

ADVANCING THE “BASE OF THE PYRAMID” DEBATE

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This paper offers a critical analysis of the vision put forth in *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (Prahalad, 2005) which claims that the suggested strategies will result in profits for multinational corporations while simultaneously alleviating global poverty. C.K. Prahalad’s (2005) book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, has been gaining much attention. Dr. Prahalad’s vision “is the co-creation of a solution to the problem of poverty” and that “entrepreneurship on a massive scale is the key” (p. 2). Prahalad outlines a plan for how private enterprise, government, non-governmental organizations, and the poor can work collaboratively toward economic development and social transformation.

Prahalad’s vision outlines a need for free and transparent private-sector competition which will reduce corruption, a challenge to our current logic and assumptions regarding the base of the pyramid (BOP) and emerging economies, and the need for transition to a market-based economy in emerging economies. His vision also requires the BOP be viewed as a growth opportunity and as a source of innovation in products, services, organization and governance, technology, and business models for the private sector. Furthermore, his vision states that the BOP must become an integral part of the work of the private sector – part of their core business, and that collaboration between private, government, NGO, poor consumer is necessary. Prahalad then provides twelve principles for innovation which are necessary to operate within the BOP. As a result, Prahalad concludes that BOP consumers will have increased engagement in the global economy, increased dignity and self-esteem, reduced poverty, and “that a 10 to 200 times advantage (compared to the cost structures that are oriented to the top of the pyramid markets) is possible if firms innovate from the BOP up” (Prahalad, 2005, p. 9).

This vision, the required actions, and the resulting outcomes are based upon the notion that “the BOP market also represents a major engine of growth and global trade” (p.10). The number of individuals living in poverty globally (less than \$2 per day), according to Prahalad, is estimated to be 4-5 billion; this is the population referred to as the bottom or base of the pyramid (BOP). He advocates that corporations find innovative ways to tap into this neglected bottom of the pyramid market to increase their profits while simultaneously eradicating world poverty.

Prahalad’s vision (and work by colleague Stuart Hart) has spawned enormous interest in base of the pyramid markets as evidenced by the creation of centers and/or projects at Cornell University, Illinois Institute of Technology, the University of Michigan, the BoP e-journal, several conferences, numerous media articles, BOP initiatives by corporations, and renewed interest by industries, such as banking and technology. Amazon.com, Fast Company, the Economist, and Barnes & Noble, all listed Prahalad’s publication among their best selling business books. This growing interest in the bottom of the pyramid cannot be denied and Prahalad has received much credit for popularizing this invisible market.

Prahalad is to be commended for the very creative solutions and strategies he highlights for competing in emerging markets. This knowledge challenges corporations

to think outside the box, which could stimulate innovation among the corporate sector, possibly leading to improved conditions and quality of life for BOP consumers. For example, he suggests reduced prices in medical care, providing education on health and sanitation, and creating sustainable and environmentally-friendly strategies. If corporations can achieve innovations which allow these suggestions to come to fruition, then quality of life for BOP consumers can improve. I find the greatest contributions of this book are, first, raising awareness of the BOP, the challenges they face, and global poverty and second, challenging corporations to increase innovation and creativity, with a special emphasis on strategies for entering emerging economies.

Yet limited empirical research exists which supports or opposes Prahalad's suggestions that following his vision will lead to poverty reduction in BOP markets and a 10-200 times advantage for corporations. To date, two studies have been published. In a recent project following Prahalad's vision and for improving water sanitation in a village in India, Prasad & Ganvir (2005) found that "not all of the 12 principles need to be satisfied for each case of the BOP market success..." (p. 354), however, the result was improved quality of life for users of the product and an impressive return on investment for the entrepreneur selling the water filter system.

It is also possible that Prahalad's suggestions and principles of innovation are not transferable beyond the Indian market. For example, in two case studies in Mexico, Rost and Ydren (2006) found no support for some of the assertions put forth by Prahalad, specifically the poverty penalty did not exist in their study, BOP purchases were not related to improved self-esteem, and there was not a growing acceptance of technology aside from cell phones. They also question the transferability of Prahalad's model in serving the poorest area of the world, sub-Saharan Africa, and point to the success of China and India in reducing poverty through non-BOP strategies. Thus, with further empirical research, it may be shown that Prahalad's vision and principles of innovation are market-specific.

A CRITICAL REVIEW

There have been few challenges to the assumptions and suggestions put forth in *Fortune at the Bottom of the Pyramid*. To date, there are a small but growing number of academic critiques of this work (Bendell, 2005; Crabtree, 2006, 2007; Hopkins, 2005; Jenkins, 2005; Jose, 2006; Karnani, 2006a, 2006b; Rost and Ydren, 2006; Walsh, Kress, and Beyerchen, 2005); this paper seeks to further the academic debate. As industry moves toward sustainability and triple bottom line reporting (tracking and reporting economic, social, and environmental success), transparency will increase and so should scrutiny. It is important to critically evaluate financial, social, and environmental objectives and activities of all corporate strategies, especially given the anticipated impact these activities may have on those most affected. With the immense popularity of BOP strategies, and Prahalad's book in particular, a cautious and critical lens is necessary before proceeding. The current paper is the first attempt to bring together the existing critiques of *Fortune at the Bottom of the Pyramid* into a literature review.

Size of the BOP Market

The critiques of the assumptions and suggestions for BOP-entry strategies are growing. Many question the vague estimates of the size of the BOP market (Crabtree, 2006, 2007; Hopkins, 2005; Jenkins, 2005; Karnani, 2006a, 2006b). For example, in various writings by Prahalad, the base of the pyramid is defined as 4 billion people with an annual per capita income of less than \$1500 (Pralhad & Hart, 2002), 4-5 billion people living on less than \$2 per day (Pralhad, 2005), 5 billion people (Pralhad, 2005), and approximately 1 billion people living on less than \$1 per day (Pralhad & Hart, 2002). To add to the confusion, “the World Bank estimates the number at 2.7 billion, in 2001” (Karnani, 2006a, p. 4).

In a case example of Casas Bahias cited in Prahalad’s (2005) book, it is noted by Jenkins (2005, p. 533) that Prahalad “consistently overestimates the potential purchasing power of poor people, often by extending the definition of the poor to include those who are relatively well off by developing country standards.”

The vague estimates of the size of the BOP market results in equally vague estimates of their purchasing parity power (PPP). At the extremes, Prahalad (2005) states the BOP represents a \$13 trillion PPP, but Karnani (2006a, p. 5) concludes “the global BOP market is less than \$0.3 trillion.”

MNCs and the BOP

Questions have been raised about the suitability of multinational corporations (MNCs) for the BOP market segment. Several of the business case examples put forth in the book are non-profit organizations or small-to-medium size enterprises rather than multinational corporations, thus it is questioned whether MNCs are suited to this market (Jenkins, 2005; Karnani, 2006a, 2006b). Karnani (2006b) concludes that “virtually none of the examples cited by the BOP proposition support the recommendation that companies can make a fortune by selling to the poor” (p. 6).

Marketing to the BOP

There are several marketing-related issues raised by this book. For example, simply selling to the poor does not necessarily improve their welfare or reduce poverty (Bendell, 2005; Jenkins, 2005; Jose, 2006; Karnani, 2006a, 2006b). In fact, one can question whether MNCs are serving a need or creating a need where none previously existed (Jose, 2006; Rost & Ydren, 2006) and this raises ethical concerns regarding the implications of this marketing approach (Karnani, 2006a, 2006b). Consumer protection in developing economies is inadequate and, as a result, leaves room for exploitation (Karnani, 2006a, 2006b; Walsh et al., 2005).

There are also questions raised about both the higher unit price and the environmental sustainability of single-serve packaging used by corporations within the BOP (Bendell, 2005; Jose, 2006; Hopkins, 2005; Karnani, 2006a, 2006b; Rost & Ydren, 2006). To truly address poverty in the BOP markets, we must take a multidimensional approach beyond consumption (Crabtree, 2006, 2007; Karnani, 2006a, 2006b).

Another point emphasized by BOP approaches is on improving distribution in order to reach the BOP consumers (Jose, 2006). MNCs that produce in this market generally export their products (Jenkins, 2005) and those who do sell to the domestic

market often target BOP consumers above the poverty line (Jenkins, 2005; Karnani, 2006a, 2006b). Without specifically stating that corporations should locate in emerging economies, we are left to assume that exporting to these economies and improving distribution channels would continue to be the preferred choice because it is a low-risk, low-investment strategy for entering a new market without making a commitment to the market until determining its potential for success. This would contradict Prahalad's requirement that the BOP must become a real market for MNCs and serving them must become part of the MNCs core business. Without MNC location in the BOP economy, MNC distribution alone will have limited impact on poverty reduction (Jenkins, 2005).

Alleviation of Poverty

Lastly, the connection between Prahalad's vision and his purported outcome (eradication of poverty) is unclear. The focus only on success stories and the omission of failures does not allow us to compare and contrast the stories to identify the critical factors necessary for success (Walsh et al., 2005). Thus, it remains unclear how BOP investments will alleviate poverty and, furthermore, "encourages businesses to act on his yet-to-be-fully-tested ideas" (Walsh et al., 2005, p. 481) or on a BOP model which is "not fully developed" (Rost & Ydren, 2006, p. 38). Walsh et al. (2005) conclude that without rigorous empirical support, Prahalad's vision may become just the latest management fad and without a proven track record, we are thus reminded to be critical of popular management books (Argyris, 2000; Gibson and Tesone, 2001; Micklethwait and Wooldridge, 1996; Miller & Hartwick, 2002).

Virtually all critiques agree that the examples provided and the suggestions put forth in Prahalad's book do not adequately support his claim of poverty eradication (Crabtree, 2006, 2007; Jenkins, 2005; Karnani, 2006a, 2006b; Rost & Ydren, 2006; Walsh et al., 2005); this is, perhaps, the bane of the critiques. Crabtree states "...only three of the twelve cases (ICICI, EID Parry and ICT) can be directly related to increased income.... The others engage in activities where an increase in income might result as a spin off e.g. through better health, but in none of the cases is this documented" (Crabtree, 2007, p. 4).

In addition to these critiques, I will show that Prahalad's vision deserves merit, but it is not novel, and there is no historical evidence that can support his claim of eradicating poverty.

ADVANCING THE DEBATE

Prahalad suggests his vision will lead to environmental sustainability, sustainable product and technology innovations, and sustainable economic development (Prahalad and Hart, 2002). Sustainable development is often defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). I agree that Prahalad's suggestions are indeed a move in the right direction. As the sustainable business movement grows, more businesses are becoming seriously engaged in efforts to simultaneously enhance profits while addressing social and environmental concerns. The specific global concern that Prahalad's book seeks to address is poverty alleviation in developing countries, as indicated in the subtitle

of his book, *Eradicating Poverty Through Profits*, and clearly stated in the first sentence of the book, "The aim of this section is to build a framework for poverty alleviation" (p. 1). However, as pointed out by other critiques (Crabtree, 2006, 2007; Jenkins, 2005; Karnani, 2006a, 2006b; Rost & Ydren, 2006; Walsh et al., 2005), there simply is no evidence to support this claim. I will first begin with a discussion of the economic theory behind the suggestions of Prahalad.

Economic Focus

The basis for Prahalad's suggestions isn't new (Walsh et al., 2005). The theories upon which this book is based have been developed over the course of the past half century and the suggestions of Prahalad are developed from these same theories that have guided economic policy for decades. For example, Prahalad suggests deskilling work within the BOP since many individuals lack the needed education and training. Similarly, economists and management theorists have argued that division of labor will induce economic growth (Smith, 1976; Young, 1928).

Prahalad suggests that developing economies must create a market-oriented ecosystem; a symbiotic growth of extralegal non-governmental enterprises, microenterprises, small and medium businesses, cooperatives, large local firms, multinational corporations, and non-governmental organizations. Along these same lines, Hirschman (1958) advocated balanced sector growth, as opposed to unbalanced economic growth of a few sectors. Additionally, the World Business Council for Sustainable Development (2001) also advocated development of a stable market economy that emphasized collaboration, innovation, eco-efficiency, informed consumer choice, improved market framework conditions, establishing the worth of Earth, and making the market work for everyone.

Prahalad advocates for increased technology among the BOP consumers. In 1957, Solow suggested improved technology would improve economic growth. Prahalad also adds that the interface for products and services must be designed with the first-time user in mind. In 1996, Keller noted that access to technology is not enough, rather there needs to be absorption of technology.

Another suggestion from Prahalad's book is to help create an individual savings mentality among BOP consumers to allow them to start saving money to build wealth. Dobb (1951) and Lewis (1955) have both promoted individual savings as an economic growth vehicle.

Prahalad advocates for reduction of corruption and a transparent and fair system of laws to be enacted in developing economies to facilitate commercial transactions. This will allow countries to convert assets to capital. Adam Smith (1978) pointed out that development is hindered by uncertain and imperfect laws (corruption).

Throughout the book are examples of companies educating consumers on how and why to use their products; the examples given are generally related to health, nutrition, and technology services and products. Lewis (1961) emphasized the need for a general academic education in promoting economic growth.

It can be seen that many of the suggestions to eradicate poverty put forth by Prahalad (2005) have been in existence for many years. Countries, governments, and

non-governmental organizations have built policy and practice around these theories for the past 50 years, "but have not eradicated poverty" (Prahalad, 2005, p. 3).

The Fortune at the Bottom of the Pyramid is written from an economic perspective and, as such, continues to put forth the profit mandate by seeking to make billions of BOP individuals into consumers of developed economies' goods and services, by seeking to amass MNC fortunes through the bottom of the pyramid. The overt message is that these responsible and sustainable strategies will help eradicate global poverty, as indicated in the title and the first sentence, but the stronger covert message is that these strategies will increase profits. While the specific strategies discussed are novel and innovative, the covert message of identifying and tapping into underserved markets to increase profitability will be familiar to corporations and will fall within their comfort zone.

Other books (Arena, 2004; Hollender & Fenichell, 2003; Jackson & Nelson, 2004; Payne, 2002), encompassing economic, social, and environmental success, may be more difficult for corporations to grasp because the concept requires thinking beyond the economic imperative and because the other books do not make economic-driven suggestions for entering new markets, rather they challenge corporations to expand beyond an economic focus. There have also been recent attempts to bring other theoretical approaches into the realm of business management literature which are not economically derived and which attempt to balance a new triple focus (Landrum & Gardner, 2005). However, this is likely to be an unfamiliar and unsettling call to action for corporations, thus the more profit-driven strategies of Prahalad are more familiar. From a corporate standpoint, one can't argue with making more money. This may be one explanation for why there has been limited criticism of the book, another may be that it's too early to tell if following these suggestions will eradicate poverty, as Prahalad (2005) has already pointed out.

Poverty Reduction in the U.S.

To demonstrate that past economic development policies have not eradicated poverty, let's look at data from the United States. Nonprofit organizations are generally regarded as those who address social and environmental concerns of a philanthropic nature. Employment in the nonprofit sector has doubled over the past 25 years (Independent Sector, 2004). The largest growth in nonprofit employment has been in the social services sector (Independent Sector, 2004). This leaves us to assume that the scope and reach of nonprofits, especially those in social services, has expanded.

At the same time nonprofits have expanded, American giving (in all forms) grew by 2.7% in 2005, adjusted for inflation, and corporate giving in the U.S. grew by 18.5%, adjusted for inflation (Center on Philanthropy at Indiana University, 2006). Combined, we have a picture of the increase in nonprofit organizations, especially social services, and an increase in American philanthropic contributions, especially by corporations.

Yet, data shows Americans are still living in poverty. Poverty rates have fluctuated around 12% for the past 40 years, from a low of 11.1% in 1973 to a high of 15.2% in 1983 (U. S. Census Bureau, 2006). Furthermore, from the late 1970s to the mid-1990s, average incomes of low-income families fell by 21% while the average

incomes of high-income families rose by 30% to further the gap between the well-to-do and those in poverty (Larin & McNichol, 1997).

This data shows that nonprofit work has expanded, particularly in social services, and philanthropic giving has increased, especially by corporations. Yet there has been no significant reduction in the poverty rate in the U.S. and, in fact, the gap between the haves and have-nots has widened. To say BOP strategies can eradicate poverty through profits is dubious at best.

Prahalad suggests it is a change in mindset for business to see those in poverty at the BOP as potential consumers and to gear profit-minded strategies toward this group. Business has long ignored this group and, according to Prahalad, bringing them deeper into the consumption circle will alleviate their poverty. Yet following the unification of Germany in 1991, East Germans were brought into the great global consumption circle but their rates of poverty have also remained unchanged (Corak, Fertig, & Tamm, 2005).

The Global Poverty Report (2000) states that "Globally the proportion of people living in poverty declined from 29 percent in 1987 to 26 percent in 1998, although the total number of poor remained almost unchanged at around 1.2 billion" (p. 2). The greatest gains in poverty reduction have been in East Asia and progress has been slow in Sub-Saharan Africa, Latin America, and South Asia. Poverty has increased in Eastern Europe and Central Asia. While economic development and poverty reduction is showing promise globally, some regions have seen no change and others have actually worsened.

As a last point on Prahalad's claim that his vision and strategies will alleviate poverty, Rost and Ydren (2006) point out that although China and India have seen reduced poverty levels, it has not been through the application of BOP strategies. Rather, it has been through the application of their own strengths, thus other non-BOP strategies can aid in reducing poverty.

Western Orientation and Ethnocentrism

Lastly, the suggestions of this book have been criticized for their slant toward Western ideals of success and development (Jose, 2006). Prahalad challenges corporations to be innovative and to find ways to profitably serve the BOP. As such, they continue to promote the core problems of globalization through advocating the interests of the corporation and shareholders over all others; seeking the "fortune at the bottom of the pyramid." Prahalad (2005) challenges corporations to be innovative and to find ways to profitably serve the BOP. The underlying assumption is that MNCs can determine what BOP consumers want; they just have to figure out a profitable way of providing it.

An alternative, the Base of the Pyramid Protocol (Enterprise for a Sustainable World, 2006), however, suggests a different approach. The first step of the Protocol starts with "deep listening and mutual dialogue" to garner the input of BOP consumers in determining what best suits their needs. It is never assumed that MNCs could know what is needed in this market. The Protocol asks MNCs to, among other things, admit their ignorance in serving this market, to seek out the unheard voices of those representing the BOP, to promote development as defined by the local people, to track their triple bottom line within the BOP, and to modify any unintended negative impacts of their BOP approaches. The Protocol even goes so far as to suggest MNC teams live within the

targeted BOP communities for weeks or months, at local wages, to fully appreciate the local way of life. This is a natural evolution of Hart’s earlier work (Hart & Sharma; 2004; London & Hart, 2004) which was more focused on serving the needs of the BOP consumers. Both Prahalad’s book and the Base of the Pyramid Protocol are focused on serving the BOP consumer market, yet the approaches are very different. Even the language of these approaches is different. “Bottom,” according to the Meriam-Webster Dictionary, is the underside, the lowest part or place, whereas “base” is something that is a starting point, it supports that which is on top, it is a fundamental part of something else. As Ferraro et. al (2005) point out, research shows the “importance of language in affecting behavior, judgment about others, and beliefs about what the appropriate behaviors are in a given situation” (p. 16).

IMPLICATIONS FOR FUTURE RESEARCH

The inspiring vision of Prahalad (2005) deserves merit, but, as pointed out by Walsh et al. (2006), additional research is needed to determine the viability of this vision. Specifically, further research should address the following questions:

- *Are all 12 principles of innovation necessary?* In a single study by Prasad and Ganvir (2005) this was not the case.
- *Will following his suggestions provide the 10-200 times cost advantage?* This question has yet to be addressed by any study or critique.
- *Will following his suggestions eradicate poverty?* The conceptual critiques provided here and by Crabtree (2006, 2007), Jenkins (2005), Karnani (2006a, 2006b), Rost and Ydren (2006) and Walsh et al. (2005) question the validity of this claim.
- *Is this model transferable between all BOP markets and economies?* The two case studies of Rost and Ydren (2006) seem to indicate that Prahalad’s (2005) approach may be country specific to India. The focus for corporations should be on the commonalities of various BOP strategies: innovation and sustainability. Additional BOP-entry strategies, methods, processes, or models may then be created.
- *Are the suggestions oriented toward western perspectives?* This is a question raised here and by Jose (2006). This would also raise the awareness that there needs to be a greater focus on BOP consumer needs from their own perspective.
- *What strategic approaches result in success and what approaches result in failure?* As pointed out by Walsh et al. (2005), evidence of successes and failures both need to be documented. The Center for Sustainable Global Enterprise at Cornell University is tracking the work of corporations in the BOP to gain a better understanding of what creates success and failure in BOP strategies. Additional similar studies need to be done.

CONCLUSION

With the growing popularity of sustainability and responsible business practices, it is important to critically evaluate financial, social, and environmental objectives and

activities, especially given the anticipated impact these activities may have on those most affected. As such, I sought to further the academic debate on the base of the pyramid, specifically focusing on C.K. Prahalad's (2005) book, *Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. This critique offers another perspective to be added to those of Bendell (2005), Crabtree (2006, 2007), Hopkins (2005), Jenkins, (2005), Jose (2006), Karnani (2006a, 2006b), Rost and Ydren (2006), and Walsh et al. (2006).

The theoretical basis of Prahalad's book comes from economic development theories of the past 50 years. Prahalad is to be commended for the very creative solutions and strategies he highlights for competing in emerging markets. This knowledge challenges corporations to think outside the box, which could stimulate innovation among the corporate sector, possibly leading to improved conditions and quality of life for BOP consumers. For example, he suggests reduced prices in medical care, providing education on health and sanitation, and creating sustainable and environmentally-friendly strategies. If corporations can achieve innovations which allow these suggestions to come to fruition, then quality of life for BOP consumers can improve. I find the greatest contributions of this book are, first, raising awareness of the BOP, the challenges they face, and global poverty and second, challenging corporations to increase innovation and creativity, with a special emphasis on strategies for entering emerging economies.

I have pointed out, however, that for decades governments have used these same economic development theories to guide policy and numerous organizations have implemented programs and services around these theories. The result has been stories of individual or organizational success and the government data shows rates of overall global poverty are decreasing, although Eastern Europe and Central Asia rates are increasing. Furthermore, many of these approaches are Western in their origin.

With the gaining popularity of responsible business practices and sustainability, Prahalad's book has garnered a huge following. I don't disagree with the notion that the BOP is an untapped segment of the consumer market, but this book is about strategies to capture that underserved market. The emphasis throughout the book is on profit-driven strategies to enter a neglected market segment and the title should not entice the reader into believing it is anything more. Companies should not be misled into thinking profit-generating strategies for entering new markets are the same thing as responsible or sustainable business. The real benefit of entering an underserved market goes to the corporation by increasing consumption. At best, a serendipitous benefit is that these specific strategies and subsequent innovative strategies could possibly increase quality of life for BOP consumers. However, it is impractical to think these strategies will alleviate poverty.

In sum, I find the suggestions put forth in *Fortune at the Bottom of the Pyramid* will challenge corporations to be innovative and creative. However, my contention is that Prahalad claims these strategies for entering emerging economies will eradicate poverty. There is no evidence in the past 50 years to support such a claim. Furthermore, the book is about profit-generating strategies from a Western perspective. Indeed, more responsible approaches are possible, as evidenced by the Base of the Pyramid Protocol (Enterprise for a Sustainable World, 2006).

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