

# The Bottom Up Development Perspective in the Innovation Process of Base of the Pyramid Ventures Evidence from Companies in Latin America & the Caribbean<sup>1</sup>

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## Abstract

The first years of the Base of the Pyramid (BoP) debate were mainly about selling products and services to a huge untapped market. These ‘fortune-finding’ approaches are now described as ‘business *to* four billion’. New tendencies frame the value proposition as ‘business *with* four billion’ and are considered ‘fortune-creating’ (London/Hart 2010). The goal of so-called BoP 2.0 strategies is to co-create new business models, products and services together with the target group. Integrating the BoP into the innovation process is seen as way to improve not only the impact on poverty alleviation, but also the success on the company side. Development researchers made this paradigm shift a while ago where poor people are not viewed anymore as the target of poverty reduction efforts but as assets and partners in development processes. Bottom up development approaches emphasize the role of the poor and see them as central to design and implementation. Based on three in-depth case studies and 8 companies participating in a survey, this paper examines the applicability of the different elements in bottom up development literature in the innovation process of BoP ventures in Latin America and the Caribbean.

**Keywords:** Base of the Pyramid; BoP 2.0; innovation; bottom up development; Latin America

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“It is important that the owner of the company and managers who want to make a project with us are visiting the community. This doesn’t mean that they have to become like us.”

David Gomez, Community Leader Siloé, Cali, Colombia

## Introduction

The concept of serving the Base of the Pyramid (BoP) seeks to see the people living in poverty as a market whereas companies develop services, products and business models, which are appropriate for the poor’s resources and needs. One important factor for succeeding in finding new strategies for the BoP is engaging the target group itself in the innovation process. This means that the poor are not only seen as (potential) customers, but play a more important role in the whole business model. So-called BoP 2.0 strategies bring the companies and the target group closer together (e.g. Simanis/Hart 2009, London/Hart 2010). Development researchers made this paradigm-shift around 30 years ago. Also here, the poor are seen as vital partners in the development process instead of the target in poverty reduction efforts. Different approaches that can be summarized under the term ‘Bottom Up Development’ figure in this research area. More responsibility is given to local partners in the developing/emerging countries and institutions/organizations in the developed world figure more frequently (“only”) as enablers and facilitators.

Following the parallel development in the BoP and development research, there is reason to assume that BoP research can benefit from knowledge provided by bottom up development literature. The fundamental assumption is that a bottom up perspective in BoP ventures leads to better results for development and corporate goals, as the poor are an important link in the process. Hence, learning from bottom up development approaches can help companies to engage with the new partners at the BoP. A qualitative empirical study was used to examine the applicability of knowledge derived from a bottom up development perspective in the innovation process of BoP ventures. In pursuing questions about *why* (drivers), *when* (circumstances) and *how* (success factors) a bottom up perspective in BoP ventures is applied, this study first outlines the theoretical foundations and research gaps in BoP 2.0 literature. Next, the research design and methods for the study are described; this is then followed by a presentation of the results that are summarized and visualized in a framework. Conclusions and reflections on further research complete the paper.

## **Innovation with the Base of the Pyramid**

Innovation is the process of turning an invention into an actual product (Schumpeter 1934). To be innovative in developing and emerging markets, companies must adapt to an environment where social, and not legal, contracts dominate (De Soto 2000). This extends far beyond the idea of adapting existing solutions to local conditions (London/Hart 2004). Successful strategies, which really serve the needs of the poor, co-design products and services from the bottom up with local partners who understand what set of functionalities are most important to BoP customers (London/Hart 2004, Mendoza/Thelen 2008).

BoP 2.0 strategies start with the integration of the poor as individuals. ‘Consumer-integration’ is considered a key component of success of any BoP venture (London/Hart 2004). The role of the consumer has changed from isolated to connected, from unaware to informed, and from passive to active (Prahalad/Ramaswamy 2004). Consumer integration is of more value than conventional methods, especially when the local knowledge resources are important to the firm and quantitative data is not available (Krämer/Belz 2008). Another possibility is to partner with businesses and local entrepreneurs that are already established in BoP markets, as well as with local NGOs and community groups.

In both cases, companies become engaged with ‘fringe stakeholders’ that had previously been ignored, and are disconnected from, or invisible to, the firm (Hart 2007, Hart/Sharma 2004). Generating knowledge through fringe stakeholders requires that companies develop a capability to tap into new types of knowledge to meet the unique challenges in the new contexts (Sharma/Hart 2006). This is only possible by ‘deep listening’ to the ‘voices of the poor’. In this context, Hart (2007) argues for ‘radical transactiveness’ whereas *radical* refers to the ability to engage with fringe stakeholders possessing radically different views and *transactiveness* means entering into a two-way-dialogue.

The poor are truly seen as equal partners in the innovation process when following ‘co-creation’. It includes working together with people living in poverty in an equal partnership to innovate and provide sustainable win-win scenarios in which the poor are actively involved and committed (London/Hart 2004, Gardetti/D’Andrea 2010).

To view the poor as partners and colleagues rather than as clients and consumers requires the development of ‘native capability’, which means learning to engage extensively with the local people on their terms in a “true spirit of mutuality” (Hart 2007). Native capability can enable companies to become truly embedded in the local context (Sánchez/Ricard/Rodríguez 2007). Recently, Simanis/Hart (2009) elaborated on the

‘embedded innovation paradigm’ in which companies and communities can jointly build a new, shared identity and which builds on the potential of the poor. In this concept, innovation is not enabled by new relationships; innovation is the relationship.

### **Gaps in existing BoP 2.0 literature**

Innovation processes for the BoP should integrate the poor to the point at which companies become embedded in the communities and the process becomes driven from the ‘bottom up’. Extracts from so called ‘bottom up development approaches’, where the poor are the center of projects and processes, are indeed mentioned several times in the literature on serving the BoP, especially concerning methods of doing so. Hart (2007), for example, states that companies interested in serving the BoP can learn a lot from techniques such as ‘participatory rural appraisal’ (PRA) (Chambers 1983 and 1997), rapid assessment processes (Beebe 2001), and quick ethnography (Handwerker 2001) as they open up valuable ways to hear the marginalized voices of the poor. Key principles, techniques, and methods of the BoP Protocol (Simanis/Hart 2008) have been adapted from the fields of PRA and ‘asset based community development’ (e.g. Kretzmann/McKnight 1993). ‘Immersion’, as suggested in the BoP Protocol (Simanis/Hart 2008) has its origins in anthropological research and development practice. Gardetti/D’Andrea (2010) consider bottom up development as a fundament of the BoP concept. Local knowledge plays an important role. London (2007) uses the principle of co-creation as a differentiation criterion of the BoP approach compared to traditional poverty alleviation programs<sup>3</sup>, which are “designed and managed by professionals trained in the developed world”.

It might be true that traditional poverty alleviation programs still use top down approaches in *practice* but the development *literature* continuously suggests a bottom up approach. Development literature gives a more profound picture of what ‘bottom up’ means than the BoP literature does. The consideration of bottom up development research in BoP literature seems random, and a comprehensive study that examines BoP ventures under the perspective of bottom up development approaches is not available. Which of the vast knowledge provided by bottom up development literature can be applied in BoP 2.0 ventures is the content of the next parts.

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<sup>3</sup> Programs of governments, international organizations or NGOs

## **The bottom up development perspective**

The basic premise of bottom up development is that the poor have to be the key actors in planning and implementing their own development (Binswanger 2004). A basic assumption made is that if the poor are central to design and implementation of the development process, they are more responsive (Marsden 1994a). Bottom up approaches emphasize the role of local people. There is a shift from national to local level and from authorities to citizens (Martinussen 1997).

There is no shortage in approaches mentioned for a bottom up perspective in development. This is due to influences from different disciplines, different think tanks, governments and NGOs (Ellis/Biggs 2001). No structured overview exists, not even in single disciplines. Nevertheless, some predominant approaches are evident in bottom up literature<sup>4</sup>.

‘Community based development’ is an umbrella term for projects that actively include beneficiaries (the poor) in their design and management, so that they can participate. The concept of ‘community driven development’ (CDD) refers to community based development projects in which communities have direct control over key project decisions (Mansuri/Rao 2004). The objective of CDD is to reverse power relations in a manner that creates agency and a voice for the poor, allowing them to gain more control over development assistance.

The concept of ‘participation’ mostly relates to the involvement of people in externally initiated and facilitated development interventions (Simanowitz 1997). The key objective is the incorporation of local knowledge into the project’s decision-making processes (Mansuri/Rao 2004).

‘Asset based community development’ (ABCD) arises from criticism about need-based approaches where the needs and problems of the poor are focused in order to attract resources (Kretzmann/McKnight 1993). ABCD in turn takes as its starting point the existing assets and strengths of a community (Mathie/Cunningham 2003).

‘Empowerment’ places the emphasis on autonomy in the decision-making of territorially organized communities, local self-reliance (but not autarchy), direct (participatory) democracy, and experiential social learning (Friedmann 1992).

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<sup>4</sup> Depending on the author, the terms are used as approach or as part of an approach (term). There are many more development approaches that claim to be “bottom up”, but to keep it from becoming too complex, only the most important ones are described.

‘Local knowledge’ is unique to a particular culture and society, it is embedded in community practices, institutions, relationships and rituals, and the basis for local decision-making (World Bank 1998). Instead of seeing western knowledge as superior, the validity of local technical knowledge and ability to contribute solutions to the problems confronted is given importance (Antweiler 1996). While in capacity building, knowledge comes from outside and is ‘taught’ to the poor, local knowledge focuses on working with and extracting the knowledge already in place (Simon 1997).

### **Research methods**

The objective was to build empirically validated constructs that help to build theory on applying a bottom up development perspective in the innovation process of BoP ventures. A systematic literature review of bottom up development approaches and the BoP concept resulted in assumptions (‘a priori constructs’) that formed the foundation for the case study research.

In order to empirically investigate the drivers (*why*), the circumstances (*when*) and success factors (*how*) of a bottom up development perspective in BoP ventures, qualitative research was necessary and an explanatory case study research strategy was applied (mainly following Yin 1981 and Eisenhardt 1989). The qualitative approach chosen helps to better describe the applicability of a bottom up development perspective in practice, and it helps to develop the assumptions further into a valuable theory.

Two different types of case studies were used: Three in-depth case studies (intensive cases) and eight less intensive cases, which were included with a questionnaire. ‘Purposive sampling’, in which the sample is based on cases that are appropriate for the study and the process of interest is transparently observable, was used (Pettigrew 1990). Cases needed to target the poor as consumers and integrate the target group into one or more steps of the innovation process (idea generation, product/service development, production, distribution/marketing).

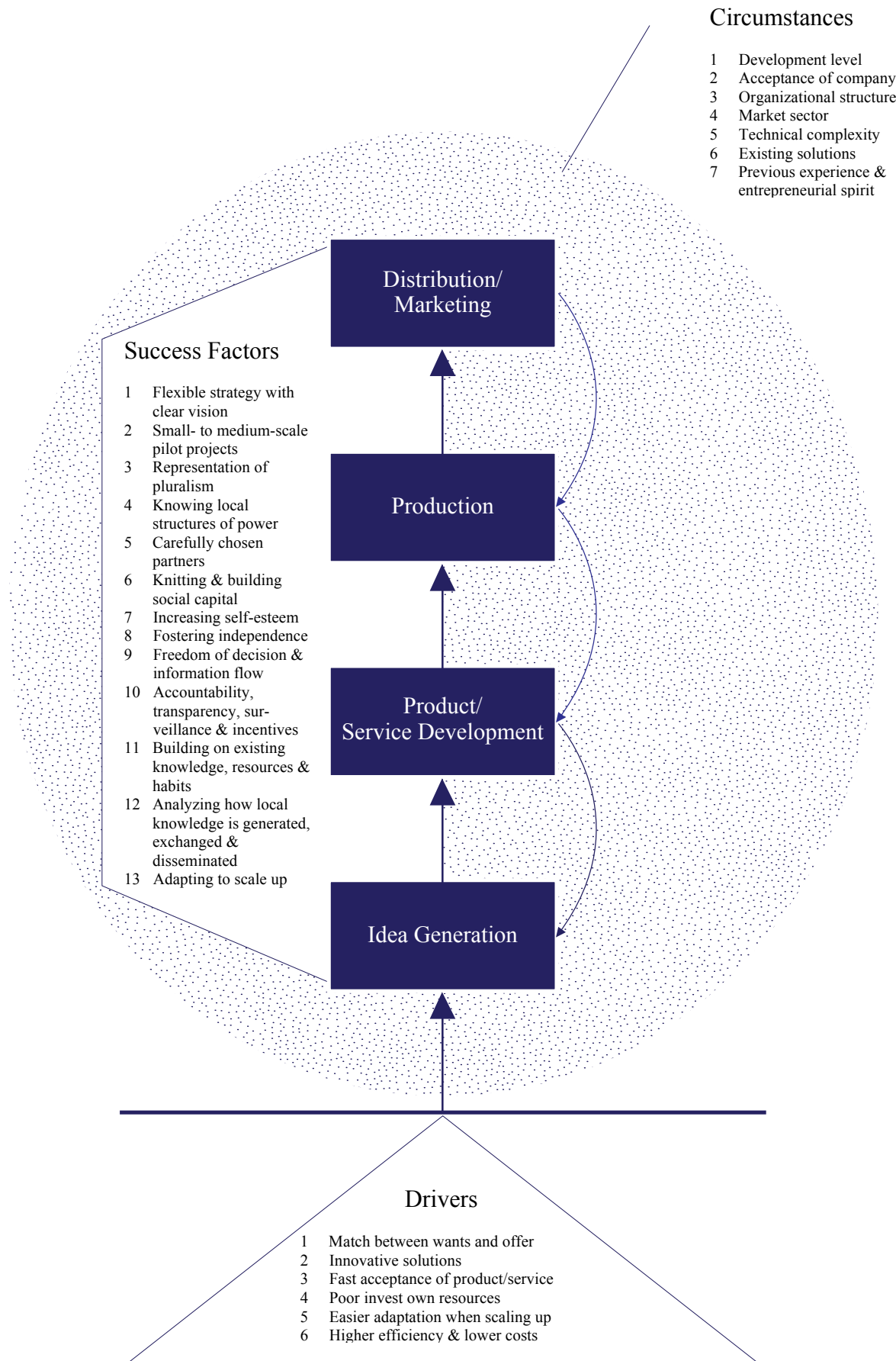
The following table summarizes the cases included in the research:

Company	Countries	Product/service offered to the BoP	Integration of target group
<b>In-depth case studies</b>			
Sucromiles	Colombia	Calcium powder	Idea generation, distribution/marketing
Nestlé	Brasil	Food products and beverages	Idea generation, production, distribution/marketing
BAC   Credomatic	Costa Rica	Micro credits	Distribution/marketing
<b>Questionnaire participants</b>			
Cemex	Mexico, Colombia, Venezuela, Nicaragua, Costa Rica, Dominican Republic	Construction materials and additional services	Idea generation, product development, distribution/marketing
Empresas Públicas de Medellín E.S.P. (EPM)	Colombia	Electricity	Product development, distribution/marketing
Gas Natural Fenosa S.A.	Argentina	Natural gas network	Idea generation, product/service development, distribution/marketing
Holcim Ltd.	Costa Rica, Colombia, El Salvador, Mexico, Nicaragua	Construction material and additional services	Varies depending on project
Mejora-miento Integral Asistido S.A. (MIA)	Mexico	Housing solutions	Production
Siconterra	Mexico	Construction material	Idea generation
Tecnosol S.A.	Nicaragua, El Salvador	Renewable energy products	Distribution/marketing
Tiendas Industriales Asociadas (TIA) S.A.	Ecuador	Small supermarkets	Distribution/marketing

Each stay within the in-depth case contained five phases. About half the time was spent with persons involved in the project from the company, and half of the time was spent with the in the innovation process integrated poor, as well as the customers. Various data collection methods were used simultaneously within each stay at the case study locations ('data-triangulation'). While the in-depth case studies were used to develop preliminary conclusions on possible propositions in a first step, the purpose of the questionnaire was to verify and fine-tune the propositions. The results are twenty-six propositions with evidence from the case studies that can prove the propositions in each case.

## Results

The propositions that were developed in this research are summarized and gathered around the innovation process of BoP ventures in a framework.





In the following sections, the propositions are explained and backed up by evidence from companies participating in the case study research and, where available, existing bottom up development and BoP literature.

### ***Drivers***

#### **DRIVERS to apply a bottom up development perspective in BoP ventures**

- 1) Giving more responsibility to certain individuals from a BoP community during the innovation process fosters the match between what the respective community wants and what it obtains.
- 2) Including the BoP's local knowledge can lead to more innovative solutions.
- 3) Products and services that are developed with the inclusion of the BoP are more accepted by them.
- 4) The people at the BoP are more willing to invest their own resources (especially time, but also other assets) in a project, the more they have control over the process.
- 5) Involving local people in every community/region helps in reaching the adaptation to the local context in the process of scaling up (if an adaptation is required).
- 6) Once the project is established, shifting more responsibility to the BoP leads to higher efficiency and cuts down costs.

Various reasons to choose a bottom up development perspective in BoP ventures could be detected. The cases studied show that giving more responsibility to the target group fosters the match between what the respective communities want and what they obtain. The match between the needs and wants of a community is called 'preference targeting' in bottom up development literature (Dongier et al. 2002, Mansuri/Rao 2004) and causes development to be demand-driven.

Company representatives are convinced that the experiences and local knowledge people at the BoP give an important insight and lead to innovative solutions. Local knowledge is relevant to all bottom up development projects as it begins where people are instead of where others want them to be (Marsden 1994). However, local knowledge is often also instrumentalized and idealized as being more sustainable (Antweiler 1996). BoP literature agrees on the importance of building on knowledge available in poor communities (Hart 2007, London/Hart 2004). Yet, the creative potential of local knowledge for finding more environmentally friendly solutions (as mentioned for example by Prahalad 2006) should not be over estimated.

The case studies show that people who are directly involved in a BoP venture, accept services and products quickly. When positive experiences have been accumulated and the knowledge of the participating poor has come to represent the knowledge of the community as a whole, products and services are much more readily accepted also by others. This is in

line with bottom up development literature (e.g. Antweiler 1996). In BoP literature, acceptability is the degree to which consumers and others in the value chain are willing to consume, distribute or sell a product or service (Anderson/Markides 2007). This research shows that the integration of the target group fosters this acceptance.

The people involved in the projects observed were, to a great majority, very proud of their roles. Because BoP products and services are often not advertised to keep costs low, the involved poor make an effort to introduce them to the market, even if there is no immediate profit. Time as a resource was invested most by the involved poor. The more they have control over the projects, the more they were willing to invest financial resources and other assets. Also research from development projects show that the more control communities have, the more they are willing to make investments (Katz/Sara 1997).

Applying a bottom up development perspective, was also seen as advantages for the process of scaling up a BoP venture. It eases the adaptation to the local context, helps to cut down costs, and fosters the exchange of best practices. In the projects observed, participants are deployed for the multiplication of the project in other communities (e.g. as facilitators or trainers). This is also elaborated in development literature. Cost effectiveness and fiscal sustainability in development projects are best achieved by using and further developing existing local institutions, capacities, and people (Binswanger/Nguyen 2005). Bringing the projects to scale is considered as one of the biggest challenges in the BoP community. Choosing a bottom up development approach may enable companies to reach the adaptation needed when scaling BoP ventures up.

Cutting down the costs is not only an issue in scaling up, but also a reason to apply a bottom up development approach in general. The case studies confirmend, that in certain steps, integrating the poor into the innovation process leads to more efficiency. Transaction costs have to be kept low. This mainly works when BoP ventures have structures that work on their own. But, depending on the knowledge the target group has, and especially at the beginning of a project, the integration of the target group also led to higher costs (e.g. for capacity building). As mentioned above, higher efficiency and lower costs are clearly a reason to choose a bottom up development approach in development literature. In the mid and long term, this also applies for companies.

### *Circumstances*

#### **CIRCUMSTANCES that help or hinder the application of a bottom up development perspective in BoP ventures**

- 1) Applying a bottom up approach in BoP ventures is easier in regions and communities with a certain level of development.
- 2) A high acceptance of the company and its partners by the community is very important when choosing a bottom up approach.
- 3) A decentralized organizational structure of the company makes it easier to use bottom up strategies. A central coordination is important though.
- 4) If the project is in the industry of common pool goods such as infrastructure (e.g. electricity, communication) the whole community should be mobilized and collective community action fostered. If the company is entering the consumer goods market, a selection of individuals and groups can be integrated. Mobilizing the whole community might still be useful in order to fill gaps within lacking or imperfect markets (e.g. knowledge, infrastructure).
- 5) Without capacity building, involving the BoP is a more viable strategy in non-technical activities than in technical activities. Ideas and opinions can also be generated and included for technical activities.
- 6) When established and well-done innovations already exist in communities, companies can try to hook up to them.
- 7) It is easier to use a bottom up approach within market-based solutions in communities that have had good experiences in previous projects with companies, NGOs, the governmental and other organizations, and where the entrepreneurial spirit is awake.

Internal and external circumstances help or hinder the application of a bottom up development perspective in BoP ventures. On one hand, the business models in the cases observed were developed for less developed regions and communities and would therefore not necessarily work in developed areas. On the other hand, a certain level of development is favorable: better streets for example make the distribution process easier, and with more educated people, less training is necessary. For these reasons, rural areas are particularly difficult to serve. This is also the case in development projects. Bottom up approaches are more successful in more developed economies as the broader institutional environment plays an important role (Mansuri/Rao 2004).

Acceptance of a company in the community is very important when choosing a bottom up approach, as mentioned by the case study participants. People need to have had good experiences with the entrants and companies and their brands need to be respected and have a good image. Even when a company does not have an established brand image, the BoP

values if people from their community are employed and treated well. Acceptance can also be gained by integrating the target group in a early stage of the project and by fulfilling promises during the project. Not only the company needs to be accepted by the communities; its partners must also be. These findings are in line with bottom up development literature (e.g. Lal 2002) and BoP literature (e.g. Simanis/Hart 2008).

Case studies show that the more decentralized the company is, the higher is the probability that they come up with BoP projects. However, central coordination is necessary and, depending on the project, there are some limits in terms of economies of scale. Decentralization efforts are the core of bottom up development approaches and crucial to success (e.g. Antweiler 1996). BoP research also suggests decentralized initiatives may make more sense in low-income markets than centralization of control and economies of scale (e.g. Hart 2007).

The bottom up development approach chosen varies depending on the sector the company operates. The experience of companies studied shows that, in a consumer goods market, the integration of a selection of the target group is acceptable. But it can also be seen, that it is sometimes useful to mobilize the whole community in order to fill gaps within missing or imperfect markets (e.g. in terms of knowledge). The projects in the industry of common pool goods (electricity, and to a certain extent construction), however, all have the goal to mobilize as many community members as possible. Collective community action can also be fostered by a selected group of people who are integrated into the project. These findings are in line with bottom up development literature (Dongier et al. 2002). BoP literature does not distinguish between different sectors in terms of integration of the target group.

It does not only depend on the sector what type of approach should be chosen, but also on the technical complexity of the activities. The examples from practice show, that the poor are mostly integrated into activities that do not require much technical knowledge. In all cases where the product or processes were more complex, a relatively high amount of training was necessary for implementing more technical tasks. These findings are in line with bottom up development literature (e.g. Khwaja 2001). Also here, BoP literature does not distinguish between different levels of complexities of the activities.

Companies considered in this research screened existing initiatives. Only few, however, found a suitable initiative to rely on for their own project. If existing innovations can be used, they must be well established and work well. Also bottom up development approaches rely – in the ideal case – on local initiatives (Chambers 1997, Mathie/Cunningham 2002).

Several BoP scholars suggest companies to build on the local existing market environment. Seelos/Mair (2006) recommend, based on their research, that corporations should consider social entrepreneurs already in place and include them in the business models.

Another circumstance that can help or hinder the application of a bottom up development perspective came up in the case studies and is not mentioned in bottom up development and BoP literature. Trust and acceptance of a company and its project do not depend solely on the company and its partners. Acceptance by community members depends heavily on previous experiences the community had with other companies, governmental and non-governmental organizations. Frequently, people were at first hesitant to become active in BoP ventures. People did not believe in their own capacity because they had always received 'top down' development aid<sup>5</sup>. They were used to projects that did not work out, were abandoned or externally appointed 'leaders' just left with all the funds.

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<sup>5</sup> Expressions that described this issue during the case study research: 'personas victimas', 'clientelismo', 'clientes de la pobreza'.

### *Success factors*

#### **SUCCESS FACTORS when choosing a bottom up development perspective in BoP ventures**

- 1) Successful strategies must be flexible in their outcome and adaptable throughout the process. A clear long-term vision is important though.
- 2) If little or no previous experience has been had by the company, projects should start with small to medium-scale pilot projects, and only be scaled up after successful evaluation. The conditions for scaling up must be in place from the beginning.
- 3) It is important that the people involved in the project represent the pluralism in the targeted community.
- 4) For successful projects, the company or its partners must be well aware of the local structures of power.
- 5) Partnering and entering with carefully chosen partners (other companies, NGOs, governmental or other organizations) increases the success of BoP ventures. For implementation, partners have to be local. For financing, they can be non-local.
- 6) To be successful in mostly informal markets, companies have to build, make use of and knit-together existing social capital.
- 7) Ventures have to help increase the self-esteem of the (mostly) stigmatized BoP so that they feel able to participate and play a more important role. Economic autonomy and emotional/personal autonomy are important.
- 8) It has to be made clear from the beginning of a project that the participating poor must become increasingly independent and that external support will decrease over time.
- 9) The involved poor need freedom of decision in defined areas and the company has to assure a steady information flow between all partners involved.
- 10) The more responsibility companies shift to the BoP, the more they have to hold them accountable and the more transparent processes must be. Also, some level of surveillance and incentives (at the beginning external) are necessary.
- 11) Where possible, BoP ventures have to build on the existing knowledge and other resources available.
- 12) Companies must analyze the ways in which local knowledge is generated (important for capacity building/training), exchanged (important for the exchange of best practices), and disseminated (important for distribution/marketing).
- 13) If the project is scaled up in a new context, products and services must be adapted to fit this context. Processes and methodologies can stay the same if the context is not extremely different.

The strategies chosen by the participating companies are flexible in their outcome, in particular when the company does not have experience in this type of project. While a methodology can be given, and principles and values constant, all details depend on the community. However, a clear vision is indispensable. Bottom up development projects also require a project design that adapts to local conditions by learning from mistakes (Chambers 1983, Mansuri/Rao 2004). BoP literature has so far – besides flexible ways of financing BoP ventures (e.g. real options approach) – not treated this issue.

The size of the projects included in the case study research differed a lot. Some were still small in scale, while some were already very large. However, many started small with a pilot project for evaluation and then systemized and transferred the activities to more people in an existing community or new communities at a larger scale. In projects that did not start small, experiences from previous projects could be used. In any case, the conditions for scaling up must be in place from the beginning. Larger scales need to be planned. Bottom up development literature recommends starting with small to medium scale pilot projects. One ‘big bang’ at the national level can rarely be successful (Binswanger/Nguyen 2005). BoP literature does not elaborate on this issue.

In the cases studied, it was important that the participating persons represent the pluralism and diversity present in the targeted community. This does not necessarily have to mean that they need to be a representative selection of the whole target group, but it is important that they know the community and the target group well. It is also very important that the participating people are accepted in their respective community. Also in bottom up development, the participating poor have to represent the entire width of the community (Binswanger/Aryar 2003, Mansuri/Rao 2004). Simanis/Hart (2008) touch upon the issue of pluralism and representativeness in the BoP Protocol.

Power relations play a role in BoP projects. Companies usually approach a community indirectly via an existing locally active organization. Particularly important are the motivations and goals of the (informal) community leader, which should match both the communities’ needs and the interests of the company. Especially at the beginning of a project, it is important to be aware of the main structures of power in a community in order to prevent the creation of further inequality. According to bottom up development literature, decentralization of poverty programs can, in the extreme, worsen local inequality and perpetuate current local power relations. A deep sense of the local structures of power are therefore needed (Apparundai 2004, Mansuri/Rao 2004). As already criticized by Black

(2006) and to a certain extent by Arora/Romijn (2009), the issue of power is not well addressed in BoP literature and only mentioned in the BoP Protocol (Simanis/Hart 2008).

Companies represented in the case studies relied on local networks and organizations. Similar elements in the vision, principles, and motivation are important. Partners have to strengthen the model with complementary capacities, they need to have experience and be trusted in the communities. Strategic alliances on a national or global level can foster success as well. In development literature, community based organizations (CBOs) and so-called social movements also play an important role (Simon 1997). Existing CBOs do not always match with the project goals and it might make sense to adapt them or to raise new ones. Simanis/Hart (2008) also opt for engaging with existing CBOs. Of the other BoP scholars, Gradl/Krämer/Amadigi (2010) analyzed partnerships in detail and Dahan et al. (2010) discovered that a common vision, principles and motivation are important.

Established relationships and networks (social capital) enhanced the success of the projects observed. Companies could, however, not rely solely upon existing social capital. In many cases, they had to build it up with the project. In development literature, social capital also plays a crucial role (Woolcock/Narayan 2000, Lal 2002). BoP literature generally mentions that ventures should build on existing social capital (e.g. Hart 2007), but only Bruni Celli/González/Lozano (2010) discovered that it also needs to be built up.

An issue that came up several times in the case studies is a lack of self-esteem. The poor have been frequently stigmatized and do not feel capable of real participation. Women especially, and indigenous people, were lacking self-esteem as they have been told continuously that they are “worthless”. Most of the time, self-esteem evolves naturally and is obtained indirectly once individuals are in a project and participating. Valuing what is available in the communities and supporting an established solution also leads to an increase in self-esteem. Sometimes it has to be built up to a certain extent already before a project can start. Self-esteem did not arise explicitly in bottom up literature<sup>6</sup> and is not mentioned in BoP literature.

The same is the case with another success factor in proceeding with a bottom up development approach in BoP ventures: the encouragement of independence. Ownership of the BoP usually comes step by step during the process. While facilitating the process, capacity building and other support is necessary – especially at the beginning of a project – it should be made clear that support diminishes and the included poor will have to become

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<sup>6</sup> “Empowerment” certainly contains self-esteem as an element, but is a much broader notion.



independent. If this is not clearly communicated and fostered, the integrated poor continue to be reliant and demand support. Total independence is however hard to reach in practice.

Giving the participating group some freedom in decision-making is important, as this leads to empowerment. Many of the integrated poor in the BoP ventures studied have a defined area where they can make decisions. Bottom up development literature stipulates equality in decision making over the whole process (e.g. Oakley et al. 1991). The case studies did not go as far. More important is that the involved poor have freedom of decision in defined areas and that the communication flow is guaranteed. Additionally, equality in decision-making is very difficult with big groups if the necessary technology is not available.

The experience of the participating companies shows that a certain level of accountability and control is necessary; the BoP can be very opportunistic. “Disciplinary” methods are not possible when no contracts exist. Therefore, motivation and incentives are required. Especially if money is involved, financial accountability is essential. The further the project is developed and the higher the number of elements managed by the target group, the more the community itself takes up these functions. This is in line with bottom up development literature. Who is driving development has implications for who is held accountable for results (Mathie/Cunningham 2003). Clear rules, transparency and accountability help to prevent corruptive acts from the so-called ‘elite’ of a community (Dongier et al. 2002). BoP literature does not mention this issue.

Companies participating in the case study research valued and integrated existing knowledge and other resources available in the respective communities. But often, this input must be combined with the companies’ know-how to get to a solution. Including people who have different levels of knowledge is a challenge, especially for capacity building. Emphasis on existing assets of the poor is not only placed in bottom up development literature (e.g. Mathie/Cunningham 2003) but also in BoP literature (e.g. London/Hart 2004).

Even though local knowledge played a big importance in the BoP ventures taking part in the research, it was not so important for the companies to analyze it in detail, as the poor themselves often lead the processes where local knowledge is important. More importance is placed on the understanding of the ways in which local knowledge is exchanged and disseminated. For capacity building, it was important to know how local knowledge is generated. Development literature offers a lot of research on local knowledge and goes much into detail. It is necessary to analyze the ways in which knowledge is generated, exchanged, transformed, consolidated, stored, retrieved, disseminated and utilized (Marsden 1994). By

using intermediaries or letting the poor lead the use of local knowledge, companies do not have to go so far. This might be the reason why the issue does not come up in BoP literature.

A last success factor when applying a bottom up development perspective in BoP ventures could be detected related to scaling them up in a different context. When scaling up to include other regions within different contexts, changes were necessary. On one hand it was necessary to adapt products to suit other tastes. The business model or methodology on the other hand did not necessarily have to be adapted. These results are in line with the BoP research, Bruni Celli/González/Lonzano (2010) have conducted. According to bottom up development literature, scaling up (and program design to do this) must be tailor-made due to varying governance structures, capacities, and social, economic, political and historical specificities of each country (Binswanger/Nguyen 2005).

### **Conclusions & further research**

Analyzing bottom up development literature in terms of its application in BoP ventures in Latin America and the Caribbean led to new insights for BoP 2.0 approaches. In general, the results of this research demonstrate that a combination of ‘bottom up’ and ‘top down’ approaches will lead to the desired results. This confirms the notion of ‘co-creation’ (Prahalad/Ramaswamy 2004, Gardetti 2009). However, while ‘co-creation’ does not mean that processes are outsourced to the poor, a bottom up development perspective in BoP ventures can imply this. The results also support the ‘embedded innovation paradigm’ (Simanis/Hart 2009) and the development of a ‘native capability’ (Hart 2007) to a certain extent. Yet, arm-length project management with intermediaries and engaging the poor more is a valid alternative as well. Companies do not necessarily have to become ‘embedded’ in any case and the level of closeness can also be too high.

Even though it would be desirable to let the poor manage the entire processes by themselves and therefore let them define their own development, a certain amount of capacity building will probably be necessary for quite some time more. External knowledge should, however, be used carefully and only to enable the poor to become the protagonists of their own development. The more the process resembles a bottom up development perspective, the less the argument of a ‘new corporate imperialism’ (Prahalad 2006) can be placed when companies engage with the BoP.

Most of the cases studied still have the potential, and representatives expressed the will, to shift more responsibility to the participating poor within their projects. It can also be assumed

that a great deal more of knowledge provided by bottom up development literature can be taken into consideration in BoP ventures. But the status of the companies observed in practice does not allow more conclusions without contradiction.

Further research could compare ventures, which demonstrate varying levels of involvement of the poor concerning their profitability and impact on poverty alleviation. More research in different national and regional contexts would be necessary in order to establish global applicability. Further research could also focus on specific bottom up development elements in a much more in-depth way.

Questions remain: Do companies need to internalize knowledge provided by bottom up development literature or can they just engage partners such as NGOs who already possess it? When the NGOs engaged consistently apply a bottom up development approach and shift far greater responsibility to the poor, what sorts of development will we face?

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