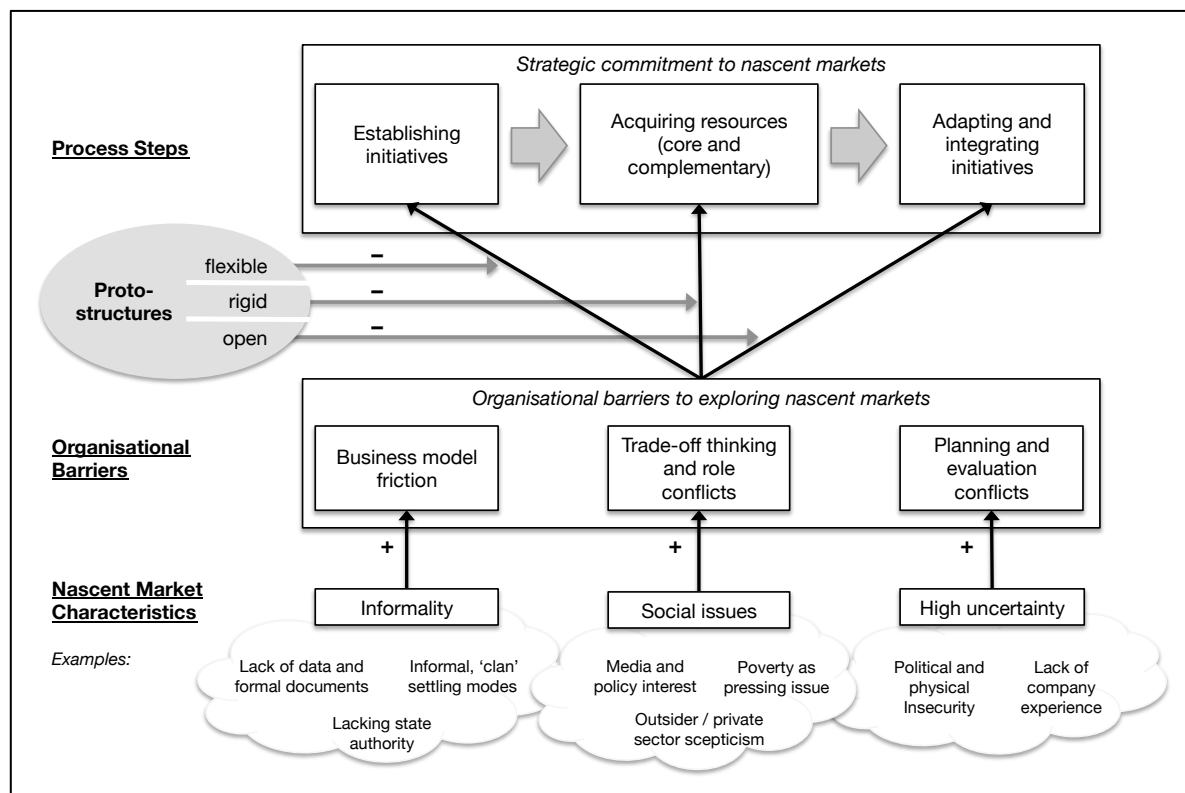


Figure 19: The impact of proto-structures on the strategy processes

7.6.2 Nascent markets and organisational barriers

To understand the contribution of proto-structures to the development of initiatives in nascent markets, it is important to analyse the underlying organisational barriers hindering business initiatives in nascent markets, and how proto-structures contribute to overcome these.

Many of these barriers can be traced back to the ambiguity residing in nascent markets. While established markets have competition, price mechanisms, etc., the legitimacy of such economic mechanisms is unclear and contested in nascent markets. As a result, transactions tend to be more informal and socially embedded, and social, cultural or religious issues¹⁰⁴ play a more salient role than in stable, established

¹⁰⁴ For example, Company A faced the challenge to develop Islamic insurance offers, see footnote 114.

markets that rely on formal exchange mechanism (Granovetter 1985, 2005, Rivera-Santos & Rufin 2010).

The analysis below shows how the characteristics of such nascent markets – informality and institutional voids; the strong presence of social issues, and high levels of uncertainty – create organisational barriers, and in turn reduce organisational commitment to exploring and building such nascent markets¹⁰⁵.

Case	Business model friction	Trade-off thinking and role conflicts	Planning and evaluation conflicts
A1	Partner had strong experience of operating in informal market environments High credibility as “formal” government agency, increased internal legitimacy of BoP projects in informal environments	Partner has an (public) social mission and social objectives are ‘externally anchored’ in partnership agreement Supported manager to transition from previous job to “Head of microinsurance” within the company.	Partnership agreement helped to deal with uncertainty by taking a step-wise approach, for example for selecting appropriate target markets Partner reputation reduced challenges of uncertainty.
A2	Partner had long experience and strong networks in informal markets Brokered between the relatively informal local NGOs (working with the end-clients) and the more formal subsidiary.	Partner with strong social mission – as relationship started on a charity basis, both social and financial considerations were present in the partnership External pressure helped to overcome resistance of subsidiary experts (that were sceptical of feasibility), switch to ‘problem-solving’ mode.	Partner had experience with turbulences in target market. Multi-year agreement, enough slack (through charitable donation) for dealing with uncertainty.
A3	Partner had experience with informal market as well as interaction with formal partners, played bridging role.	High-profile founder of partner (former advisor to country’s president, etc.) helped staff to justify partnership and projects	Continuously evolving multi-year agreement helped to explore market in step-wise manner.

¹⁰⁵ While the analysis is based on the case of nascent markets in low-income markets developing countries, and might seem idiosyncratic, similar tendencies can be observed, for example, for the field of e-business, which has strong roots in an informal “sub-culture” Hacker scene with a strong ethos and pervasive concerns for a new, more participatory and transparent systems brought about by open source software.

Z1	Partner had long-standing experience and expert access in planning and executing projects in informal, low-income markets.	<p>Engaging with partner helped first BoP pioneers in <i>Company Z</i> to find their own position on BoP (before communicating the topic internally) and to justify their shift from mainstream to 'BoP' field.</p> <p>Partner combines a social mission with a mandate to support companies' engagement in developing countries</p> <p>Good relations to a government agency provided an additional justification beyond the 'financials' in discussions with other departments / higher-level managers</p>	<p>Yearly, negotiable plans allowed for adapting to uncertainty.</p> <p>Reputation of government agency (residing in the stable and reliable home country of the company) helped to alleviate internal concerns.</p>
Z2	<p>Partner translated the demands of the "informal" target market into product design requirements</p> <p>Global standing of partner and strong high-level relation helped the company to deal with the informality.</p>	<p>Experts working on project referred to the "external" demands by the partner organisation during negotiation.</p> <p>Partner had strong demands on product design and pricing to maximise the social value of the product, the negotiations in partnership helped to balance these with financial considerations (upheld by the company)</p>	<p>Partner is used to uncertainty in target markets & respective planning cycles</p> <p>Negotiation process helps to reduce uncertainty for company</p>
Z3	Partner is used to operating in informal environment, its reputation and credibility helped to deal with internal concerns regarding the distribution channel.	<p>Project involved several external consultants allowing company staff to take their role as "insurance experts", demands from partner were presented in internal discussions on project feasibility.</p> <p>Partner has a 'double mission' of financial inclusion and profitability, helped to shift perceptions in <i>Company Z</i>, strong relationship between headquarters staff and partner leadership.</p>	Personal relationship to founder of partner helped to deal with uncertainty in the experimental project design

Table 35: Contributions of proto-structures to overcoming organisation barriers across cases

7.6.2.1 Informality and business model frictions

A first, defining characteristic of nascent markets is their informality, i.e. the absence of formal, well-defined market institutions. For the case of nascent markets at the BoP, informality is pervasive (de Soto 2000), institutional voids prevalent (Mair et al. 2007) and “normative and cognitive institutions prevail over regulative institutions“ (Rivera-Santos et al. 2012: 1722). The business models observed thus often require more

informal and flexible approaches to mirror this informality (Rivera-Santos et al. 2012) than business models in traditional, “non-BoP” markets that have more formalised institutions and conflict resolution mechanisms. This creates the need to reconcile these informal approaches with the more formal structures and processes in the company (McKague & Tinsley 2012).

As stated above, the industry in which both companies operate is highly and extremely formally regulated and both companies have their origin and base in highly developed market economies with an intricate and well-established regulatory framework. They are thus both strongly formal and compliance-driven in their core operations, and the highly informal nature of nascent markets made it difficult to accommodate the new business models in their existing structures and business processes.

The challenges of informality are especially visible in the more operational initiatives. In both A2 and A3, customers mostly live and work in the informal economy. Some do not possess formal documents allowing the verification of birth date or residence, which usually is a basic requirement for buying an insurance product. Additionally, the distribution models employed rely heavily on informal market mechanisms, for example on female “self help groups” in A2, or on informal sales agents from the BoP environment in Z3 – mostly young, previously un- or under-employed adults from a local townships with vastly different prerequisites than those normally expected by the company.¹⁰⁶

All this leads to significant business model frictions and a mismatch between the institutional requirements for initiatives and the structure of the company:

P1a: High levels of informality in nascent markets compared to the company’s existing, formal institutions cause business model frictions in exploratory initiatives.

The business model friction, in turn, caused significant internal resistance.

In the case of the initiative Z3, the partnership aimed to realise sales via the existing staff of the core partner – a mobile banking company operating in low-income markets. Using an external, innovative sales channel, the company was able to

¹⁰⁶ The employment as an agent is typically complementary to other marginal employments that the teenagers held before.

leverage the experience and networks that these sales agents had in their local communities: The sales agents freely mingled and interacted with customers at informal bus stops or local music festivals, which was unimaginable for most regular company employees¹⁰⁷. The model also avoided the (costly) direct contact of internal company staff with BoP clients, as wages were significantly lower in the informal economy¹⁰⁸.

Still, the initiative team faced strong difficulties convincing internal departments, especially those dealing with legal issues, to work with people not formally (and costly) registered as insurance agents. Managers requested several, partly conflicting, legal opinions from external experts. When staff changed at the subsidiary, discussions restarted. Additionally, the team had difficulties to access the internal IT resources at the subsidiary required to establish the project – and had to devise several ‘work-arounds’ drawing on external partners¹⁰⁹.

While there were similar restraints in other cases, *Z3* illustrates how the company’s core structure was unable to accommodate the initiative, and how the proto-structures established helped to deal with the frictions and institutional tensions this created. The existing experiences of the partner in the informal sector, the partner reputation and legitimacy and pressures from the partnerships to progress, including calls for external expertise, helped to overcome these barriers, and enabled a more explorative approach:

P1b. Proto-structures reduce the negative impact of business model frictions on the company’s commitment to exploratory initiatives in nascent markets.

¹⁰⁷ Due to the political legacy in the country, the (mostly white) middle and upper-class, formal employees would be immediately recognised in the (mostly black) low-income communities as outsiders. Also, while most blacks fluently speak several of the country’s official non-European languages, formal employees typically are more linguistically restrained. Most formal employees would also reject working in informal settings due to significant security risks.

¹⁰⁸ Salaries paid in the informal economy are substantially lower, due to educational differences and living costs. In one case, the company had to adopt its payment system to accommodate the low wages (that were nevertheless considered adequate by informal sector standards).

¹⁰⁹ For example, a headquarter BoP manager reported that even the request to the subsidiary’s IT department to recommend a local, external service provider was rejected due to resource constraints.

7.6.2.2 *Social issues, trade-off thinking and role conflicts*

Second, due to the ambiguous, contested nature and social embeddedness of economic transactions in nascent markets, social issues play a more prominent role (Granovetter 1985, 2005, Tracey et al. 2011).

In our cases, social challenges were present in the target markets of the initiatives observed (Prahalad 2004, Rivera-Santos & Rufín 2010). The service provided by the company, social security through insurance mechanisms, was traditionally, but insufficiently, provided by informal mechanisms based on kinship and friendship (Granovetter 2005) or, alternatively, through public or non-governmental organisations. Replacing these mechanisms through formal, economic exchange relationships was contested – despite the prevalence of these market mechanism in more developed economies.

The challenges this created for the company and its partners operating in these markets include expectations regarding how companies should make a social contribution, e.g. through raising local incomes, apart from realising their own business goals (Seelos & Mair 2007). While most organisations are driven by multiple objectives to some degree (Denis et al. 2001, 2007)¹¹⁰, initiatives in nascent markets can be particular, as they often reflect the presence of social issues, and thus explicitly seek to combine business development with a social contribution in a way that is unfamiliar to large companies (Bruton 2010, Margolis & Prahalad 2004, Walsh 2003, Walsh et al. 2005).

While initiatives in nascent markets might have the potential to deliver on both financial and social goals over the mid- to long-term, many managers, especially higher-level ones, still perceive strong trade-offs between these goals, a key internal challenge to develop BoP projects (London & Hart 2004, Olsen & Boxenbaum 2009). This trade-off thinking was expressed by the following quote:

“[...] and that the private sector puts thoughts into getting the lower end of the poverty pyramid, that would not be the classical discourse that a [company] would have, because there are still much more attractive markets in all segments above the lowest” (*BoP headquarters manager, Company A*)

¹¹⁰ E.g. for delivering creativity and financial results (Andriopoulos & Lewis 2009)

The tensions played a key role in the internal process in both companies. In the case of *Company A*, the BoP team was located in the CSR¹¹¹ department to “balance” the social demands against the more commercial objectives in other parts of the organisation, especially the subsidiaries. In *Company Z*, the newly hired BoP manager described the internal discussions on the relation between profit and social contribution as “not simple”:

“So, initially my role [...] included a lot more educating of people in *Company Z* on that subject, ah, that no, it's not simply philanthropy, it's not simply PR, it's not simply, ah, it's not simple!” (*BoP headquarters team leader, Company Z*).

His team has been re-located between different functional areas with more “social” objectives (in a government-relation unit) and more “commercial” objectives (in a business development unit).

On an operational level, the initiatives *A2* and *Z2* sought to develop new products that were routinely requested by the target customers and reflected persistent social issues in the sector, but were difficult from an operational and financial perspective for the company¹¹². This tension appeared throughout the project operation – and the lack of a clear and dominating financial motive reduced the engagement and interest of the respective subsidiaries in the project.

The presence of social issues and trade-of thinking also increased role conflicts for the managers involved, a well-described issue for managers in strategic renewal (Floyd & Lane 2000). As engaging in nascent markets often required developing radically new models (Prahalad 2004, Seelos & Mair 2007), managers sometimes took positions opposing established sector insights and practice – “crazy ideas”, as termed by a BoP manager in *Company Z*. This conflicted with the company culture, where managers repeatedly mentioned whether a person is an “insurance person” or not, referring to

¹¹¹ CSR = Corporate Social Responsibility

¹¹² The projects seek to develop and distribute health-microinsurance products that are high-priority for customers, as health expenses are a frequent reason for falling back into poverty, but difficult to due negotiations with health providers, and the risk of fraud and adverse selection.

work experience in the sector, a knowledge of the technical expertise required, expert language etc.¹¹³.

Some managers had an intrinsic, ‘social’ motivation to engage in the projects and pursue them further (Halme et al. 2012). As the multiple objectives in the initiatives were perceived as a trade-off, such an intrinsic motivation intensified the risk of being perceived as an “outsider” and a lack of loyalty towards the company’s growth and profit objectives, thus leading to persistently perceived role conflicts for BoP managers:

P2a. A strong presence of social issues in nascent markets leads to trade-off thinking and role conflicts in exploratory initiatives.

In the cases observed, partnerships helped the teams in both companies to deal with such challenges and role conflicts. The partnerships connected the commercially oriented company with a socially oriented partner, a partner that was regularly not from the industry itself, and whose demands were not expected to conform to established industry logics. Here, the proto-structures created a space where tensions between the goals could be discussed and accommodated. They also reduced role-conflicts, as managers could present social demands and logics as ‘external’ demands through the proto-structures, and partly conceal that these were in fact their own convictions and motivations.

This can be illustrated by the partnership Z2. The company, a local microfinance institution (MFI), and the global umbrella organisation that this MFI was part of jointly developed a health microinsurance policy, to be sold to local, female micro-credit clients. Some features of this policy were strongly debated over several months, in particular how pregnancies should be covered. The demands by the partner challenged the ‘conventional insurance wisdom’, and caused difficulties for the insurance company in meeting the agreed price-point. But they resulted in a product that the team judged to be extremely attractive and socially beneficial, and included (limited) maternity coverage, a difficult to realise benefit, even in some developed markets. The team member responsible for the product stated that such features could not have been attained without external pressures from the partner. Similarly, in the

¹¹³ One interview respondents in *Company A* had been in the same company in the insurance industry for over 30 years, almost since his career start.

case of A2, the “head of BoP” in the company’s headquarters relied on the partner to convince the reluctant subsidiary staff to engage on the project.

Proto-structures thus allow managers to present social requirements in strategic initiatives as external demands, which strengthened their position without endangering their legitimacy as sector experts that are perceived as being committed to the company’s financial performance measures:

P2b. Proto-structures reduce the negative impact of trade-off thinking and role conflicts on the company’s strategic commitment to exploratory initiatives in nascent markets.

7.6.2.3 High uncertainty and planning and evaluation difficulties

A last challenge results from the uncertainty inherent in nascent markets, due to their complexity and volatility (Banerjee & Duflo 2011) and the high distance of traditional companies to that reality (Sánchez et al 2006). As a consequence, which business models are most suitable for profitably serving nascent markets is far from obvious in most cases (Karnani 2007a). As the development of successful models under high uncertainty is a process of lengthy and sometimes surprising discovery (McGrath 2010, Webb et al. 2009a), initiatives in nascent markets are often more difficult to plan and evaluate than regular, more exploitative business development projects. This is true especially during initiative formation (London & Hart 2004), a feature they share with other highly exploratory projects (March 1991).

In the initiatives observed, countries differed in terms of socio-economic status, regulation, awareness for insurance products, and regulatory frameworks,¹¹⁴ and significant uncertainties existed regarding the choice of countries, products and distribution channels. Companies were faced with different options for addressing the target group, with initiatives that were more or less ambitious in terms of the degree of exploration. As an example, in the initiative A3, the company targeted a series of developing countries. While it had operations in all of them, these exclusively targeted

¹¹⁴ One very specific example is the existence of Islamic insurance in Bop markets, as certain rules in Islam banning gambling, interest rates and certain investments prevent the sales of regular insurance products in these settings. Also, discussing death as an issue was widely perceived as normal in one key market, but as inappropriate and “dangerous” in a second country, leading to challenges to market ‘life insurance’ in the second country alongside the models established in the first case.

upper-class customers and corporate clients in the formal economy¹¹⁵. The subsidiaries had never dealt with low-income customers and lacked insights into the segment, and thus had difficulty to set up the clear goals and plans they were accustomed to in main business lines.

Additionally, for microinsurance, and BoP activities in general (Prahalad 2004), the business model is based on high client numbers with low individual sales values and low margins. This is substantially different from the traditional business model of the two companies, which is focused on a much lower number of clients, but higher individual sales values and margins. The profitability of initiatives thus depends crucially on the market-uptake, and on decisions in a relatively small number of intermediaries – a fact that makes the prospects of business models difficult to predict, especially in early years. For example, while *Company A* had reached a large number of clients in the markets in a key country, it did not strongly communicate this number publicly, as a large part of this portfolio was dependent on a few key distribution partners.

The planning difficulties also caused problems for *Company Z*, who strongly corrected its initial client goals once it gained experience in BoP markets. As the insurance industry in general and both case companies in particular, are strongly data-driven, this creates challenges for internally communicating strategic goals and progress for BoP projects:

P3a: The high levels of uncertainty in nascent markets vs. established markets leads to risk taking and planning difficulties in exploratory initiatives in nascent markets.

In both cases, the partnerships helped to deal with uncertainties in the data gathered and to justify risks and changes to upper-level managers. In the case of *A2*, the company and its partner had commissioned a market study for the target region that became the subject of prolonged debate on whether what market potential it showed at which risk. The involvement of the partner helped, through a rather lengthy process, to convince managers in the subsidiary to embark on the project despite its significant risks and uncertainties.

¹¹⁵ One „typical“ product is a global private health insurance offer for expatriate workers.

The proto-structures were also crucial for setting up performance metrics and evaluating projects – as traditional measures are often inappropriate for BoP projects (London & Hart 2004), and a narrow focus on financial key-performance indicators can be a key factor that dis-incentives managers engagement with BoP issues (Olsen & Boxenbaum 2009: 115).

In our cases, the goals and targets for BoP managers were much less tangible and specific than those of other managers in the company. As a compensating mechanism, the proto-structures served as the places where objectives and targets were negotiated and fixed, and where the project performance against these goals was evaluated. This process of evaluation was less a mechanic exercise in comparing indicators to target values, as practiced in more mainstream business areas, but a complex, interactive process of sense-making between different actors in the company and the partner.

Proto-structures thus make the uncertainty of business models easier to accommodate for incumbent companies used to planning in relatively stable environments:

P3b. proto-structures reduce the negative impact of the risk taking and planning difficulties on the company's strategic commitment to exploratory initiatives.

7.6.3 The impact of proto-structures on strategy formation

So far, the model has captured where proto-structures have an impact, i.e. in relation to which different types of organisational barriers resulting from challenges in nascent markets. To capture the “double nature” of proto-structures, this section explores how managers tactically draw on different elements of proto-structures to deal with the organisational barriers in the different phases of the strategy process (Halme et al. 2012, Olsen & Boxenbaum 2009), i.e. when ‘facilitating’ and ‘championing’ experiments (Flyod & Lane 2000). Capturing the impact along the different steps of the strategy process can help to uncover the local, micro-level mechanisms and tactics through which managers create experimental spaces and avoid structural constrains – i.e. increase their “agency” in the face of rigid organisational structures (Garud et al. 2007).

The proto-structures described above have an effect on three main areas of strategic commitment. First, managers draw on proto-structures to establish initiatives, including the desired degree of exploration. Second, proto-structures allow managers to influence the internal company resources allocation and prioritisation, both for key

resources to be dedicated to the initiative as well complementary resources from other departments at the company. And last, managers rely on the dynamics of proto-structures to adapt projects later on and integrate them into the company mainstream.

Case	Establishment of initiatives	Acquiring core and complementary resources	Adaptation and integration of initiatives
A1	Partnership agreement was key impulse for setting up headquarters structures with the company and defining global approach towards BoP markets.	50/50 contribution of company resources towards partnership agreement helped to secure internal resource commitment (mainly in staff time), and protect it during the partnership. Under the partnership, local subsidiaries repeatedly provided human and technical resources for activities that would have been difficult to get access to otherwise.	–
A2	Demands from partner crucial to help head of BoP to convince local subsidiary managers to embark on initiative and accept the value proposition of the product.	Partner demands and pressure crucial for setting up first BoP team / working group at subsidiary Partly responsible for justifying “head of BoP” position at the group level. During product development and roll-out, partner mainly dealt with subsidiary departments to acquire resources.	Partner played crucial role in dealing with high claims ratio at start, and later adaptations Managers repeatedly referred to the partner’s expectations to prevent project termination.
A3	Proposed BoP initiative towards company, developed project and first set of products.	Strong partner role (in product design, administration, etc.) helped to keep requirement for BoP team small. Partner kept regular contact with subsidiaries that ran BoP projects alongside their bigger, non-BoP portfolios.	Project scope extended / changed several times during partnership, for covering new countries and dealing with problematic distribution partners Key impulse for adaptations came from partner, often through process of negotiation
Z1	Partnership agreement coincided with establishment of central BoP team at group level	Managers state that partnership agreement ‘protects’ BoP team in restructuration Key resources that the BoP team has access to are negotiated with staff from the partner in regular meetings The justification of holding good government relation is sometimes used to access additional staff time in other departments.	BoP team accountable to both internal reporting lines and partner Managers use regular re-negotiation of plans for adapting goals and project steps

Z2	Established in dialogue with partner Ambition and shape was determined through longer discussions between the head of the BoP team and the new president of the partner organisation	Dedicated BoP staff member and consultant were hired to work on the project (over time, they took over other project responsibilities as well). A wide range of technical experts contributed to develop the product. While the company's BoP team served as their key points of contact, partner demands were used in discussions on access and timing to such resources.	Only first experiences gathered under the partnership, no major adaptations. Regular meetings scheduled to discuss project performance, next steps (e.g. widening sales channel) were contingent on project performance and to be decided jointly with partner.
Z3	Initiative started from negotiation between the BoP team of <i>Company Z</i> and technology provider, getting the subsidiary and local partner on board later in the process.	While the subsidiary was hesitant in setting up a team, it provided a project manager that helped to coordinate the different partners. The headquarters BoP team used the partner relation in discussions to provide its performance. Difficult process and repeated discussions on getting access to internal resources, especially IT and legal, that were partly overcome by working with external partners.	The project expectations were adapted (downwardly) during the trial run, with the partner providing several explanations and justifications for the low sales performance (e.g. a conflicting high-profile sports event in the country)

Table 36: Impacts during different strategy process steps

7.6.3.1 Establishing initiatives in nascent markets

Firstly, managers rely on proto-structures to establish initiatives, including the determination of the initial approach, objectives and degree of exploration. The establishment of initiatives requires internal awareness for the potential business opportunities in nascent markets, and is often contested (Olsen & Boxenbaum 2009, Webb et al. 2009a). This can be a difficult process, as the business model frictions reduce the interest of key decisions makers, perceived trade-offs and role conflicts impact the influence of managers advocating for exploratory initiatives and planning difficulties make it difficult to set clear goals.

In our cases, the feasibility of initiatives, and how ambitious the company should be, was debated within both companies, and opinions differed across organisational units (subsidiaries), functions and countries. Even the notion of “BoP business” or “microinsurance” itself was contested in the sector, and a series of international conferences, consulting companies, think tanks and publications dealt with basic definitions and different approaches to developing and testing models for successfully

targeting customers in the sector, in particular at the beginning and setup of the first initiatives¹¹⁶.

Managers often saw it as a personal mission to promote the highly exploratory activities in the company, both in Company A and Z, in worked on business plans and justification documents over a longer time period to obtain buy-in for their initiatives, thus ‘creating’ their own job profile. In contrast, the perspectives of directors with regional responsibility in the headquarters, or that of local subsidiaries, often diverged¹¹⁷. These more traditional players expressed their concern that the activities in nascent markets would potentially distract from commercially more attractive options in established or at least better-defined customer segments.

The proto-structures created between the respective partners provided the setting in which managers resolved these tensions. As the initiatives and the partnerships normally co-evolved, the establishment of initiatives was closely related to the negotiation of partnership agreements, including more formal texts like a “Memorandum of Understanding” or partnerships contracts. In both companies, the crucial awareness for potential business opportunities (Webb et al. 2009a) and the decision to engage in developing the nascent market coincided with the negotiation of key partnerships.

In *Company A*, the idea of targeting low-income consumers as a way to combine a social contribution by addressing an unmet need by poor consumers with a core businesses proposition was developed in close dialogue with external partners. First discussions with staff from *AI* brought up the idea on a general level and raised awareness for the opportunity (Webb et al. 2009a), and the signature of the partnership agreement through higher-level executives was a key internal stepping-stone towards establishing BoP as an activity area in the company. Similarly, the initiators of the global activities in *Company Z* arrived at the idea to develop activities in their company after a search process in which they engaged several external partners, first

¹¹⁶ Leading actors in this field are international organisations, like the International Labour Office, or corporate foundations, like the Munich Re Foundation.

¹¹⁷ A joke perpetuated in Company Z on this theme was that “the fastest way to clear a room of people that know about insurance is to mention the word ‘microinsurance’”

in an informal and clandestine manner, later in a more formalised way through the partnership *Z1*.

In this phase, managers in particular drew on the *flexible* elements of proto-structures, elements that are open to negotiation and bargaining between the two partners. In both cases, the managers that established initiatives first discussed the idea with experts outside their own organisations, with the ensuing partnership negotiations providing the space to formally discuss and fix goals and approaches for the initiatives. This external negotiation shifted the perceived role distribution, from a negotiation *within* the company – i.e. between the company’s executives and the respective middle managers – to one *between* the company and a partner, helping the managers to deal with perceived role conflicts and present challenging ideas on the level of informality and uncertainty to be accepted as those of the respective partner organisation.

Partnerships also had a direct impact on individual initiatives for product development and distribution. The proto-structures around *A2* and *A3* set more specific impulses to explore business opportunities on a country or regional level (Webb et al. 2009a). During the start-up phase of both *A2* and *Z2*, the respective company and their partner had different opinions about which features should be included in the products, and at which costs (up to the point of questioning the projects as such). In the case of *A2*, there was a lengthy negotiation process between the partner and the subsidiary managers, focused on how to interpret a feasibility study (from which the partner and the company drew diverging conclusions). While the head of BoP at the headquarters intervened to resolve the conflict, the subsidiary accepted such an explorative initiative only after repeated discussions with the partner. In the *Z2* partnership, repeated requests to adapt the product to special customer needs led to a highly contested process of product reformulation and refinement, with the final product judged as “extremely innovative” by the company. In both cases, managers concluded that the product features would not have been possible to implement in initiative embedded solely in the traditional structure of the company.

In summary, the negotiation and bargaining process around proto-structure creates the space where managers can ‘externally anchor’ demands that would undermine their legitimacy in the company. They can show their skills as brokers and facilitators (Pappas & Wooldridge 2007) that seek to balance between the external, partner-driven demands and the internal company logics (Noble & Jones 2006) – rather than being

seen as “BoP advocates” in the spirit of the early BoP literature (Walsh et al. 2005) that stand in opposition to the corporate mainstream.

In summary:

P4: The presence of *flexible* features in proto-structures reduces the negative impact of organizational barriers on the successful *establishment* of exploratory initiatives in nascent markets;

7.6.3.2 Acquiring core and complementary resources for nascent markets

The second area where managers leveraged proto-structures to influence the strategy process was the crucial area of internal resource allocation and prioritisation (Bower 1970). This is not merely a question of implementation, but the allocation and prioritisation of resources to certain initiatives is an integral part of the strategy making process itself (Noda & Bower 1996). Strategic initiatives are competing for resources in the internal corporate eco-system, and resource acquisition during early stages is important for survival and retention of new ideas (Burgelman 1991).

The resources required to successfully run initiatives consist of two different kinds.

First, resources are required directly for the operation of initiatives. This includes staff members of teams working on initiatives at the headquarters (in our cases, 1 person in *Company A*, and 4-5 persons in *Company Z*), general expense accounts for developing projects, or data and reporting systems acquired solely for operating in the nascent markets. These resources are similar as those dedicated to a new “core technology“ of a company implementing an innovative new technology (Taylor & Helfat 2009). Dedicating these resources is relatively simple from organisational standpoint, as there are few overlaps with other activities in the company. But the internal process of justification is often quite complex, as dedicating this kind of resources does not yield immediate financial rewards, something typical for early-stage initiatives with high uncertainty and double motivations (London & Hart 2004, Levinthal & March 1993).

In both companies, partnerships helped to justify and secure resources for the core team. For example, in the case of *Company Z*, the BoP managers regarded *ZI*, their “umbrella” partnership at the headquarters level, as a key mechanism to secure the commitment of the company, despite several re-organisations in which the initiative could have been cancelled:

[...] The probability that this initiative will be terminated is naturally much, much smaller, well, practically zero, as long as you had this contract with [the government] [...], we knew, in this three years our team will exist for sure. (*BoP manager Company Z*).

In *Company A*, the partnership *A1* was funded equally by the company and its partner, a development aid organisation with a special budget for corporate partnerships. This allowed the manager interested in the nascent market to focus on the topic as the “head of microinsurance”, and shed some of his former responsibilities. The formation of the partnership thus coincided with the dedication of key resources to initiatives at the headquarters for the first time. It was also the main mechanism for justifying certain general expenses at the beginning, like market studies and connecting to external experts, and was, after a pause, restarted to address certain more general issue that related to overall market construction and development, and not to single projects aimed at exploring specific business opportunities (Webb et al. 2009a).

The second kinds of resources initiatives draw on are “complementary” resources (Taylor & Helfat 2009) from other business units and functions. These are resources that the company developed or acquired for business activities in established markets, but that are required for the full implementation of initiatives in nascent markets (London & Hart 2002, George et al. 2012). Examples include access to technical experts, for example for product formulation and pricing, or to IT systems. This conflict also plays out between the headquarters, where the central team targeting the nascent markets resides – and the subsidiaries:

“[...] we have country organisations in these countries, and we want to do something there, and the first thing we have to do is convince our local people that they want to do something” (*BoP headquarters manager, Company Z*)

Having access to the core resource of large companies is one of the key justifications for involving large companies in nascent markets in the first place (Prahalad & Hart 2002). Getting access to these internal resources was difficult in most of the initiatives for various reasons (George et al. 2012, Olsen & Boxenbaum 2009). In both case companies, complementary resources were allocated in other business units, and the managers overseeing these resources had substantial autonomy on how to allocate them to different activities. Sometimes, as in *Z2* and *Z3*, individual staff members with specialised expert knowledge were required for the initiatives. All partnerships included in the paper were initiated and run by headquarters staff, but the critical

resources were most held in specialized functions or at the subsidiary level, where headquarters staff did not have a direct mandate.

Partnerships were instrumental in most of the cases, with pressure and requests from the partner being translated in internal demands for making resources available. In most of the partnerships, the external agreements had a strong ‘binding’ effect, allowing middle managers to communicate commitments made externally as fixed demands requiring resource allocation from internal actors to avoid difficulties in the partnerships and even public liabilities in terms of brand reputation. In the other, more specific partnerships, similar demands for resource allocation existed on a more tangible level. In Z2, for example, managers needed access to pricing specialists several times as the product was iterated in negotiations with the partner. Also in Z3, it was partners who drove the work progress:

“[the partner], has done a good job, with fast turnarounds and so on. I have to say, I was really very happy with all external partners. With [our subsidiary] it was the most difficult, but also for understandable reasons (*BoP headquarters manager, Company Z, on project Z3*)

While getting this access to internal experts remained difficult, the pressure for delivery according to the partnership terms helped managers to make internal demands on other departments. They thus focused on the ‘fixed’ elements of proto-structures – up to the point of exaggerating time pressures or expected negative reactions from the partners to advance their arguments in the internal resource allocation process.

In summary:

P5: The presence of *fixed* features in proto-structures reduces the negative impact of organizational barriers on the successful *acquisition of both core and complementary resources* from other business units or functions;

7.6.3.3 Adapting and integrating initiatives in nascent markets

The last area where managers rely on partnerships to manage the strategy process relates to adaptations over the duration of the initiatives and their later integration into the companies’ existing operations.

The shorter planning periods and frequent adaptations in highly exploratory initiatives often led to tensions between the initiatives and the core business. The established markets for the company’s products have a long time horizon, contractual obligations

and, as a consequence, process requirements can span decades. Similarly, distribution channels used in established markets have been markedly stable.¹¹⁸ Both companies manage their regular, more exploitative product portfolio with a long time horizon and set quantitative goals for units and managers on a yearly basis.

In contrast, business activities in nascent market have much shorter learning and adaptation cycles. The informality of the target markets and the high levels of ambiguity and uncertainty lead to a shorter planning horizon of partners and clients (Azariadis 2006, Collins et al. 2009), and thus require adapting and changing initiatives. This was also reflected in partners' repeated demands for adapting and iterating products and processes. These shorter cycles meant managers had to adapt the degree of exploration in the different initiatives – a “re-calibration” that is also intrinsically linked to the partnerships themselves (Le Ber & Branzei 2010).

Adapting initiatives led to challenges in the internal strategy process, especially when they were related to problems with the initiatives. In the case of partnership A2, it became apparent in the second year that the product was highly loss making, something which the company had feared, but not foreseen in this severity. Following the traditional metrics of the company would probably have led to a termination of the initiative, according to the managers involved. But the product was adjusted in a careful negotiation between headquarters and the partner's representatives. This was aided by the fact that the partnership agreement expired during that time – thus providing an open space to re-negotiate and address these issues.

Examples related to the adaptation of scaling ambitions can be found in *Company Z*. The whole planning process was arranged in yearly “action plans” that were negotiated between the two partners. While a first version of the partnership agreement in *ZI* featured a target for customers that seemed reasonable at the time, it was later considered much too low to reach profitability for a business model relying on a large-scale rollout. Both partners relatively easily adapted it¹¹⁹. The partners

¹¹⁸ While both companies have felt the impact of e-business (Gilbert 2005, 2006) and have sales activities in the area, the shift has been less markedly than in other sectors with less trust-based products.

¹¹⁹ And, ironically, already surpassed by projects in subsidiaries that headquarter managers were unaware of at the time of negotiating the agreement.

continued these discussions for several years, jointly planning the activities for the coming year.

When assessing the progress of the overall initiatives and taking corrective actions, managers in particular drew on the proto-structure elements left open in earlier phases – some of which were linked to the fixed duration of partnerships and the need to re-negotiate partnership extensions or “second phases”. Presenting these open issues in internal discussions allowed discussing stronger and more invasive adaptations, while relying on some tacitly fixed or negotiated elements, i.e. expectations of the partner, preserved the managers’ brokerage role. In summary, it was particularly the open elements in proto-structures that allowed companies to more flexibly manage exploratory initiatives:

P6: The presence of *open* features of proto-structures reduces the negative impact of organizational barriers on the successful *adaptation* or integration of initiatives in nascent markets;

7.7 Discussion

The model shows how proto-structures interact with internal strategy processes to allow companies to run highly exploratory initiatives in nascent markets that would be difficult to implement in the company’s existing structures alone. This does not only concern the first impulse and awareness raising – showing the company that an exploration opportunity exists – but also subsequent acts of ‘stretching and balancing’ required to configure resources internally in responding to these opportunities (Halme et al. 2012, Webb et al. 2009a).

The various contributions are explained in detail below.

7.7.1 Social embeddedness in nascent markets

As a first contribution, the model helps to understand the nature of nascent markets, and the contingency effects of this market context on dynamic capabilities.

The model’s analysis of nascent markets is a reminder that markets, with price mechanisms and competition, are only one of a broad variety of societal governance mechanisms (Granovetter 1985, 2005), and that social, cultural or religious institutions often precede markets and interact with the development of market institutions (de

Soto 2000). In nascent markets, competition exists not only between companies, the market players, but also on a higher, institutional level – as competition between markets and other regulating mechanisms. This multi-level competition creates ambiguity, on the strategic level, as well as the need to compete or cooperate with a broad range of “non-market” players, such as kinship networks, village elders, etc., as partners in such markets, with the respective difficulties and liabilities (Seelos & Mair 2007, Rivera-Santos & Rufín 2010).

In the face of ambiguity and uncertainty in such markets, pioneering companies need to establish market rules and product offerings at the same time – a theoretical similarity between such distinct situations as the market for security certificates on the Internet (Santos & Eisenhardt 2009) or the provision of social security in the favelas and rural hamlets of low-income markets through market mechanisms as described here.

7.7.2 Dynamic capabilities in nascent markets

The model also helps to understand nuances of the dynamic capability concept, that was originally developed for markets marked by high velocity (Teece et al. 1997, Eisenhardt & Martin 2000). In our model, the capabilities to develop, combine and shed resources are potentially also relevant for low-income markets (Dowell & Hart 2011, George et al. 2012). While these often look highly dynamic, energetic and unpredictable – visualise the shouting and haggling at a colourful weekly urban food market – on a higher level, they are in fact often the opposite: The general patterns are extremely stable, sometimes over centuries; process or organisational innovations are routinely absent and competitive activities and pressure is missing¹²⁰. In fact, one of the most depressing elements about poverty is its persistency and resistance to external intervention (Easterly 2006).

The concept of “dynamic capabilities” (as in Eisenhardt & Martin 2000) might thus apply in both high- and “no- or low-velocity” environments – provided that in both

¹²⁰ With the recent, wide-spread success of new inclusive innovation such as microfinance or mobile communication (and, at the interaction, mobile banking), there could indeed be a convergence of highly-dynamic tech and slow-moving BoP markets. As both developments happened relatively recently

cases companies deal with nascent markets with high levels of ambiguity. In both cases they might address challenges previously ignored by other companies – whether these just emerged due to rapid technological change (Brown & Eisenhardt 2009) or have existed for longer periods due stagnation and the absence of formal business activity (Dawar & Chattopadyhay 2002).

The study shows how managers create awareness for nascent markets in low-velocity environments (Webb et al. 2009a), and direct and manage attention and expectations to opportunities, even if these are “clouded” by existing ambiguity in these markets. In contrast, executives faced with high-velocity change are sometimes, but not always, highly aware of the need for innovation due to external threats in the competitive environment, and these threats are often relatively well defined (Gilbert 2005, 2006). Future studies on dynamic capabilities could seek to understand how these depend on high- and low-dynamic environments, and how the dynamic capabilities required and developed can be applied in and transferred across both scenarios, as has been envisioned in the process of reverse innovation (Govindarajan & Ramamurti 2011).

7.7.3 Exploration-exploitation balancing in nascent markets

On a process level, the paper has implications for the literature on the tensions between exploration and exploitation (Gilbert 2005, 2006, Gupta et al. 2006, Levinthal & March 1993, March 1991). The perspective taken in this paper shows how individual managers can actively shape partnerships that affect or circumvent the “structure” in companies. It takes serious both individual middle managers’ and their partners’ autonomy in shaping their environment, in particular by establishing proto-structures at the border of their organisations that allow the establishment of innovative initiatives.

As Gilbert (2005, 2006) has pointed out the crucial role of external influences for firms that are able to successfully run exploratory initiatives, this paper provides a detailed analysis of how exactly these influences play out in a situation where partnerships are set up for highly exploratory initiatives. While external influences were previously regarded as most dominant in the initiation of exploratory initiatives, the model shows that they can be much more pervasive and persistent over a longer time period.

The “proto-structures” described in this paper can help companies to deal with exploration-exploitation tensions beyond the initial impulse (Gilbert 2005) – by enabling and supporting solutions to exploration/exploitation challenges, like structural or temporal separation (Raisch & Birkinshaw 2008). Leveraging the ambiguities around proto-structures allows creating a space in which managers are not fully exposed to demands in the mainstream business, and where activities can be developed that follow the logic of the respective markets. Similarly, as proto-structures have a limited survival time, depending on the duration of a specific partnership, they allow managers to justify temporal space for exploratory activities that is less restrictive than the self-defending corporate structures.

7.7.4 Proto-structures and managerial agency

The finding that managers running exploratory initiatives in nascent markets often “work underground and resist superiors’ orders“ (Halme et al. 2012) is tightly coupled to the question of managerial agency – the puzzle of how actors that are “embedded in an institutional field” are „able to envision new practices and then subsequently get others to adopt them“ (Garud et al. 2007: 961), here, how managers selected by and exposed to an existing corporate structure can champion and facilitate divergent initiatives (Floyd & Wooldridge 1992).

Considering the properties and impacts of proto-structures, managers in our model do not exert agency by simply avoiding existing structural constraints. Instead, they establish new constraints, in the form of proto-structures, that provide a counter-balance to the existing institutional pressures. This can be taken from the analogy of “fighting fire with fire” – while it might sound paradoxical, creating “safe zones” through small, concentrated fires lighted by firefighters themselves can be an effective strategy to avoid the impact of un-controllable wildfires (Weick 1993). Similarly, creating new, strategically designed structural ‘rigidities’ can help managers to avoid the institutional straightjacket (Daft & Lewin 1990) of corporate culture, norms and rules.

The ambiguous origin of the rules in proto-structures – partly determined by one of the partners, partly through negotiation, partly open – and the to some degree unobservable process of individual, tacit negotiations about these rules creates the discretionary space for the localised narration, translation and sense-making of individual managers that has been described as a crucial tactic for unlocking agency

(Garud et al. 2007: 962). Here, externalising and anchoring demands allows managers to escape role conflicts and falling into the ‘activist trap’ of being perceived as acting in detriment to the corporate goals.

7.7.5 Limitations and future research

This qualitative, exploratory study allowed to build first concepts and describe mechanisms behind proto-structures’ impact on strategy processes, but allow only limited statements about when or under which conditions these effects materialise. Potential antecedents could exist on different levels – e.g. on the firm or managerial level – and survey studies could build on the process model presented here to test it in companies that have entered nascent markets through highly exploratory initiatives. Such studies could draw on the models and empirical material presented here to operationalize constructs for a quantitative inquiry and methodology (Edmondson & McManus 2007).

Going beyond the focused case selection, future research could try to elaborate findings for a more diverse set of organisations. For example, while the two companies are in a slow-moving industry dominated by incumbents, dynamics might look different in a fast-moving industry like telecommunications, where the overall structure is more conducive to innovation, companies are more accustomed to the conditions in different kinds of nascent markets and where significant competitors have emerged with an exclusive focus on BoP markets¹²¹. Similarly, community-based or social enterprises (Peredo 2003, Peredo & Chrisman 2006) are closer embedded in nascent markets, and thus face less or at least different difficulties in the innovation process, but might have comparable challenges of balancing exploitation and exploration over time (Kistruck et al. 2011, Seelos & Mair 2014).

A last limitation stems from the context of research in nascent markets. Observing the activities of companies in these markets allows building theory based on the engagement with diverse and non-traditional partners. As partnerships to reach more established, up-market target groups have different characteristics than those require to reach nascent low-income markets (Rivera-Santos & Rufín 2010), the models

¹²¹ First evidence suggests that even in cases such as Vodafone’s M-PESA, proto-structures and partnerships might have played a strong role (Hughes & Lonie 2007)

required to explain their impact on strategy processes will most likely be different as well. Future research, for example comparative research on initiatives targeting different customer groups in the same corporate context, could help to test whether the current model is generalizable, or under which conditions findings have to be modified.

7.7.6 Importance and implications

The current study has broader implications for strategy processes, especially incumbent reactions to disruptive innovation. Using partnerships in exploratory initiatives could help companies to innovate around their core rigidities by using external impulses, while still being able to draw on their core competences (Leonard-Barton 1992). Being able to establish and accommodate partnerships that support exploration could be a core capability for operating in nascent markets (Hart & Dowell 2011), and be even more relevant than for businesses development in general. Using this capability in the ambiguous context of nascent markets could help firms to develop resources that are socially complex and path dependent, and therefore hard to imitate for competitors (Barney 1991, 2001).

For managers operating in nascent markets, the study highlights that partnership are not a “one-way” street that allows businesses to draw on external resources to achieve their goals, but can be used to actively influence decision making processes within the companies. Especially in difficult, hard to grasp and define markets, committing to external partnerships can be a critical success factor to overcome inertia and legacy structures within companies.

7.7.7 Conclusions

The research shows how exploratory initiatives to move into nascent markets are shaped not only by autonomous, internal decision-making, but also through partnerships and other external influences that managers build and use to create an encouraging strategy context for their activities. The impact of these partnerships goes beyond a static notion of learning in having a profound impact on the processes within the companies themselves.

Firms that are open to external influences can use such partnerships to create “proto-structures” that allow them to not only acquire external resources to realise new

business models for the BoP (Dahan et al. 2010), but also to re-configure their own resources flexibly to capture new or defend existing markets. For this, they need skilful, often intrinsically motivated managers that are ready for the risky and difficult process of “fighting fire with fire”. If the new markets developed through such processes include economically and socially excluded and marginalised customers, for example in low-income markets at the Base of the Pyramid, the firm’s openness could contribute not only to its competitive advantage, but also to achieving better societal outcomes at large (Walsh & Margolis 2003).

8 DISCUSSION

The three papers seek to contribute to the broad field of strategy process and organisational learning research, in particular with regards to a better understanding of the micro-level mechanisms behind the balancing of exploration and exploitation. By using the research context of low-income markets in developing countries, as nascent markets with high levels of ambiguity and respective repercussions on strategy processes, the models and frameworks developed explain how managers can pursue exploratory initiatives in such contexts – even in a rigid, highly structured incumbent business. Additionally, the models also help to better understand the emerging middle-range theory (Weick 2007) around business activities in low-income markets in developing countries (George et al. 2012, Ricart et al. 2004)¹²².

8.1 Contributions to strategy process research

The exploration of new business opportunities at the fringes of the currently imaginable, in nascent markets whose mere existence and fundamental features are still debated and contested, is fraught with contradictions and paradox (Smith & Lewis 2011). Exploration requires resources from large, established organisations – which are dominated by rigid structure and rules aimed at efficiency and productivity that stifle innovation (Adler et al. 2009). Exploration requires discovering and probing a multitude of possible options, ideas and concepts, most of which are “foolish and dangerous” (March 2006a), while existing, top-down cognitive schemas fail to capture such new business models (Walsh 1995), the basis for rational decision making is weak, and the application of legacy performance measures can hinder the implementation of initiatives (Johnson et al. 2008, London & Hart 2004). Exploration requires domain expertise and experience – but both can stifle creativity and exploratory search (Benner & Tushman 2002, 2003, Dane 2000, Leonard-Barton

¹²² The specific contributions of the individual papers are provided in the respective discussion sections, and partly differ from the ones summarized here due to a more specific focus (e.g., on values and culture in *Paper I*)

1992). Exploration might benefit from separation and differentiation – which puts companies at the risk of losing the advantages of combining legacy resources and knowledge with exploration for the mutual benefit of both fields (Taylor & Helfat 2009).

Some of these contradictions can be resolved at a higher level – in particular, by structurally separating exploration and exploitation in companies, through establishing innovation departments, new media units etc. (Gupta et al. 2006), or through market-mechanisms such as mergers and acquisitions with entrepreneurial organisations. Still, the rare, unique, non-imitable and non-substitutable resources (Barney 1991) as well as the dynamic capabilities to flexibly acquire, combine and shed those resources (Eisenhardt & Martin 2000) might result exactly from those acts of exploration that defy rationally controlled search processes or neatly defined structural solutions.

The study thus points to ambiguity and paradox as sources of productive divergent behaviour. While ambiguity has been described as providing “critical openings for creativity and agency” (Mahoney & Thelen 2010), standard business processes focused on efficiency and productivity seek to reduce and control ambiguity (Benner & Tushman 2003, Adler et al. 2009). To deal with this contradiction, the three key mechanisms described in the papers – influence of rich and interconnected value systems (Paper I), of switching in framing patterns (Paper II) or of proto-structures created through partnerships (Paper III) – all create ambiguity – not randomly, but controlled on contingent on both internal sensemaking and negotiation as well as broader societal trends. This ambiguity – which could be labelled “contingent” or “embedded” ambiguity – thus does not promote “un-directed”, but “other-directed” activities and can be a mechanism through which companies absorb and process soft, intangible cues about the environment (Adner & Levinthal 2008).

Those exploratory acts might often fall back on the individual. Critical voices doubt whether individuals can effectively combine exploratory and exploitative activities on the personal level (Benner & Tushman 2002, 2003, Dane 2010, Gupta et al. 2006) – or, framed differently, whether individuals can realise their agency while being embedded in existing institutions (Garud et al. 2007, Leca & Naccache 2006). But others have found (selected) individuals to be better knowledge-integrators than teams, hinting at a crucial and constructive role of individuals (Taylor & Greve 2006). The models presented above show that the micro-level mechanisms behind exploration and exploitation (Adler & Obstfeld 2007) – namely, of patterns of

cognition, emotion and values that happen on the individual level, but are shared, situated and negotiated (Elsbach et al. 2005, Robbins & Aydede 2008) – can be clues to understand how individuals can pursue, coordinate or integrate exploration and exploitation effectively, and which practices they can rely on to create and protect autonomous space for enacting their “agency”.

8.1.1 The contingency of nascent markets

While strategy making is always dependent on and realised in specific contexts (Leca & Naccache 2006), the issue has seen revived attention with the advent of technology-driven, disruptive and highly dynamic “hyper-competitive” environments (Brown & Eisenhardt 1997, Christensen & Overdorf 2000, Eisenhardt & Martin 2000).

Previous studies have already discussed strategy processes in “nascent” markets (Santos & Eisenhardt 2009), but have conflated the presence of ambiguity and high dynamism. As Paper III shows, nascent markets, with unclear or lacking definitions of clients, products and competitors, can also arise in low-velocity environments – for example, in low-income markets in developing countries, where formal market mechanisms are lacking and need to be developed slowly and through deliberate effort. This discussion takes up the important fact that all markets and economic transactions are socially embedded to some degree – and partly compete with or are substituted by social, cultural or religious arrangements (Granovetter 1985, 2005).

		Market dynamics Changes in customers, products, competitors, prices...	
		High velocity	Low velocity
State of market institutions Definition of customer, product, competitors, working of price mechanisms	Well-defined and developed → “ <i>established markets</i> ”	Continuous innovation (in turbulent markets)	Incremental innovation (in traditional, classic and stable markets)
	Under-defined → “ <i>nascent markets</i> ” → <i>high levels of ambiguity</i>	Disruptive innovation (in newly emerging markets)	Inclusive innovation (in subsistence markets)

Table 37: State of market institutions vs. market dynamics

The resulting strategy processes reflect the difficulty to accommodate the ambiguity in the target markets in an organisational structure – as managers struggle to create “pockets of ambiguity” in the organisation through different, but interdependent mechanisms (through sub-cultural niches, the switching between framing patterns or proto-structures, respectively). Our approach, to separate ambiguity and velocity in markets as two contingency variables, helps to better understand market conditions and the respective strategy processes. In particular, future, variance-explaining survey studies could seek to take up this distinction, devise measurement instruments for both constructs and relate them to observable strategy process patterns.

Considering informality and the presence of social issues as a more widespread feature in nascent markets, not only in low-income contexts¹²³, also allows to (re)consider the importance of social issues in the exploitation-exploration debate (Walsh et al. 2003). Where an imbalance was seen as problematic as it would lead to financial loss or firm failure (Gupta et al. 2006, Levinthal & March 1993), it also has societal implications. In the context of sustainability and corporate social responsibility (Hart & Dowell 2011, Hart 1995, Matten & Crane 2005), under-exploration includes a lack of investments and efforts to develop and embrace new and sustainable business practices – like cleaner production, eco-efficiency, product stewardship or BoP business models (Hart 1995, Gladwin, Kenelly & Krause 1995). And while developing new business models in such areas would decrease environmental impacts and improve well-being for normally excluded customers groups, it also helps business to build capabilities to attend to emergent problems in nascent markets that might foreshadow future profit opportunities (Hart & Dowell 2011, Walsh et al. 2003).

8.1.2 Individual agency in exploration-exploitation

The second major contribution concerns a more differentiated understanding of micro-level mechanisms in exploration-exploitation balancing – and the importance of individual agency for change. Taking cues from situated cognition theory (Robbins &

¹²³ Arguable, social considerations also play a role in other nascent markets, as can be illustrated by the presence of issues such as privacy, data security, freedom of expression, customer protection against fraud etc. in online publishing and e-commerce, as well as the (initially more important) open source, non-profit and advocacy elements in the development of the Internet.

Aydede 2008), cognition, emotions and values are both “embodied” in a physical and “embedded” in a social sense. They thus provide a mechanism that binds the individual to the social structure. While shared cognitive mental models and schemas have been described as characteristic features of organisations (Walsh 1995) and values as the “social glue” (Detert et al. 2000: 851), they nevertheless have their roots in individual psychological and physical processes. While mimicry, socialisation or coercion as parts of organisational learning processes certainly have a normative, regularising character and stabilise exploitation patterns (DiMaggio & Powell 1983, DiMaggio 1997), they find their limits in physically embodied, path-dependent nature of cognition, emotion and values. Even in highly stable and uniform environments, like our case companies, individuals have physical impulse – including impulses for divergent activity (Adler & Obstfeld 2007). Emotions like repulsion, in the face of ethically questionable activities, or curiosity, in the face of stagnation, can thus be strong drivers of divergent behaviour despite pressures towards compliance with institutional norms and expectations.

The study shows the influence of such micro-level mechanism in exploration-exploitation balancing – considering, in particular, the cultural (*Paper I*) and cognitive (*Paper II*) dimensions of organisational change. *Paper I* shows how value systems affect business model exploration in similar ways for such diverse episodes as e-business and BoP development (Zott et al. 2010). While the specific values vary – the attraction of a new technology, the energy associated with the start-up culture, or the desire to do good –, they help to overcome the initial lower financial performance of exploration projects noted for regular business (March 1991), e-business (Gilbert 2005) and BoP projects (London & Hart 2004).

Paper II further elaborates the crucial role of different, situated cognitive patterns and framings in exploratory projects. While local institutional characteristics affect initial framing patterns (Elsbach et al. 2004), we find that these framings are situationally adapted and sometimes “switched” over time – to accommodate the paradoxical nature and demands of exploratory initiatives and reflecting their difficult relationship to the company mainstream (Smith & Lewis 2011). This switching, between accommodation and self-stigmatization of initiatives, creates a space of ambiguity and agency for managers, while simultaneously matching and reflecting the ambiguity in the market environment.

8.1.3 External influences

The models also enhance the understanding of external influences on exploration-exploitation tensions. While these have often been highlighted as critical (March 1991, Gilbert 2005, 2006), they are not thoroughly understood, and models that systematically capture the influence of partnerships on strategy processes to manage exploration-exploitation tensions have been missing so far. Previous studies have focused on selected issues – how staff turnover contributes to exploratory learning (March 1991), how the external linkages of executives are linked to the initiation of exploratory activities (Gilbert 2005, 2006), or how boundary-spanning managers pursue exploration (Pappas & Wooldridge 2007).

Our three papers all describe a series of external “soft cues” that hint towards new business opportunities that are not adequately captured by corporate rationalities. One example is the notion of rich and highly interconnected value systems, in Paper I, developed through extended and overlapping processes of sensemaking in the institutional field connected to the new business models. While the structural features of value systems do not ‘per se’ indicate and prove a profitable business opportunity, they still a) point towards a set of connected technical and social developments that changes the preconditions for existing business models and b) influence the strategy making processes in companies in ways that motivate and enable middle managers to facilitate and champion experiments, even if this creates role conflicts and tensions with the status quo (Floyd & Lane 2000). Similar “soft cues” are new patterns of cognition related to business model exploration that become increasingly negotiated and shared in the company (as described in Paper II) as well as the presence of partners willing to enter into “proto-structural arrangements” with the company that provide the space to accommodate highly exploratory initiatives that would not survive under the internal corporate structures (as in Paper III). Analysing these issues with data from non-traditional partnerships in nascent, low-income markets (London & Hart 2004) provides an opportunity to look at ‘extreme cases’ of such influences, thereby helping to develop theory that could be relevant also for more mainstream operations.

Capturing the external influences on exploration and exploitation can also be a starting point for understanding how these are organised on a societal level (Gupta et al. 2006) – for example, how the interface between (more exploitation-oriented) large incumbent companies and the (more exploration oriented) environment of start-ups

and civil society organisations is organised, and how institutional fields for new business models overcome the inertia of established corporate networks (Hoffman 1999, 2001).

8.2 Contributions to BoP discussions

BoP business models ultimately have a double goal – to build commercially viable business *and* contribute to poverty reduction, simultaneously (Prahalad 2004, Margolis & Walsh 2003). To this end they apply a mix of methods – radically new business models, resources and partnerships on the one (London & Hart 2004, Seelos & Mair 2007), and established business principles like standardisation, franchising and the application of technology on the other hand (Akula 2008).

This dissertation has taken an analogous approach. It is not singularly focused on explaining financial performance or ‘competitive advantage’, but applies a broader understanding of organisational performance, in which the contribution to societal goals like poverty reduction (or similar goals like environmental improvements, gender equality etc.) is equally or more relevant than the mere financial outcomes (Walsh et al. 2003). Regarding the methodologies applied, it seeks to satisfy the criteria for rigorous and relevant research in management (Gibbert et al. 2008, Gulati 2007, Yin 2003), while being responsive to the requirements of a field in such an early development as BoP, in which rich and ‘idiographic’ explanations and elaborations of processes and causal mechanisms might sometimes play a stronger role than research primarily focusing on correlations and causal relationships (Tsoukas 1989, Weick 2007).

8.2.1 Understanding ‘Base of the Pyramid’ markets

The three papers add two additional dimensions to the discussion of BoP markets.

First, they show how BoP markets can be meaningfully captured and analysed as “nascent” markets – markets in which definitions of customers, products and competitors are discussed and negotiated, and that are thus marked by high levels of ambiguity. While previous authors have stressed the institutional voids, i.e. the absence of formal market mechanisms (Mair et al. 2007), these environments are in fact highly “institutionalised” – just not in terms of Western, capitalist market institutions, but through a mixture of overlapping social, cultural and religious norms

(Granovetter 1985, 2005, Rivera-Santos & Rufin 2009). The products and services offered by companies thus compete not only with those offered by other companies – but with non-consumption or services provided by informal mechanisms, i.e. through kinship or friendship networks.

While this ambiguity might be similar in certain respects to the ambiguity in other nascent markets, i.e. highly dynamic, technology-driven markets (Santos & Eisenhardt 2009), it nevertheless creates particular challenges for managers pursuing initiatives in BoP markets, i.e. for dealing with different levels of formality in nascent, BoP markets vs. established, formal markets or the presence of social issues and the resulting role conflicts.

Second, BoP markets do not only consist of an (however defined) group of customers, the focus at the beginning (Prahalad 2004), but, by now, of highly differentiated and complex institutional fields (Hoffman 2001) comprising public agencies, development actors, non-profit organisations, cooperatives and social enterprises etc. that negotiate and construct both the definition of “BoP” as such as well as the norms and values relevant for operating in such markets. This creates a specific institutional context for business exploration in BoP markets – in a landscape that is much more complex than it was even after the first wave of “inspirational” books (Walsh et al. 2005) and that is further differentiated and contingent on sector and country conditions. At this point, as shown in *Paper I*, the structure and strategy required to enter BoP markets is not only determined and shaped by the specific market conditions described above, but also by the rich, and interconnected value systems established in the respective institutional fields.

8.2.2 Exploration and exploitation in BoP markets

The study also helps to understand the “paradox of size and scale” (Georg et al. 2012: 678) by clarifying how exploratory BoP activities relate to more exploitative mainstream business activities. Previous studies have mainly been concerned with the highly exploratory, experimental character of strategies to access BoP markets, stressing the “radically new” business models, resources and capabilities required (Prahalad 2004, Hart 2005, Seelos & Mair 2007). This focus is understandable – as so far, most businesses have missed out on the poor as a customer group completely (Dawar and Chattopadhyay 2002), hesitated to dedicate sufficient amounts of resources to BoP initiatives to effectively implement them (Olsen & Boxenbaum

2009), and consequently failed to develop commercially viable and socially beneficial products (Karnani 2007a). As a response to this type of challenges, the BoP literature was partly ‘motivational’, with a mission to advocate the engagement of private sector actors in BoP initiatives (Simanis & Hart 2008, Walsh et al. 2005). There was only limited evidence on how businesses can master the double challenge of innovation and scale, or, in more established terms, exploration and exploitation (Webb et al. 2009a).

This dissertation shows that linking exploratory BoP and mainstream core business activities to reach scale is more multi-faceted than often suggested by the BoP literature (Seelos & Mair 2013). Value tensions created by the value-laden nature of BoP initiatives (Walsh et al. 2005) can indeed allow to successfully set-up initiatives, but reduce the ability of BoP managers to draw on mainstream resources, both initially and over time as initiatives grow (Gregory et al. 2012, Halme et al. 2012, Taylot & Helfat 2009). Second, by showing how different patterns of reframing are used to accommodate BoP initiatives in different institutional settings as well as, over time, to justify BoP initiatives in different situations and contexts (in *Paper II*), the study helps to understand that the “Base of the Pyramid” does not function as a neutral, clearly-defined concept in company settings, but is a part of linguistic and cognitive strategies to accommodate exploratory initiatives in different settings and cope with the related paradoxical tensions (Lewis 2000, Smith & Lewis 2011, Walsh 1995, Walsh et al. 2005,).

By drawing attention to the cognitive, emotional and cultural dimension of BoP projects, the papers highlights the importance of managerial agency behind BoP projects, of managers acting as “social intrapreneurs” that establish BoP as a viable activity in the company by taking significant personal career risks in the process (Halme et al. 2012, Kistruck & Beamish 2010, Olsen & Boxenbaum 2009). As individual, micro-level mechanisms affect the setup of structural solutions and mediate their success, managerial ability to accommodate conflicting or paradoxical patterns of cognition, or establish new ones, becomes a key success factor to establish BoP projects in large, established companies (Haynie et al. 2010, Smith & Lewis 2011). The bricolage-style pattern of innovation and the associated cognitive patterns of “mindfulness” in Halme et al. (2012) are one example of such cognitive abilities required for BoP managers.

This also applies to the relation of social and financial performance in BoP projects. While the mainstream literature has mainly “lost” the cause of social issues (Walsh et

al. 2003), they play a stronger role in BoP activities and studies (Ricart et al. 2004: 193, Walsh et al. 2005). While this may partly be due to the desire of managers to contribute to the alleviation of poverty, partly to the social mission of the partners required to enter the BoP (Dahan et al. 2011, Seelos & Mair 2007), how these motives interact with the financial considerations dominating in the companies' core is only partly addressed so far. Earlier studies have prominently argued that BoP projects allow realising both social and financial performance – partly for motivational reasons (Hart 2005, Prahalad & Hammond 2002, Prahalad 2004, Walsh et al. 2005). In contrast, later studies have shown that mixed motives can sometimes hinder commitments to and the success of BoP projects (London & Hart 2004, Olsen & Boxenbaum 2009)

The findings, in particular in Paper I und II, suggest a more complex relationship. While the social dimensions of initiatives are often used in the justification and framing, this approach yields mixed results: While opening space for experiments in the periphery (Paper I) for establishing BoP projects with relatively high degrees of freedom (Paper II), it also “stigmatizes” these projects later on. Instead of seeing such stigma as an unexpected side-effect, it can be conceptualized as part of a strategy of “self-stigmatization” and “stigma management” (Crocker & Major 1989). The pursuance of social issues can justify divergence and “otherness” in the tightly controlled and normed institutional context of a multi-national company, when initiative teams need to explain and justify their positioning in the company and where framing the project as complex, paradox and outstanding (Paper II) can increase managerial autonomy and agency.

As BoP business models are sometimes discussed in terms of corporate social responsibility (CSR), corporate citizenship or sustainability strategies (Boyle & Boguslaw 2007, Hahn 2008, 2012, Hart & Dowell 2011), studying the contradictions and challenges around BoP can help to better understand such broader strategies to reconcile business developments and social concerns, including the search for the “business case” for environmentally- or socially-driven projects (Dyllick & Hockerts 2002). First, the pursuance of social goals is not neutral, but affects both decision-making and organisational learning patterns around such initiatives – up to the point of being a (conscious or tacit) strategy to enhance managerial agency through self-stigmatization. Second, if the pursuance of social benefits hinders full commitment and resource allocation to an emerging businesses area (see *Paper I* and *II*), the weak

relationship between the social and financial performance of firms (Orlitzky et al. 2003) could be improved if companies develop capabilities to deal with and actually support such paradoxically-framed projects.

8.2.3 Partnerships in BoP markets

Regarding the well-established partnership recommendations in the BoP literature (London & Hart 2004, Prahalad 2004, Sánchez et al. 2006, Seelos & Mair 2007), the study provides a further perspective, linking it to the significant internal, organisational barriers to exploratory initiatives (George et al. 2012: 679). The BoP literature has long highlighted the importance of partnerships by focusing on the instrumental dimension of partnerships – how companies learn about the target market or acquire complementary resources necessary to develop BoP business models (Seelos & Mair 2007, Webb et al. 2009). Here, non-traditional partners were mostly seen as a challenge – in terms of company-internal perception and governance efforts (London & Hart 2004, Seelos & Mair 2007). In contrast, our model highlights how the complex proto-structures to deal with non-traditional partners help managers to overcome existing internal barriers in the strategy process (George et al. 2012, Olsen & Boxenbaum 2009). Partnerships can thus be an ‘antidote’ against the corporate immune system that threatens the success of BoP initiatives (Halme et al. 2012).

8.3 Importance and implications for practitioners

While research on business model exploration in nascent markets is important to help firm capture new business opportunities as well as to extend crucial services to previously excluded segments of society, this importance only materialises when it offers managers meaningful guidance, or at least starting points for reflection (March 2006b), on how to develop and implement business initiatives that provide products and services to the poor and create not only local economic value, but also broader development and empowerment (Sen 1999, Hahn 2012). As the study focuses primarily on internal, organisational challenges (George et al. 2012), the implications for practitioners mainly concern the tactics through which they can fit unconventional projects into existing company structures.

The insights can, firstly, help top-level managers to supervise and steer exploratory initiatives – both individual ones as well as whole portfolios. While initiatives that are

partly driven by non-financial motives are sometimes viewed with suspicion (*Paper II*), these values might actually single future business opportunities that are not visible and easy to evaluate from today's corporate perspective (*Paper I*). Often, such social motivations actually point back to the original value proposition of the company's business model, even if attention to this value creation has been crowded out by attention to value capture in the parts of the company serving more established markets (Bowman & Ambrosini 2000)¹²⁴. Also, partly ceding control over the company's processes to proto-structures created by partnerships (*Paper III*) can in fact open new opportunities for the company to explore business models that would not be supported by today's structure (Burgelman 1983a).

For managers in charge of highly exploratory (BoP) initiatives, the models can provide starting points for reflecting on their role as (social) intrapreneurs acting in the corporate periphery (Halme et al. 2012, Regnér 2003). This concerns the need to justify more exploratory initiatives through mixed motives and the difficulties in positioning them as not purely financially driven – a framing that is difficult to understand for internal decision makers (Olsen & Boxenbaum 2009), as the justification through a 'social contribution' can paradoxically weaken the internally perceived financial prospects of initiatives (*Paper II*). Managers should take into account that promoting values that create a tension to the company's core values might allow them to start peripheral initiatives – and realise in particular their social goals – but create later challenges in re-integration (*Paper I*).

These findings also have a personal dimension – for socially driven managers that try to fulfil their ambitions of making a social impact while simultaneously maintaining or advancing their career in the company (Hemingway 2005)¹²⁵. While there is a role for

¹²⁴ While providing a product (for example, an insurance product) in a saturated market, still provides value to the respective client (here, protection in case of disaster), this value could normally be obtained from other providers as well. This fact, combined with the existing financial incentive, render a social motive for the firm to engage in such activities both implausible and unnecessary. The case is different for BoP businesses, where the product or service provided the value can, almost by definition, not as easily be obtained from other providers, as clients are (still) excluded from the respective products and services (Prahalad & Hart 2002).

¹²⁵ Personal motivations are frequently stated by such diverse BoP innovators as Yunus (2003) and Akula (2008) for engaging in BoP innovation.

such persons to initiate and pursue highly exploratory initiatives that are at least partly driven by social motivations, most will find that internally ‘selling’ and justifying their initiatives will require compromises, especially once initiatives progress and require coordination and integration with the more mainstream operations of the company.

Last, the results also hold relevance for key stakeholders in nascent markets in developing countries – in particular, for non-governmental organisations and other development actors that have an interest in partnering with companies for the objective of economic development and poverty alleviation (Seelos & Mair 2007). First, while companies might never (fully) embrace the social mission of such stakeholders, they can still accommodate initiatives with mixed motivations, especially when managers are willing to reframe these initiatives internally depending on the respective institutional setting (*Paper II*). Second, while companies might sometimes seem to be monolithic entities, both their structure and processes are susceptible to outside influences – not only in the traditional way of being open to learn and acquire knowledge about products, customers etc., but also in the more pervasive sense of introducing new value systems (*Paper I*) and through direct influences on decision making processes through the establishment of proto-structures (*Paper III*). Decision makers in NGOs or social enterprises can utilise this knowledge for setting up collaborations with companies (Dahan et al. 2010) or adapt existing initiatives to increase the effectiveness and long-term impact of the company (Le Ber & Branzei 2010).

The implications described above could help to get BoP business out of its niche, and beyond the pilots and experiments on which practitioners have focussed so far. While stressing the need for radical innovation in the beginning might have been justified by promoting BoP as a concept to business leaders (Prahalad 2004, Walsh et al. 2005), introducing more business principles (Akula 2008) could help to finally fully realise the promise of applying business principles and resources to the poverty challenge.

8.4 Limitations and future research

Limitations and boundaries of the studies occur on several levels – with the respective opportunities for future research.

Some limitations relate to the qualitative nature of the research design chosen. While it corresponds to the relatively early nature of BoP practice and research (Edmondson &

McManus 2006, Karnani 2007a, Hart & Dowell 2011) and was important to generate rich and contextualised data for theorising, more generalizable insights could be generated from cases from a broader and more diverse group of companies (Eisenhardt 1989), or by setting up quantitative studies (Bruton 2010, Ricart et al. 2004).

The findings are also limited by the case selection. The embedded case design in two similar companies from the same industry allowed a high validity and consistency of data analysis and theory building across the two companies, but potentially limits the generalizability of findings. As they apply primarily to large, multinational companies, there is a range of organisations operating in nascent markets that face similar exploration-exploitation tensions. First, quite often local companies reach out to nascent markets, and often with substantial success – including them in studies could expand the insights by explaining how exploratory portfolios develop in companies that do not have a multinational structure, but are stronger socially embedded (see, for example, Seelos & Mair 2005, Seelos & Mair 2013)¹²⁶. Second, research could broaden the scope to include organisations such as community-based enterprises (Peredo 2003, Peredo & Chrisman 2006), social enterprises (Seelos & Mair 2005) or non-governmental organisations (Chesbrough et al. 2006, Kistruck & Beamish 2010). While the borders between the different sectors may have gotten blurry in parts (Dees & Anderson 2003), such organisations still have different operation mechanisms and functional logics, with fuzzy and conflicting goals, decision making structures etc. (Denis et al. 2001). Future research could try to replicate or expand the models from this study, drawing on the respective literature on non-profit management, social enterprise, etc.¹²⁷

¹²⁶ Indeed, one of the main competitors of *Copmany Z* in *Africa4* was a local company focusing on BoP (or lower middle-class) markets, primarily selling through group distribution channels, with products similar to those envisioned by the local managers at the subsidiary. Other subsidiaries faced similar local competitors.

¹²⁷ For example, it has been argued that utilising commercial mechanisms for serving the poor (or any other group receiving “social services”) could help non-profit organisations or social enterprises to reach large target groups, thus increasing their overall social impact (Dees & Anderson 2003: 21). In such cases, existing non-profit organisations would face similar challenges of exploration and exploitation, namely improving their non-profit operations and the quality of service offered there (“exploitation” of their existing models), while simultaneously building up new, commercial models

Limitations also occurred with regards to data gathering. Access for observation and interviewing was primarily derived through the key contact persons in the respective organisations, that were managers working mostly on nascent market exploration. A wider range of interview partners could include more top-level managers, and more representatives from (distribution) partners and clients. Regarding top-managers and partners, the data collection was partly restricted by the status of BoP itself in the respective companies. Often, middle managers in charge of BoP initiatives had only limited access to top managers, which in turn limited the access of the researchers, as the team's contacts were used as the key entry channel to decision makers. Similar concerns, about politicality and confidentiality, limited access to some distribution or knowledge partners¹²⁸.

The data is also limited in so far as country operations could only be directly observed in a limited number of cases. This was mainly due to resource constraints, as they are spread across a relatively high number of countries and continents, but in part also due to political concerns. Broader and more institutionalised research projects could try to cover a larger amount of locations for a given company; potentially involving local researchers in these efforts to reduce resources required and enhance the understanding of local conditions and context¹²⁹.

Regarding the data analysis and theory building, the data was utilised in a way that allowed responsiveness to both emerging theoretical insights (Eisenhardt 1989) and managerial relevance (Vermeulen 2005). As this involved partly shifting the research

to expand their coverage ("exploration"). The resulting difficulties and challenges, e.g. so-called "mission drift", could potentially be better understood by applying exploration-exploitation frameworks to such a setting.

¹²⁸ While top-level managers could not be interviewed in some cases, solid data was gathered on how BoP managers themselves perceive the leadership in the company, and how they discuss it with other staff members of the company in confidential settings.

¹²⁹ For some cases and locations, indirect data, e.g. covering how headquarters managers perceive activities in a subsidiary, could be matched to perspectives of external researchers that had gathered data the subsidiary independently from the current research project. While both approaches have their limitations, the combination allowed to cross-check the validity of insights gained.

focus during the duration of the study,¹³⁰ future case research could benefit from a stronger theoretical framing during the development of the research framework and toolbox (Bruton 2010, George et al. 2012).

Future research on BoP strategy processes could draw on further literatures streams, including theories on perception and cognition (Walsh 1995) for better understanding the relation between social and financial motivations in BoP projects, or practice-based approaches that show how the different justifications are adjusted and negotiated in business situations (Boltanski & Thévenot 2006, Denis et al. 2007). With regards to the impact of partnerships, drawing on theories and tools for network analysis could help to more deeply inquire into the network mechanisms behind boundary-spanning relationships in BoP projects (Pappas & Wooldridge 2007).

8.5 Conclusions

While operating in established markets with stable business models marked by high levels of competition might shift the attention of companies to value appropriation, bringing business principles to nascent markets, where competitors are non-existing or undefined, can help to shift back the focus to the value creation embedded in the original business model (Bowman & Ambrosini 2000) – in our case, providing social security to clients in an efficient and effective way that ensures that these are willing to pay the respective insurance premiums. Paradoxically, re-discovering the purpose of business in such a way requires dealing with the ambiguity created by the absence of market institutions normally taken for granted – customers that do not perceive themselves as customers, for example – and accommodating such ambiguity in existing structures focused on clarity, stability and control.

While this study is not the first that aims to bring traditional management and organisational learning research methods and theories to the emerging field of business engagement in low-income markets (London & Hart 2004, Sánchez et al. 2006, Seelos & Mair 2007, Webb et al. 2009a), it hopefully contributes to make organisational learning theories more relevant for understanding business exploration in these nascent markets (Bruton 2010, George et al. 2012, Ricart et al. 2004).

¹³⁰ For example, while the pre-study had a more specific focus on middle managers, this was later widened to the exploration-exploitation perspective.

Understanding how businesses, and individual managers, master operational and strategic challenges in such a difficult environment can also improve mainstream business processes – last but not least, by highlighting the long overlooked potential to mobilise business and entrepreneurial principles to solve societal and environmental challenges.

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APPENDICES

Appendix 1: List of partner organisations

- **Code:** This is a code term used to refer to the respective organisation to maintain the anonymity of the respective organisations
- **Dependency:** This shows relationships between the different partners.
- **Company A / Company Z:** This columns shows how the respective partner related to the two focal companies.
- **Paper:** This column shows which partnership relations are covered in the three papers (*I-III*). The codes provided refer to the case code used in the respective papers. Minor contributions are marked in brackets (Example: The partnership with DevCoop1 has been included with a major role as case *A1* in *Paper III*, and with a minor role in the case MULTI-CHANNEL in *Paper I*).

Code	Description	Scope	Head- quarters	Depen- dencies	Company A	Company Z	Paper		
							I	II	III
<i>DevCoop1</i>	Development cooperation agency, dedicated public-private-partnership programme, field offices in a broad range of countries (including <i>Asia1</i> , <i>Asia2</i> , <i>Asia4</i> , <i>LatAm1</i>)	Global	Home country of <i>Company A</i>		Long-standing partnership involving market studies in several countries, attempts at distribution channel brokerage. Revived during observation period.	Discussions on collaboration in <i>Asia4</i> , no tangible results	(MULTI-CHANNE L)		A1
<i>DevCoop2</i>	Development cooperation agency	Global	Home country of <i>Company Z</i>	<i>DevCoop3</i> : Partner	–	Long-standing tri-partite partnership with <i>DevCoop3</i> , regular meetings, various publications and event collaborations			Z1

Appendices

<i>DevCoop3</i>	Global development agency, focused on labour rights and social protection, strong microinsurance activities	Global	Home country of <i>Company Z</i>	<i>DevCoop2: Partner Foundation 1: Funder</i>		Part of tri-partite partnership with <i>DevCoop2</i>			Z1
<i>DevCoop4</i>	Global development bank	Global	Other	–	Discussions on partnership on novel distribution channel (linked to Conditional Cash Transfer programmes)	–			
<i>DevCoop5</i>	Business-driven development foundation	Global	Home country of <i>Company Z</i>	<i>Bank1, Academic1 : Project partnership</i>	–	Partnership for local innovation project (sales over mobile phones) with <i>Bank1</i>		Z-High	Z3
<i>Global-NGO1</i>	Global NGO, humanitarian focus, increasing focus on business partnerships	Global	Other	<i>Local-NGO1: Part of same global organisation</i>	Partner in long-term project to develop and distribute combined product in <i>Asia1</i> , key contact for headquarter of <i>Company A</i>	–	NGO-IMPLE	A-High	A2
<i>Global-NGO2</i>	Global NGO focused on microfinance issues, business relation with commercial actors	Global	Country with <i>Company A's</i> headquarter for <i>Region A</i>	<i>MF12: Client</i>	Long-term partner as a broker and technical advisor for a range of BoP accounts in several countries (including <i>MF12</i> in <i>Africa1</i>)	–	MFI-BROKER		
<i>Global-NGO3</i>	Global NGO focused on microfinance issues, member-based structure, focused on women empowerment	Global	Other	<i>MF13: Member</i>	Discussions on partnership opportunities, and relation between <i>Company A's</i> subsidiary and <i>Global-NGO3's</i> member <i>MF13</i> (both in <i>LatAm1</i>)	Partnership to develop and distribute innovative product (health insurance) in <i>Mena1</i>	(MFI-LOCAL)		Z2

Stories of Microinsurance: Strategy Processes for the Base of the Pyramid in Multinational Companies and Their Network

<i>Global-NGO4</i>	Small, start-up NGO, develops niche microinsurance products	Global	Home country of <i>Company Z</i>	–	Discussions on partnership opportunity, without tangible results	–			
<i>Global-NGO5</i>	Global NGO, strong humanitarian focus, network of local partners	Global	Home country of <i>Company A</i>	–	Discussion on distribution partnership in <i>Asia2</i> , for proposal submitted to <i>Foundation2</i>	–			
<i>Local-NGO1</i>	Local NGO, strong humanitarian focus, good relations to implementation partners on the ground	National	<i>Asia1</i>	<i>Global-NGO1</i> : Part of same global organisation	Local implementing body for partnership between <i>Company A</i> and <i>Global-NGO1</i>	–	NGO-IMPLE	A-High	A2
<i>Local-NGO2</i>	Local network of informal savings and mutual insurance clubs, in <i>Africa1</i>	National	<i>Africa4</i>	<i>MF15</i> : Project partners	–	Partnership for development of bundled microinsurance offer			
<i>FieldNGOs</i>	NGOs operating local self-help-groups in remote rural villages	National	<i>Asia1</i>	<i>Local-NGO1</i> : Project partners	Final distribution channel for products from <i>Company A</i> , main contact through <i>Local-NGO1</i>	–			
<i>Foundation1</i>	Large foundation working on humanitarian issues, funds microinsurance issues (including work by <i>DevCoop3</i>)	Global	Other	<i>DevCoop3</i> : Receives funding	Applied through contest for project in <i>Asia2</i>	Long-standing relationship, regularly discuss funding and relationship to <i>DevCoop3</i>			Z1
<i>Foundation2</i>	Large, established foundation working on development issues	Global	Other	–	–	–			
<i>MF11</i>	Start-up, strongly growing, aggressive microfinance institution	National	<i>Asia1</i>	–	Partnership for developing and distributing savings insurance	–	MULTI-CHANNEL		

Appendices

<i>MFI2</i>	Local relief and microfinance institution, backed by global, religious charitable organisation	National	<i>Africa1</i>	<i>Global-NGO2: Business relation</i>	Distribution relationship brokered by <i>Global-NGO2</i>	–	MFI-Broker	
<i>MFI3</i>	Local microfinance institution, acquired bank license during observation period	National	<i>LatAm1</i>	<i>Global-NGO3: Member</i>	Distribution partnership for credit-life and voluntary life product, lost after acquiring bank license	–	MFI-LOCAL	A-Low
<i>MFI4</i>	Local microfinance institution, country leader	National	<i>LatAm4</i>		–	Distribution partnership for relatively standardised product		
<i>MFI5</i>	Local financial institution, consumer- and microfinance	National	<i>Africa4</i>	<i>Local-NGO2: Project partners</i>	–	Part of project discussions in <i>Africa4</i>		
<i>MFI6</i>	Local microfinance institution	National	<i>Asia1</i>	–	Early (compliance-driven) microinsurance product	–		
<i>MFI7</i>	Local microfinance institution	National	<i>LatAm3</i>	–	–	Distribution partnership for relatively standardised product		Z-Low
<i>MFI8</i>	Local microfinance institution	National	<i>Asia2</i>	–	Discussion on project partnership	–		
<i>MFI9</i>	Local microfinance institution	National	<i>Mena1</i>	<i>Global-NGO3: Member</i>				
<i>Bank1</i>	Local mobile bank, focusing on BoP clients	National	<i>Africa4</i>	<i>DevCoop5, Academic1 : Project partnership</i>	–	Partnership for local innovation project (sales over mobile phones), financial support from <i>DevCoop5</i> , technical support from <i>Academic1</i>		Z-High Z3

Stories of Microinsurance: Strategy Processes for the Base of the Pyramid in Multinational Companies and Their Network

<i>Bank2</i>	Large retail bank, country-wide outreach, had recently set up microcredit programme	National	<i>Asia4</i>	<i>DevCoop1</i> : Project partners in microcredit project	–	Repeated contact and discussions, brokered through <i>DevCoop1</i>
<i>Broker1</i>	Local insurance broker with a strong network in the city where <i>MFI3</i> was headquartered.	National	<i>LatAm1</i>	–	Administered life insurance product sold through <i>MFI3</i> in <i>LatAm1</i>	
<i>Front1</i>	Local insurance company	National	<i>Mena1</i>	<i>Company Z</i> : fronting agreement	–	Serves as a 'regulated' insurance company towards local regulators for project implemented in <i>Mena1</i>
<i>Retail1</i>	Multinational retailer, with strong subsidiaries	National	<i>LatAm1</i>	–	Established distribution partnership for standard product in <i>LatAm1</i>	–
<i>Retail2</i>	Leading local retail group, store concepts from high- to low-end consumer groups	National	<i>Africa4</i>	–	–	Discussion on distribution partnership in <i>Africa4</i>
<i>MNC1</i>	Leading multinational construction materials company, involved in several low-income projects on a CSR basis	Global	Home country of <i>Company Z</i>	–	–	Active distribution of innovative (housing) insurance coupled to <i>MNC1</i> 's low housing project in <i>Asia2</i>
<i>MNC2</i>	Leading food company, CSR activities in global supply chains for smallholder farmers	Global	Home country of <i>Company Z</i>	–	–	Discussion on innovative agricultural microinsurance, without tangible result during observation period
<i>ReInsure1</i>	Subsidiary of global resinsurance company	National	Home country of <i>Company A</i>	–	–	Provides re-insurance backup in <i>Africa4</i>

Appendices

<i>Reinsure2</i>	Global reinsurance broker	Global	Other	–	Provides expertise for re-pricing discussions between <i>Company A</i> and <i>Global-NGO1</i> / <i>Local-NGO1</i> in <i>Asia1</i>	–	(NGO-IMPLE)	(A-High)	(A2)
<i>Reg1</i>	Regulatory body in large emerging country market	National	Asia4	–	–	Repeated discussions, brokered by <i>DevCoop1</i>			
<i>Academic 1</i>	Think-tank on insurance and technology, run as partnership by major business school and technical university	Global	Home country of <i>Company Z</i>	<i>Bank1</i> , <i>DevCoop5</i> : Project partner	–	Provision of technical support for project in <i>Africa4</i>		Z-High	Z3
<i>Consult1</i>	Independent microinsurance consultant	Global	Other	–	Knowledge support through consulting arrangement during partnership with <i>DevCoop1</i>	Knowledge support through consulting arrangement during partnership with <i>Global-NGO3</i>			(A1)
<i>Consult2</i>	Independent microinsurance consultant	Global	Home country of <i>Company A</i>	Former employee of <i>DevCoop1</i>	Knowledge support through consulting arrangement during partnership with <i>DevCoop1</i>	–			(A1)
<i>Consult3</i>	Independent BoP consultancy	Global	Home country of <i>Company A</i>	–	Commissioned as consultants for report on <i>Company A</i> 's BoP strategy	–			
<i>Consult4</i>	Independent microinsurance consultancy	Global	<i>Asia1</i>	–	Provided social impact evaluation of partnership with <i>Global-NGO1</i> and <i>Local-NGO1</i>	–	(NGO-IMPLE)	(A-High)	(A2)
<i>Consult5</i>	Independent microinsurance consultant	Regional	Country with <i>Company A</i> 's headquarter for <i>Region A</i>	–	Provides expertise for activities in <i>Region A</i> on a consulting basis	–			

Consult6	Local advisory, focused on training and marketing programmes	National	Africa4	-	-	Provides training support for field agents of Bank1	Z- High	Z3
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Appendix 2: Open and closed questionnaire

Open Interview (English, internal)

Open interview with “trigger” questions, only four questions as a starter (and backup questions to get deeper). Opportunity to answer in depth to the various question and “tell the story as you have seen it”.

Ask for permission on taping

Interview questions (*italic: follow-up notes*):

1. How would you describe your role at Company?

Current responsibilities and tasks, embedding in organisation, history, how did this role develop, inconsistencies in role description, contacts to lower and upper middle management, personal history, expectations about future role at company.

2. How did microinsurance develop at Company?

When and how did it start? Who gave the impulse? Within the company / external partner? Which resources were committed? Where did they come from? Where did meetings and operations happen?

3. Who was involved in these developments, and what did they do?

How were other parts of the company involved? Departments? Subsidiaries? Which role did managers on different levels play (lower, upper, middle)? Who can take decisions on which aspects? How does information flow?

4. Which external partners were involved in these developments, and how would you describe their roles?

How were other parts of the company involved? Departments? Subsidiaries? Who was in touch with these external parties?

Option: Focus on specific product lines (endowment) or upcoming channels (mobile).

Next steps would include (optional):

1. Ask for further interview partners based on results of this first interview
2. Material related to interview (data, MoUs)
3. New interview dates for follow-up interview.

Closed interview (single relationships of the focal organisation)

Contacts	To which other persons do you have contact (outside the company)? To which other organisations do you have contact?
Relationship Dynamics	Where did the relationship come from? How did it start? What were the initial reasons for the relationship (purely professional, personal...)
Resource flows and goals	What exchanges should be realised through these relation? What is exchanged in reality? What shall partners contribute in the relationship? Which goals (joint and individually) should be achieved? Describe the important phases in the development of the relationship. Did the nature of the relationship change over time? How? Did the importance of the relationship change over time? How? Did the reasons for having the relationship change over time? How?
Processes / Mechanisms	How does the relationship work? How do partners communicate? (how often? On which topics? Which medium? Standardised?) How formal is the relationship? Is there a written contract / standard operating procedure? How do partners know what they should do? How do partners deal with conflicts?
Importance	How important is the relationship? Could it easily be replaced by another? Which concrete benefits does the relationship deliver (directly and indirectly)? Does the relationship contribute to help you achieve your current entrepreneurial and / or strategic goals? Does it contribute to the success / innovation / growth at Allianz?

Relation to strategic context	<p>What is your personal or professional interest in the relationship? How do other actors in your company judge the relationship? What internal processes or decisions is the relationship important for? Specifically, is the relationship important for Synthesising, gathering and channelling information to top management? Championing existing activities as for decision making / resource commitment to top management? Facilitating existing initiatives at lower levels? Implementing existing decisions, revising and adjusting these in the process? How would internal strategy processes be different without having the relation?</p>
Relationship demand & forecast	<p>How would this relationship look like ideally? How do you want this relationship to develop? (in 1, 3, 10 years) How do you expect the relationship to develop? (in 1,3, 10 years) Which activities do you implement to change the relationship?</p>
Dangers	<p>Did you see dangers or drawbacks in the relationship?</p>

Open Interview (English, external)

Open interview with “trigger” questions, only four questions as a starter (and backup questions to get deeper). Opportunity to answer in depth to the various question and “tell the story as you have seen it”. Preparation for next round of structured interviews. Tape.

Interview questions:

1. How would you describe your role at *Partner*?

Current responsibilities and tasks, embedding in organisation

History, how did this role develop

Contacts to lower and upper middle management

Expectations about future role at Partner

2. How did your microinsurance projects with *Company* develop?

When and how did it start? Who gave the impulse? Within the company / external partner?

Which resources were committed? Where did they come from?

Where did meetings and operations happen?

3. Who was involved in this relation with *Company*, and what did they do?

*How were other parts of Partner/Company involved? Departments?
Subsidiaries?*

Which role did managers on different levels play (lower, upper, middle)?

Who can take decisions on which aspects? How does information flow?

Who was involved in this relation at Company, and what did they do?

**4. How were other parts of Partner/Company involved? Departments?
Subsidiaries?**

Which role did managers on different levels play (lower, upper, middle)?

Who can take decisions on which aspects? How does information flow?

Appendix 3: The evolution of the BoP literature

Whether a “BoP theory” – i.e. “a story about why acts, events, structure, and thoughts occur” (Sutton & Staw 1995: 378) – exists, and how strongly it is developed, has been the subject of repeated reviews and stock-takings of the field (Ricart et al. 2004, Walsh et al. 2005, Bruton 2010, George et al. 2012). While BoP discussions have developed over the years, the latest reviews still echo early assessments (Ricart et al. 2004) about the lack of substantial theory on key issues in the BoP and inclusive business field:

“neither the phenomenon of inclusive growth nor existing theory in our field regarding equitable innovation and entrepreneurship is as developed as we had initially believed. [...]. The field is in a state of infancy [...]” (George et al. 2012).

To understand the evolution of the BoP literature, it makes sense to sketch the development of ‘BoP theory’ as a dynamic, social process comprising the development of frameworks and models, the related gathering of empirical data (both qualitative and quantitative) and the institutional development of the field (Weick 1974, 1995). For this purpose, the available literature has been divided in different categories with varying levels of ambition in developing “abstract, general” theory, showing the evolution of the field over time.

Year	Books and reports	Practitioner Journals / Newspaper (selected)	Specialist journals (CSR, Business Ethics)	Management Journals (peer-reviewed)	Economics Journals (peer-reviewed)
2000	Heierli				
2002	–	Dawar & Chattopadhyay (LRP) Hart & Christensen (Sloan) Prahalad & Hammond (HBR) Prahald & Hart (s+b)	Prahalad (RSoLJ)	–	Schulpen & Gibbon (WD)
2003	Yunus	Letelier, Flores & Spinosa (CMR)	–	–	–
2004	Prahalad WBCSD	D’Andrea, Stengel & Goebel-Krstelj (s+b) Hart & Sharma (AME)	–	Ricart et al. (JIBS) London & Hart (JIBS)	Fisman & Khanna (WD)

Appendices

Year	Books and reports	Practitioner Journals / Newspaper (selected)	Specialist journals (CSR, Business Ethics)	Management Journals (peer-reviewed)	Economics Journals (peer-reviewed)
2005	Hart	Jenkins (IA) Seelos & Mair (Business Horizons)	Hart & London (SSIR)	Arnould & Mohr (JCM) Walsh, Kress & Beyerchen (SMJ)	–
2006	Jain & Vachani (Ed.) Lodge & Wilson Wilson & Wilson	Chesbrough, Ahern, Finn & Guerraz (CMR) Simanis & Hart (Innovations)	Kirchgeorg & Winn (BSE) Gardetti (GMI, special issue) Marter-Kenyon (GMI, special issue) Sánchez et al. (GMI, special issue)	Sridharan & Viswanathan (JCM)	Kolk & van Tulder (WD)
2007	Collier Hammond, Kramer, Katz, Tran & Walker Rangan, , Quelch, Herrero & Barton (Ed.) Rosa & Viswanathan (Ed.)	Anderson & Bilou (JBS) Anderson & Markides (Sloan) Karnani 2007a (CMR) Mair & Marti (CG)	Blowfield (BSR) Danse (GMI) Boyle & Boguslaw (JCC) Kandachar & Halme (GMI)	Karnani 2007b (SMJ) Seelos & Mair (AMP)	Banerjee & Duflo (JEP)
2008	KPMG UNDP Kandachar & Halme (Ed) Polak	Akula (HBR) Seelos (FT) Warnholz (HBR) Viswanathan, Rosa & Ruth (WSJ)	Hahn (JBE)	Ireland (JCM) Nielsen & Samia (JCM)	Banerjee & Duflo (JEP) Mendoza, R.U., and N. Thelen (DPR)
2009		London (HRB) Olsen & Boxenbaum (CMR)	Karnani (SSIR) Reficco & Márquez (B&S)	London, Anupindi & Sheth (JBR) Webb, Tihanyi, Ireland & Sirmon (AMR) Webb, Kistruck, Ireland & Ketchen (ETP)	Roy (WD)
2010		Anderson, Kupp & Vandermerwe (BSR) Dahan, Doh, Oetzel & Yaziji (LRP) Thompson & McMillan (LRP) Yunus, Moingeon & Lehmann-Ortega (LRP)	Gradl, Krämer & Amadigi (GMI)	Abdelnour & Branzei (JBR) Bruton (AMP) Elaydi & Harrison (JBR) Khavul (AMP) Kistruck & Beamish (ETP) Rivera-Santos & Rufin (IBR)	

Stories of Microinsurance: Strategy Processes for the
Base of the Pyramid in Multinational Companies and Their Network

Year	Books and reports	Practitioner Journals / Newspaper (selected)	Specialist journals (CSR, Business Ethics)	Management Journals (peer-reviewed)	Economics Journals (peer-reviewed)
2011	Gradl & Jenkins	Govindarajan & Ramamurti (GSJ)		Hart & Dowell (JoM) Kistruck, Webb, Sutter & Ireland (ETP)	
2012		–	Hahn (BEER) McKague & Tinsley (SEJ)	Ansari, Munir & Gregg Galema, R., Lensink, R. and Mersland George, McGahan & Prabhu Halme, Lindemann & Linna Hall, Matos, Sheehan & Silvestre (all JMS, special issue) Rivera-Santos, Rufin & Kolk (JBR)	–
2013		Bruton et al. (JBV)	Vock, Van Dolen & Kolk (B&S)	Kistruck, Beamish, Qureshi & Sutter (JMS)	–

Year	Books and reports	Practitioner Journals / Newspaper (selected)	Specialist journals (CSR, Business Ethics)	Management Journals (peer-reviewed)	Economics Journals (peer-reviewed)
		<i>BSR: Business Strategy Review</i>	<i>BEER: Business Ethics: A European Review</i>	<i>AME: Academy of Management Executive (now AMP)</i>	<i>DPR: Development Policy Review</i>
		<i>CG: Corporate Governance</i>	<i>B&S: Business and Society</i>	<i>AMP: Academy of Management Perspective (was AME)</i>	<i>JEP: Journal of Economic Perspectives</i>
		<i>CMR: California Management Review</i>	<i>BSE: Business Strategy and the Environment</i>	<i>AMR: Academy of Management Review</i>	<i>WD: World Development</i>
		<i>IA: International Affairs</i>	<i>GMI: Greener Management International</i>	<i>ETP: Entrepreneurship Theory & Practice</i>	
		<i>JBS: Journal of Business Strategy</i>	<i>JBE: Journal of Business Ethics</i>	<i>IBR: International Business Review</i>	
		<i>JBV: Journal of Business Venturing</i>	<i>RSoLJ: Reflections: The SoL Journal</i>	<i>JBR: Journal of Business Research</i>	
		<i>LRP: Long Range Planning</i>	<i>SEJ: Social Enterprise Journal</i>	<i>JCM: Journal of Consumer Marketing</i>	
		<i>s+b: strategy + business</i>	<i>SSIR: Stanford Social Innovation Review</i>	<i>JIBS: Journal of International Business Studies</i>	
		<i>Sloan: Sloan Management Review</i>	<i>JCC: Journal of Corporate Citizenship</i>	<i>JMS: Journal of Management Studies</i>	
		<i>WSJ: Wall Street Journal</i>		<i>SMJ: Strategic Management Journal</i>	

Table 38: Major BoP contributions according to publication type (own compilation)

A first phase, till about 2003, has been marked by “paradigmatic” contributions, mainly in forms of books or practitioner-oriented articles (Prahalad & Hammond 2002, Parahalad & Hart 2002, Prahalad 2004). Definitions of the BoP target market and descriptions of the market environment featured strongly in these publications, together with first models for business models in these markets. These contributions relied on case studies, mainly used as illustrations, with varying degrees of validity (Karnani 2007a) and developed own, sui-generis models and frameworks without a strong connection to previous management research – sometimes in open opposition (Walsh et al. 2005). Still, these studies have raised the awareness on the linkages between business and poverty (Bruton 2010), inspired companies to explore the segment through new initiatives and established the legitimacy of BoP strategies as a

field of academic study (Walsh et al. 2005)¹³¹. Only one BoP article appeared in peer-review management journals in this period (London & Hart 2002), apart from discussions of BoP as a research trend in international business (Ricart et al. 2004) or book reviews (Walsh et al. 2005).

A second phase was dominated by political studies or “grey papers” (WBCSD, UNDP 2008) and edited books (Kandachar & Halme 2008) that collected and discussed case studies on BoP businesses and developed first, more practitioner-oriented, models. This period also sees BoP studies appearing in specialised academic journals on business ethics or sustainability (Kirchgeorg & Winn 2006, Sanchet et al. 2006, Blowfield 2007, Boyle & Boguslaw 2007, Hahn 2008) that take up certain sub-issues of BoP, as well as further practitioner-oriented articles that provide illustrative cases and first models to understand “success factors” for BoP business. This second phase featured a stronger emphasis on BoP business models, than on the definition and description of BoP markets, together with first critical perspectives on the viability of BoP business strategies (in particular, Karnani 2007a, 2007b, 2009).

Only recently, in a ‘third phase’ of the BoP literature, have the discussions on business and poverty appeared into peer-reviewed journals (Chesbrough et al. 2006, Seelos & Mair 2007, London et al. 2008), and, later, in higher-ranked management and strategy journals (Webb et al. 2009a, 2009b, Kistruck & Beamish 2010, Kistruck et al. 2011, Ansari et al. 2012, George et al. 2012, Halme et al. 2012, Kistruck et al. 2013). This period sees a stronger connection to established theories in the management field (Bruton 2010) – like the Resource-Based-View (Seelos & Mair 2007) or the entrepreneurship literature (Webb et al. 2009a, Halme et al. 2012).

In summary, the BoP literature evolved from an early, promotional phase, focus on markets, that established the field as such (Walsh et al. 2005 on Prahalad 2004), over more empirically and practitioner-oriented publications to its current state – with the individual contributions leading up “towards a theoretical framework” (George et al. 2012) to capture the underlying mechanisms between business and poverty.

¹³¹ Following Kuhn (1962), the type of empirical data used in theory building is not ‘a-theoretical’, but depends on the ‘lenses’ set by the currently dominant paradigm due to cognitive, political and career reasons.

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- Since 2011 Socialbar Köln, Founder, Moderator and Organiser
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