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The entry of multinational companies to the base of the pyramid: A network perspective

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Abstract

Multinational corporations (MNCs) have traditionally ignored low-income markets, usually referred to as the base of the pyramid (BOP). Despite the dominant poverty in this market, a growing number of MNCs are attempting to learn about successful strategies for entering this market segment. Some of the studies suggest that establishing relationships with non-governmental organizations (NGOs) is crucial at the BOP. In this paper, we focus on relationship between MNCs and NGOs and try to explain how they facilitate MNCs' entry into this market. A network perspective has been adopted in this research and the relationship between MNCs and NGOs has been analysed in relation to this theoretical framework. Interviews with four MNCs and their NGO partners in India suggest that corporations can enter the BOP market by building trust in their relationships with NGOs and consequently the BOP, demonstrating their commitment and strengthening their legitimate position among NGOs and BOP communities.

Keywords: Base of the pyramid, market entry, multinational corporations, network theory, India, case study

The entry of multinational companies to the base of the pyramid: A network perspective

1 Introduction

One of the markets that has attracted the attention of multinational corporations (MNCs) as well as scholars in recent years is the population at the base of the pyramid (BOP) (Hammond & Prahalad, 2004; Hart & Christensen, 2002; Lodge, 2006; Lodge & Wilson, 2006; London, Anupindi, & Sheth, 2009; London & Hart, 2004; Prahalad, 2009; Prahalad & Hammond, 2002; Rashid & Rahman, 2009). The BOP accommodates four billion people living on a daily income of less than eight dollars, and 2.6 billion people living on less than two dollars per day (Hammond, Kramer, Tran, Katz, & Walker, 2007; UNDP, 2008). Although the BOP population is characterized by a low income, statistics show that the aggregate purchasing power of this market exceeds 5 trillion dollars (Hammond et al., 2007), which presents a potential market opportunity for MNCs. On the other hand, MNCs are increasingly faced with saturated markets at the top of the pyramid leading them to divert their attention to the BOP and develop strategies for entering this market segment. However, MNCs encounter unique challenges in targeting it, as there are fundamental differences between the socio-economic, infrastructural, and educational conditions at the BOP and the top of the pyramid (Reficco & Márquez, 2012; Webb, Kistruck, Ireland, & Ketchen, 2010). For example, the limited disposable income of the BOP population means that MNCs need to design more affordable products and develop solutions to better manage their costs (Seelos & Mair, 2007). Illiteracy among the BOP population and their lack of knowledge about products and services can hinder the acceptance of new products and necessitate new strategies for promotion. In addition, low-income people usually live in geographically-dispersed villages without proper transportation infrastructures, which demands new strategies for the distribution of products and services (Velayudhan, 2007).

Due to these differences, corporations cannot apply their traditional marketing strategies and have to devise new strategies that suit the BOP market (London & Hart, 2004). Studies focusing on corporations at the BOP have revealed that successful entry to the BOP requires MNCs to expand their networks to include non-traditional partners such as non-governmental organizations (NGOs) (London & Hart, 2004; Perez-Aleman & Sandilands, 2008; Rashid & Rahman, 2009; Seelos & Mair, 2007). Simanis and Hart (2009) examine product development at the BOP and report that innovation for the segment should involve local NGOs. Perez-Aleman and Sandilands (2008) elaborate on how MNC-NGO partnerships benefit the poor and facilitate the inclusion of poorer producers into global supply chains.

Although cross-sector partnerships and the role of NGOs have been emphasized in many international business studies (Doh & Teegen, 2002; Parker, 2003; Teegen, 2006; Teegen, Doh, & Vachani, 2004), and specifically at the BOP (London & Hart, 2004; Prahalad, 2009), we still know very little about the relationship between MNCs and NGOs in this segment (Perez-Aleman & Sandilands, 2008). We attempt to bridge this gap by investigating the relationship and identifying how it can be utilized to facilitate the entry of MNCs into the BOP market.

The business network approach has been employed extensively in the fields of industrial marketing (Gummesson & Polese, 2009; Wang & Fang, 2012) and international business (Elg, Ghauri, & Tarnovskaya, 2008; Johanson & Vahlne, 2009; Shaner & Maznevski, 2011), but there are few studies that apply this theoretical perspective to the study of MNCs and social actors (Hadjikhani & Ghauri, 2001) at the BOP (Rivera-Santos & Rufin, 2010). We believe that this is suitable for analysing the process by which MNCs enter the BOP market.

The contribution of this study is threefold. First, we extend the BOP literature by applying network theory to a domain that has been primarily examined from economic and financial

perspectives (Schuster & Holtbrügge, 2012). Second, we contribute to international business literature by extending the network approach to the BOP market entry of MNCs. Third, as recommended by prior studies (e.g., Hadjikhani, Lee, & Ghauri, 2008), we broaden the boundaries of this theoretical perspective to the relationships between MNCs and social actors, rather than staying within the usual business networks of MNCs.

2 The theoretical foundation: The network perspective

The theoretical perspective of this research goes beyond the business networks of MNCs and focuses on their non-traditional partners. This is in line with prior studies revealing that corporations are not only embedded in business networks but also social and political networks, which have proved crucial to the success of firms in new markets (Hadjikhani & Ghauri, 2001; Hadjikhani et al., 2008; Keillor & Hult, 2004). This research focuses on explaining the relationship between MNCs and NGOs and how this relationship facilitates MNCs' entry into the BOP market (see Figure 1).

*** Insert Figure 1 about here ***

Analysis of the relationship between MNCs and NGOs is built upon three concepts: commitment, trust and legitimacy. Two of these, commitment and trust, have been widely used by business network researchers (Hausman, 2001; Millar & Choi, 2009; Shirokova & McDougall-Covin, 2012; Walter & Ritter, 2003). In addition, some researchers have suggested that the concept of legitimacy is relevant in examining the relationship between corporations and social and political partners (Hadjikhani et al., 2008; O'Higgins & Morgan, 2006; Walter & Ritter, 2003). This is mainly because of differences in the nature of the relationships in business

networks on the one hand and social and political networks on the other. While technological and/or financial interdependency is the key reason for collaboration between business partners, these aspects may be less relevant when corporations work with social entities (Hadjikhani et al., 2008). Therefore, the theoretical foundation of this research is grounded in these three concepts, trust, commitment and legitimacy, as presented in Figure 2.

*** Insert Figure 2 about here ***

Trust, as the driving force behind commitment or as an outcome of commitment, is defined as 'the firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes' (J. C. Anderson & Narus, 1990, p.45). Recent studies define trust with keywords such as reliability and integrity and explain that trust is an ability to predict the other party's behaviour (Johanson & Vahlne, 2009, p.1417). Trust will be fostered when one party is confident that the other party is reliable and has a high degree of integrity, which is related to qualities such as being competent, honest, responsible, helpful and benevolent (Morgan & Hunt, 1994). Han, Wilson, and Dant (1993) suggest that perceived mutual trust is a principal factor that characterizes a good relationship. Rodríguez and Wilson (2002) pinpoint that trust is dependent on the goal congruency of the partners. Therefore, by pursuing initiatives that help NGOs' beneficiaries (e.g. the BOP population), MNCs can strengthen the trust in their relationships with NGOs. Trust developed in the network facilitates the exchange of tacit knowledge between partners (Millar & Choi, 2009). It has been confirmed that, when companies do not have the necessary market knowledge, they may start working with a trusted middleman (such as an NGO) in that market

(Arenius, 2005). When trust develops into commitment, it implies that there is a willingness to continue the relationship and a desire to invest in it (Boersma, Buckley, & Ghauri, 2003).

Commitment is defined as believing that an ongoing relationship with another party is so important that the partners will employ maximum endeavours to maintain it (Morgan & Hunt, 1994). The commitment of the partners develops when they believe that continuing the relationship will be beneficial for them in the long run (Johanson & Vahlne, 2009). Commitment and trust encourage exchange partners not to sacrifice the expected long-term benefits of working with existing partners because of any attractive short-term alternatives (Johanson & Vahlne, 2009; Morgan & Hunt, 1994). MNCs also demonstrate their commitment when they invest in developing products/services for the BOP population and accept that the return on their investment may only occur in the long term.

Legitimacy is defined as the perceived need to gain society's acceptance by complying with dominant norms, values and beliefs (Suchman, 1995). Accordingly, legitimacy is a socially constructed position of a firm, recognized by its networks. Legitimacy has become a critical issue for MNCs (Kostova & Zaheer, 1999; Mukherji, 2009); consequently, MNCs are increasingly seeking new forms of legitimacy (Palazzo & Scherer, 2006) by entering into domains that have traditionally been considered in the realm of governments or NGOs (Matten & Crane, 2005). By collaborating with NGOs and incorporating their expectations, MNCs can improve their legitimacy (DiMaggio & Powell, 1983; Yang & Rivers, 2009) and as a result obtain and maintain the required resources (Oliver, 1991). Thus, MNCs can strengthen their

legitimacy by serving the long-standing, unmet needs of the poor, or by creating job opportunities for the BOP population.

3 Research method

3.1 *Research design*

This research adopts a qualitative approach as this will provide a richer understanding of the phenomenon and allow theory building (Eisenhardt & Graebner, 2007; Ghauri & Gronhaug, 2010). A multiple case study strategy (Yin, 2009) is pursued to explore the relationship between MNCs and NGOs at the BOP and explain how this relationship facilitates MNCs' entry to the BOP market. The multiple case approach allows us to use replication logic, whereby each case is used to confirm/disconfirm inferences drawn from the other cases (Yin, 2009). Although the potential generalizability of qualitative research is limited, multiple case research provides more chance of this than single case studies (Creswell, 2007; Ghauri, 2004; Yin, 2009). It reduces researcher bias and enhances the possibility of building empirically valid theories (Siggelkow, 2007).

3.2 *Case selection*

For the purpose of this study, MNCs have been selected that are engaged in the BOP in India. India presents a good context for this study as the majority of the world's BOP population live there (Hammond et al., 2007) and an increasing number of MNCs have entered this market to serve the needs of the low-income population (Jain & Vachani, 2006). MNCs were selected from different industries to guarantee a high heterogeneity of cases. The selection of diverse cases provides more information than average or similar cases (Eisenhardt & Graebner, 2007). An overview of the case companies and their activities at the BOP are presented in Table 1.

*** Insert Table 1 about here ***

3.3 Data collection and data analysis

From the case companies we selected managers who are directly involved in the companies' BOP projects. Some managers at the MNCs' headquarters were also interviewed in order to gain a more comprehensive picture. The positions held by the interviewees included corporate sustainability manager, brand manager, design manager, sales and marketing manager, head of foundation, project manager, rural manager and corporate communication manager. In order to obtain a holistic view and mitigate subjective bias (Golden-Biddle & Locke, 2007), more than one senior-level manager was interviewed from each company (Eisenhardt & Graebner, 2007). The key NGO partners of each company case were also identified and interviewed to triangulate the findings of the research (Ghauri & Firth, 2009; Perry, 2001). In total, 27 interviews were conducted, 20 with the MNCs and 7 with the NGOs. The duration of the interviews ranged from 45 to 90 minutes. Interviews were conducted between April 2010 and May 2011; two of the authors were present for each interview. The interviews were semi-structured and based on an interview guide that addressed the theoretical concepts of the study. The interviews were digitally recorded and then transcribed and sent to the interviewees for their review and confirmation. In addition to primary data, secondary data was used for identification and corroboration purposes (Ghauri & Firth, 2009). The major sources of secondary data included company websites, company reports, articles from newspapers, magazines and journals, videos of presentations by executives (e.g. press conferences or speeches) and online sources. The collected data was analysed through pattern matching and systematic case comparison (Ghauri, 2004; Yin, 2009). The analysis was carried out in two phases: within-case and across-

cases. First, each case was analysed separately, and then the cross-case analysis was carried out (Ghauri & Gronhaug, 2010; Miles & Huberman, 1994). The process of data analysis in each case was based on coding the collected data in relation to the research questions and theoretical framework. The process was facilitated by NVivo 9, which makes non-linear qualitative data analysis more systematic, flexible and rigorous (Sinkovics, Penz, & Ghauri, 2008).

4 Results

4.1 *Case 1: Insurance Co.*

Insurance Co., headquartered in Germany, is one of the largest financial service providers, with its main focus on insurance. The company was approached by a large international NGO, NGO-A, to donate some money for the rehabilitation of tsunami-affected people in India. The company therefore asked all of its employees worldwide to contribute one day's salary. At the same time, the board of director noticed that, as an insurance company, they were not catering to the population at the bottom of the pyramid, who are the most vulnerable to natural catastrophes and other accidents. Therefore, the company signed an agreement with NGO-A stating that part of the donated money would be used to build awareness about insurance. This would help people to cope with risk in the future, without being dependent on the government or other grants. As a result, NGO-A started working on a micro-insurance project for the poor. Initially, the NGO conducted an independent survey to investigate demand for insurance among BOP communities. The findings of the survey confirmed that there was a strong demand for insurance products to satisfy the specific needs of the poor. As one of the managers from NGO-A stated,

‘... we wanted to create products for our community. We work for the most vulnerable and the poorest of the poor communities. If a person has a boat of 2000 rupees, we

wanted to insure him for 2000 and the premium is based on a 2000 rupee asset, whereas an off-the-shelf product will give you insurance for an asset of 15000. So, whether you have [an asset worth] 5000, 10000 or 15000, your premium will be calculated based on 15000. We wanted to ask the Insurance Co. to help us design products in line with the affordability of the community.’

After that, NGO-A and Insurance Co. had a series of meetings and discussions aimed at developing the product. Insurance Co. also needed to have some meetings with poor communities to learn more about their specific needs. In this process, NGO-A played a critical role in bringing the communities and their leaders to the table to participate in the development of micro-insurance. After discussions with these communities and NGO-A, Insurance Co. was able to finalize the products and launch them in 2009.

However, Insurance Co. asked NGO-A to facilitate the distribution of the products as well as the collection of premiums. NGO-A was working with many other NGOs in tsunami-affected areas, and agreed to introduce their networks of NGOs to Insurance Co. Insurance Co. devised an agency licence so that NGOs could receive commission for selling the product. Insurance Co. also agreed to provide training to the NGOs about insurance and the collection of premiums. Collaboration with the NGOs enabled Insurance Co. to sell the product to more than 100,000 people in the first year. It did not take long for the BOP population’s investment to pay off as, in 2009, another cyclone hit the same coast that the tsunami had affected. This led to more than 20,000 claims, which were settled through their collaboration with the NGOs.

All these initiatives by Insurance Co. improved its relationship with NGO-A and facilitated its entry into the BOP market. Insurance Co. first obtained the trust of NGO-A by donating money when NGO-A was trying to help tsunami-affected people. The company also demonstrated its

commitment, and consequently benefited from a more legitimate position, by developing new products that suited the real needs of the BOP communities, something that had been ignored by other companies. The occurrence of another tsunami and the successful management of the ensuing claims definitely enhanced the NGOs' and the BOP's trust in the company and gave it more legitimacy. The establishment of this relationship with NGO-A allowed the company to learn about this market segment. The involvement of NGO-A and the BOP population in the process of product development also brought easier acceptance of the product. Finally, through collaboration with NGOs, the company was able to sell the product in various areas at a lower cost.

4.2 Case 2: Alpha Bank

Alpha Bank is headquartered in the Netherlands and provides financial services. Its subsidiary in India is one of the largest banks to have established a non-profit foundation, which is called Alpha Foundation. The bank allocates part of its profits to the foundation each year, which is used to aid the financial inclusion of the BOP population.

One of the areas on which the foundation focuses is providing technical assistance to micro-finance institutions in India. The foundation noticed that the majority of micro-finance institutions were based in the south of the country. As a result, Alpha Bank was not able to diversify its portfolio to the states located in the north and the east. Micro-finance institutions, which are usually NGOs, borrow a large amount of money from banks and lend it out in smaller amounts to low-income people. However, to be able to borrow money from banks, these institutions have to meet various requirements set out by the banks. These include a certain level of creditworthiness as well as having certain systems and financial practices in place. While there were many NGOs working as micro-finance institutions in the north and east of India, their

activities were based on receiving grants and donations; they did not have the capability to borrow money from banks. As a result, the Alpha Foundation decided to offer technical assistance to build the capacity of the NGOs to enable them to borrow money from banks. A Dutch NGO, NGO-B, was targeting the same area of India and offered to collaborate. Therefore, a mutual interest led to the collaboration between Alpha Foundation and NGO-B and they launched a technical assistance programme in 2006. Alpha Foundation also decided to establish a partnership with an international micro-finance consultancy, NGO-C, in order to provide world-class capacity-building training to micro-finance institutions. NGO-C had prior experience of working in Africa and Bangladesh, and wanted to start a technical assistance programme in India. This partnership was beneficial to both partners as Alpha Foundation lacked experience in micro-finance while NGO-C lacked experience in India. One of the respondents stated:

‘...it was a kind of partnership that they would be a dedicated service provider and we would be able to give them the foothold to get established in the country, so it was a kind of mutually understood arrangement. It worked very well for us.’

While the Alpha Foundation appreciated that access to credit was a critical aspect of changing the lives of the poor, it realized that access to credit was not sufficient on its own. Although the poor could gain access to funds by borrowing money from the micro-finance institutions, they did not necessarily use the money for suitable income-generating activities as they did not have the knowledge, skills and capabilities. One of the interviewees from Alpha Foundation explained as follows:

‘We realized that you can give the poor many loans but eventually you will have 10 buffalos or cows in a village and no way to sell the milk. So we are back to square one. There was no increase in income.’

Therefore, the Alpha Foundation decided to develop a livelihood programme to help poor people invest their money in micro-enterprises whose products could be sold in the market. Given the limited number of employees, Alpha Foundation decided to work with local NGOs with resources in these areas. The NGOs had prior experience of working with poor communities which facilitated the process of obtaining their trust. The foundation’s reasons for collaborating with NGOs were explained as follows by one of the interviewees:

‘We decided to work with NGOs for two reasons. First, they have the workforce which we don’t have. Second, most of them already have ties with the community. The impact of them working and not us working directly is different.... The villagers are used to people coming and making promises and leaving. Unless you have that rapport with them and they trust you, it is not possible, it won’t be effective.’

The NGO partners conduct household surveys to identify the socio-economic requirements, incomes, assets, etc. of the households in each region. Then, based on these data, customized livelihood programmes are developed and implemented. The NGOs train the poor people in how to establish micro-enterprises and Alpha Foundation monitors this process and provides the required funding to the NGOs.

Alpha Foundation has been successful in establishing relationship with NGOs as they offer non-profit initiatives. Confirming that they are not entering the BOP to make a profit (at least in the short term) means that it is much easier for the NGOs and people at the BOP to trust the foundation. In terms of technical assistance, focusing on the neglected areas of the north and east

attracted NGO-B. Offering micro-finance in India was also the goal that NGO-C was pursuing, which facilitated the relationship in this case. Finally, the company and the foundation have benefited from legitimacy by addressing the needs of the BOP population by building up the capacities of the micro-finance institutions and initiating the livelihood programme. All these relationships, with NGO-B and NGO-C as well as the micro-finance institutions will enable the financial inclusion of the BOP population. It has also allowed the bank itself to enter the BOP market through the micro-finance institutions that borrow money from banks.

As a result of offering the livelihood programme which has brought higher incomes to the BOP population, the company has been able to obtain the trust of the NGOs in the collaboration, and has also benefited from the trust of the poor and legitimacy in their eyes. The foundation has also offered managerial and financial support with the implementation of this programme which has enhanced its relationship with the NGOs. The relationship with NGOs has helped the foundation to learn about the needs of the BOP population and implement the livelihood programme.

4.3 Case 3: Home Appliance

Home Appliance is an MNC headquartered in the Netherlands that offers products such as consumer electronics, personal care, lighting and healthcare. Addressing the needs of the huge untapped market at the BOP, Home Appliance decided to launch various social projects. First, the company organized an event targeted at developing new ideas for a product/service to help NGOs to relieve people's suffering in emergencies (e.g. earthquakes) or to enhance individual empowerment and local communities' socio-economic development. The event was attended by Home Appliance managers from all around the world, as well as some leading NGOs.

One of the social problems that was brought to the attention was related to the health of poor people and the necessity of reducing indoor pollution. Indoor pollution has proved to be a critical

issue as respiratory illness affects the health of the huge number of people living in developing societies who still cook indoors with biomass fuels (e.g. wood or dung). Therefore, Home Appliance came up with the idea of designing a smokeless stove that would be simple to use and maintain, relatively cheap, easily made, and would significantly reduce indoor pollution. During the design process, it was necessary to conduct extensive research in the field so as to collect all the information required to develop a truly effective, context-specific solution. In order to conduct research in villages, the design team from Home Appliance started a collaboration with a local NGO, NGO-D, that specializes in grassroots behaviour and social studies. First, representatives from the company and NGO-D carried out an initial visit and introductory meetings with people from the BOP. This was followed by observations and in-depth interviews with people to obtain their insights on cooking behaviours, their experience of currently available devices and purchasing power.

Another NGO that the company started working with was NGO-E. It had expertise in developing and promoting innovative technologies to improve the quality of life in rural India. It also had facilities for training local entrepreneurs who would be able to complement Home Appliance's business model for producing and distributing the product. In order to reduce costs and facilitate widespread distribution, the design package for the production of the smokeless stove was given free of charge to NGOs and entrepreneurs.

After implementing the project, Home Appliance in collaboration with an NGO and a university conducted a sustainability impact assessment to study the changes that the use of the stove had brought for families. In their report about the benefits of the stove, they state:

‘...As far as noxious gases were concerned, there was a decrease in the level of carbon monoxide, nitric oxide, sulphur dioxide and suspended particulate matter (soot)... users in

many houses confirmed that cooking time had decreased, and this time could now be spent on other meaningful activities. There was a decrease in health problems like burning eyes, coughing and difficulty in breathing when cooking.... From an environmental point of view, greater burning efficiency means that less wood has to be used.'

Inviting NGOs to a discussion to decide on a social problem that the company could address planted the seeds for a good relationship and consequently ensured the support of the NGOs. Developing a product that reduces respiratory disease gained the trust of the NGOs and strengthened the legitimacy of the company as a socially responsible entity. Specifically, the company strengthened its relationship with the NGOs by identifying those NGOs pursuing similar goals at the BOP: NGO-D, which specialized in grassroots behaviour and NGO-E, which specialized in developing innovative technologies for the BOP. The company demonstrated its commitment by investing time and money in learning about the needs of the poor and designing a product that could solve their problems. It also gave the intellectual property of its design to the entrepreneurs and NGOs free of charge. The non-profit initiatives of the firm could further attract the trust of NGOs and consequently the BOP population, and bring legitimacy for the firm.

4.4 Case 4: FMCG Co.

FMCG Co. is an MNC headquartered in the Netherlands that offers a variety of consumer products, including foods, beverages, cleaning agents, and personal care products. To address the Millennium Development Goals, the company started looking into different business areas where it could play a role. Its analysis demonstrated that serving the needs of the poor rural population could represent a big step forward. To serve the needs of the poor residing in scattered rural

areas, the company decided to use the self-help groups developed by NGOs in India. FMCG Co. noticed that there were more than three million self-help groups, which could be utilized to reach the BOP population. However, accessing these self-help groups required it to establish relationships with the NGOs that had developed these groups. Considering the scale of the project, FMCG Co. worked with more than 400 NGOs in different areas. The collaboration they proposed was based on a win-win goal. The aim of the NGOs in developing the self-help groups is to reduce poverty and give people the opportunity to create a better life for their families. Therefore, FMCG Co. told the NGOs that if they introduced them to the self-help groups, they would give them the opportunity to start micro-enterprises and work as the firm's sales representatives. This is reflected in the following statement made by one of the managers:

‘...both NGOs and FMCG Co. benefit. They benefit from the fact that the self-help groups that they have created get an employment opportunity and we benefit because we get access to a network.’

FMCG Co. now employs poor rural women from small remote villages and trains them to manage small businesses. In addition to creating jobs for poor people, this distribution channel has allowed the poor to experience a better quality of product for the same prices they were paying before.

The company obtained the trust of the NGOs and encouraged them to collaborate by aiming at a mutually beneficial goal targeting the empowerment of poor women. The company also demonstrated its commitment by offering training to these women to develop their business skills, enabling them to work as the firm's representatives. Also, the company invested resources in developing affordable but good quality products to guarantee sales and a good income for the

sales representatives. Finally, creating jobs for poor women in a society to reduce poverty brought further legitimacy for the firm.

5 Discussion

The case studies in this research highlight the necessity of establishing relationships with actors beyond the traditional business network in order to achieve business goals. This is in line with prior studies expressing the necessity of incorporating social actors into MNCs' networks (Hadjikhani et al., 2008), especially at the BOP (London & Hart, 2004; London, Rondinelli, & O'Neill, 2004). However, this research adds to the previous understanding by elaborating on the role of establishing relationships with NGOs in entering the BOP market. Our study reveals the benefits of establishing relationships with NGOs and how this helped the companies to enter the BOP market. A summary of the strategies the companies used to establish trust, show their commitment and obtain legitimacy, as well as how they entered the BOP market, is presented in Table 2.

*** Insert Table 2 about here ***

Several researchers (J. C. Anderson, Håkansson, & Johanson, 1994; Rodríguez & Wilson, 2002) have pointed out that defining mutually beneficial goals and incorporating the expectations of NGOs can strengthen trust in the relationship. All of the case companies in this study pursued this strategy and defined entry to the BOP in such a way that allowed NGOs to reach their social goals, improving the lives of the BOP population. In the case of Insurance Co., when the company noticed that the BOP market had huge potential not yet being tapped, it decided to respond positively to NGO-A's request for a donation. They came up with a mutually beneficial

proposal that the NGOs could use part of that money to meet the future insurance needs of the BOP population. The donation of money by Insurance Co. and the commitment of NGO-A to examine the need for insurance planted the seeds of trust in this relationship.

In case 2, the reputation of Alpha Bank in offering financial services and its engagement in non-profit activities in disadvantaged areas easily attracted the collaboration of NGOs. For technical assistance to micro-finance institutions, the foundation defined its objectives and sought the collaboration of NGOs pursuing similar goals. Appliance Co. obtained the trust of NGOs from the beginning by inviting them to take part in the process of defining social areas that the company could contribute towards. After the identification of the idea for a smokeless stove, the company started building relationships with NGOs pursuing similar goals. FMCG Co. gained the trust of NGOs by offering to empower the self-help groups they had set up.

The devotion of resources to learn the needs of the BOP population, the development of products/services and facilitating the process of manufacturing/selling the products demonstrates the MNCs' commitment to the NGOs and the BOP communities. In addition, some of the MNCs (Insurance Co. and FMCG Co.) made the decision to accept less profitability in the short term. Alpha Bank and Home Appliance even went beyond this by offering non-profit initiatives to demonstrate their commitment to enhancing poor people's lives. This is in line with the literature suggesting that, to show commitment in a relationship, companies may decide to sacrifice attractive short-term benefits (Morgan & Hunt, 1994).

It should be noted that the MNCs' investments in these less profitable/non-profitable activities were not made because they had become social organizations but were due to their belief that

their commitment and investment in these communities would ultimately bring financial benefits. One of its managers spoke about this as follows:

‘...The knowledge we gain from these markets can be applied to other markets. The way we organize our operation, make it more efficient and the way we work together with third parties provide us with valuable experience.... The benefit is not immediate, but the benefit is definitely in the future. In our industry, we are the first company to approach poor people.’

Meanwhile, the reason that Alpha Bank started providing technical assistance was that it noticed that people living in these areas did not have bank accounts with the firm. As a result, the company started building the capacity of micro-finance institutions in the hope that in the long run they would be able to borrow money from the bank. Although these micro-finance institutions do not necessarily have to borrow money from Alpha Bank, building their capacity will lead to a higher demand for banks overall. As for the livelihood programme, the aim was to generate income for the financially excluded who, at a later stage, will become potential bank customers.

Although Appliance Co. offers the design of the smokeless stove for free, its interaction with BOP communities has enabled it to learn about this segment of the market, which could bring it a competitive advantage in the future. One of the managers pointed out the benefits of developing the smokeless stove as follows:

‘The return on this participation is not measured in terms of profit, but by other indicators like an increase in brand equity and new learning to generate innovative sustainable

solutions. We gained lots of insights about our consumers, and we should not forget these are also the same consumers who are buying our lamps and other products.’

Finally, FMCG Co. is empowering the poor by offering them job opportunities which will give them a higher disposable income in the long term and enable them to purchase FMCG Co.’s products. In addition, this new distribution channel allows the company to sell its products even in remote villages. Thus, all of the case companies’ initiatives at the BOP corroborate prior studies, by indicating that these firms’ investments in social activities are in fact marketing investments (Hadjikhani et al., 2008) and provide profitable entry into new markets in the long run.

Our study confirms that taking steps to address poverty in a country with a considerable BOP population, as well as incorporating the expectation of NGOs in this regard, brings legitimacy for corporations (DiMaggio & Powell, 1983; Yang & Rivers, 2009).

Based on the evidence provided by the case studies, the key reasons for establishing relationships with less conventional partners at the BOP can be categorized into three areas: First, NGOs at the BOP may have technical expertise in offering solutions for the poor (Prahalad, 2009; Teegen, 2006; Teegen et al., 2004). Second reason for building relationships with NGOs is that they have good relationships with the BOP communities. This means that they are trusted by the poor and consequently give the MNCs a legitimate position in the eyes of the poor. Third reason for working with NGOs is to benefit from the NGOs’ resources and networks. Since the affordability of products is critical at the BOP (J. Anderson & Billou, 2007), all of the companies decided to seek collaboration with NGOs that were able to assist them in implementing their projects at a lower cost. For example, all the companies (except FMCG Co.) asked NGOs to

conduct surveys about the needs of the BOP communities which served as base for their strategies for these markets.

6 Conclusion

In this paper we analyse the relationship between MNCs and NGOs and explain how it can facilitate MNCs' entry into the BOP market. We adopt a business network perspective and extend it to non-business networks. We argue that, by developing their relationships with NGOs, MNCs can build trust, demonstrate their commitment and strengthen their legitimacy in the eyes of the NGOs and consequently the BOP market.

In contrast with the business network literature (Gummesson & Polese, 2009; Wang & Fang, 2012), which emphasizes building relationships with business entities in order to achieve business goals, this research reveals that, when the business goal of a firm is associated with social problems, social entities such as NGOs can play the role of business networks. Our findings also strengthen the view that MNCs usually engage in collaborations with non-business organizations in the hope of obtaining their support (Ghauri & Holstius, 1996). This network participation also brings the benefits of information flows, resource flows and legitimacy flows (Gnyawali & Madhavan, 2001)

In line with the findings of Schuster and Holtbrügge (2012), the initiatives of the companies highlight that the commitment of corporations should go beyond the organizational boundaries of the firm and involve training and building the capacity of their NGO partners and BOP communities. Although this investment in their partners may be time consuming and resource intensive, it will pay off for corporations over a longer period of time.

Another conclusion of this research is that establishing a relationship with the BOP is interdependent with building relationships with NGOs. In other words, trust, commitment and

legitimacy in an MNC's relationships with NGOs can strengthen its relationship with the BOP (see Figure 3).

*** Insert Figure 3 about here ***

We can thus conclude that if MNCs want to enter the BOP market successfully, not only should they invest in their relationship with the BOP market but also with other non-business actors. The development of trust, commitment and legitimacy should be geared at both NGOs and the BOP (see Figure 4). The relationship the MNCs have with each of these groups has an impact on their relationship with the other group.

*** Insert Figure 4 about here ***

This study is constrained by several factors which could lead to avenues for future research. First, the findings of this research are based on interviewing four MNCs, which limits their generalizability. Second, only MNCs operating at the BOP in India were selected. Although India accommodates a considerable proportion of world's BOP population, the conditions in the country may not be comparable to those in other countries. Finally, the interviews for this research focused on the relationship between MNCs and NGOs. Future studies could also incorporate the BOP population and further investigate trust, commitment and legitimacy in the relationships between other non-business actors and the MNCs.

Several managerial implications can be extracted from this research. First, this study illustrates that one strategy for entering the BOP market is to establish relationships with NGOs. In their relationships with NGOs, corporations should accept that they need to align their goals with those of the NGOs and incorporate their expectations so as to benefit from their support. This means that corporations should aim to offer products/services to the poor that will bring *real* positive change to their lives.

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Figure 1

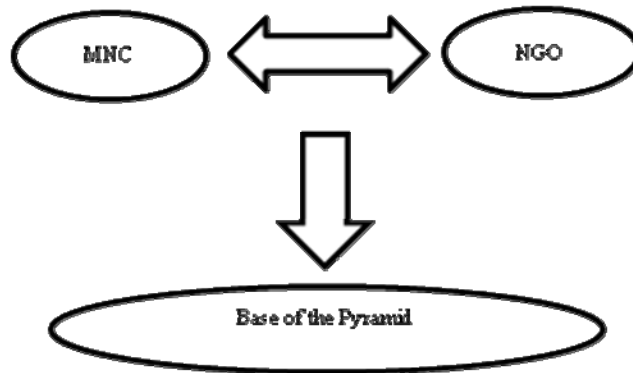
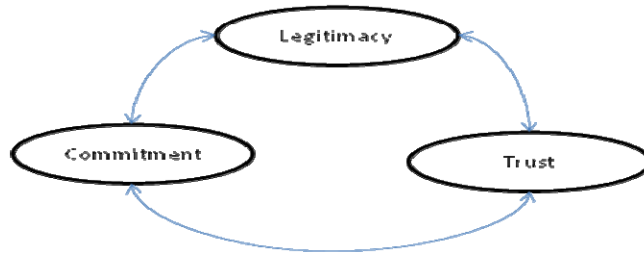


Figure 2



(Source: Based on Hadjikhani et al. (2008))

Figure 3- Interdependency between the MNC-NGO relationship and the MNC-BOP relationship

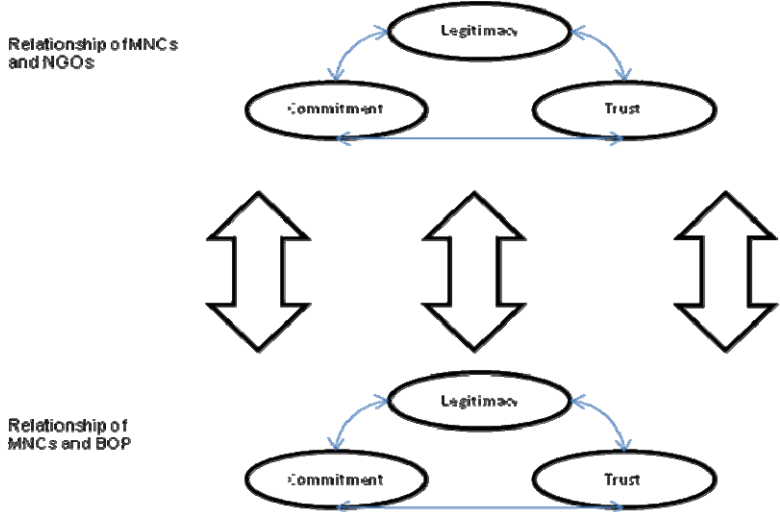


Figure 4- Establishing relationships (trust, commitment and legitimacy) with both NGOs and the BOP

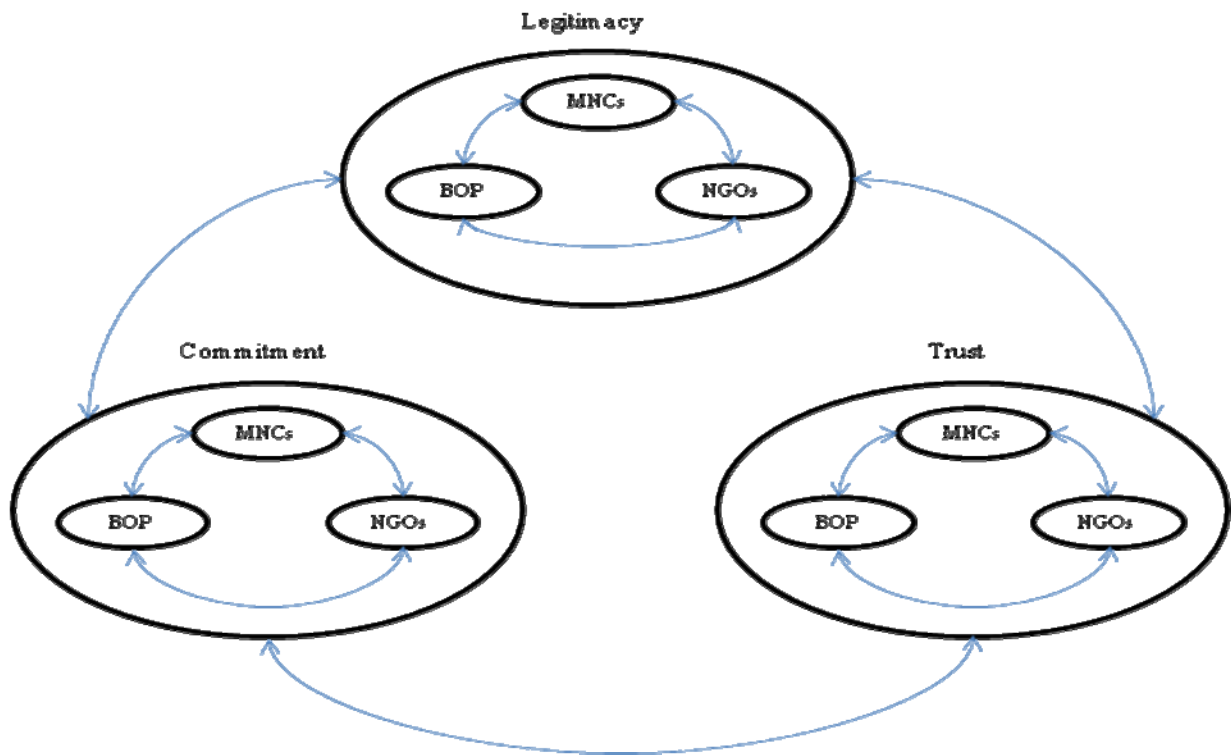


Table 1. Overview of case companies

Company ¹	Field of activity	Initiatives at the BOP
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¹. To maintain confidentiality and anonymity, the names of the companies have been changed in this paper.

Insurance Co.	Finance and insurance	This company offers affordable micro-insurance for the most vulnerable people.
Alpha Bank	Financial services	Through its foundation, his company offers technical assistance and financial education to micro-finance institutions to enable them to borrow money from banks. It also offers training to poor people to help them establish their own micro-enterprises.
FMCG Co.	Fast-moving consumer goods	This firm produces good quality, affordable soaps, detergents and shampoos for remote rural villages. The company has developed a widespread distribution channel by recruiting poor local women.
Home Appliance	Electronics	This company has designed a simple but efficient smokeless stove for the BOP population to reduce the occurrence of respiratory illness.

Table 2 - Relationships between MNCs and NGOs at the BOP

	Insurance Co.	Alpha Bank/Alpha Foundation		Home Appliance	FMCG Co.
		Technical Assistance	Livelihood programme		
Initiatives for building trust	-Responding to NGO-A's demand for a donation after the tsunami -Developing micro-insurance products according to the needs of the poor -Responding to claims of insured people after the second tsunami	-Starting with disadvantaged areas that other banks had ignored -Engagement in non-profit initiatives -Establishing relationships with NGOs pursuing similar goals different parts of)	-Pursuing the aim of generating income for the disadvantaged population -Giving money to NGOs to implement the programme	-Inviting NGOs to take part in the process of defining social areas -Cooperation with NGOs with similar goals	-Offering job creation for self-help groups

Initiatives for demonstrating commitment	-Dedicating resources to learning about the needs of the poor and developing products	-Pursuing non-profit initiatives and accepting a long-term return on their investment -Establishing relationship with international NGOs to bring world-class training to micro-finance institutions	- The launch of a livelihood programme to create income for the poor -Pursuing non-profit initiatives- Managerial and financial support to NGOs	-Learning about the needs of households and designing products that solve their health problems -Donating the intellectual property for the smokeless stove to local entrepreneurs	-Developing affordable, good quality products -Training women to establish micro-enterprises
Enhancement of legitimacy	-Offering risk protection to BOP through micro-insurance	-Building capacity of micro-finance institutions -Offering loans to the BOP through micro-	-Generating income for poor people	-Decrease in the health problems of the poor -Generating income for local	- Empowerment of self-help groups -Distributing better quality products in

	-Successful management of claims after second tsunami	finance institutions		entrepreneurs - Environmental protection	remote villages
Consequences of building relationships with NGOs and BOP market entry	-NGO-A facilitated meetings with BOP population -Learning about the needs and paying capacity of the poor - Mobilization of other NGOs to sell micro-insurance in other areas	- Implementation and coordination of technical assistance -Offering micro-finance consultancy -Creating higher demand for the Bank through micro-finance institutions	-Conducting a household survey via NGOs - Implementation of livelihood programme with NGOs -Developing higher financial demand from the BOP segment	-NGO-D facilitated the collection of data about the cooking behaviour of BOP - NGO-E helped in the process of developing the smokeless stove, the identification of local entrepreneurs and the provision of training for them	-NGOs introduced their self-help groups to work as the firm's sales representatives -Development of a new distribution channel to guarantee the accessibility of the product to the BOP market

