

BEYOND THE BASE OF THE PYRAMID: FOR AN INCLUSIVE AND PURPOSEFUL CAPITALISM

Além da base da pirâmide: por um capitalismo inclusivo e com propósito

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ABSTRACT

The Base of the Pyramid is a fertile field for innovation. Since the seminal article from Prahalad and Hart (2002), the concept has evolved from a perspective of selling to the poor (BoP 1.0) to a more inclusive and purposeful model. Meanwhile many other trends appeared with the same objective to use market mechanisms in order to create a better world. Some of these trends are Shared Value, Conscious Capitalism, B Corps and Social Entrepreneurship. This article aims to analyze some of the common characteristics of these trends. The conclusion is that they are not complete solutions, but possibilities to rethink the way businesses are done. They do not solve the problem of eradicating poverty or diminishing vulnerabilities, but they are part of the solution.

KEYWORDS: Base of the pyramid, shared value, conscious capitalism, BCorp, social entrepreneurship.

RESUMO

A Base da Pirâmide é um campo fértil para a inovação. Desde o artigo seminal de Prahalad e Hart (2002), o conceito evoluiu de uma perspectiva de “venda para os pobres” (BoP 1.0) para um modelo mais inclusivo e com propósito. Enquanto isso, muitas outras tendências surgiram com o mesmo objetivo de usar mecanismos de mercado para criar um mundo melhor. Algumas dessas tendências são Valor Compartilhado, Capitalismo Consciente, Empresas B e Empreendedorismo Social. Este artigo pretende analisar algumas das características comuns destas tendências. A conclusão é que elas não são soluções completas, mas possibilidades de repensar a forma como as empresas são gerenciadas. Elas não resolvem o problema da erradicação da pobreza ou da diminuição das vulnerabilidades, mas fazem parte da solução.

PALAVRAS-CHAVE: Base da pirâmide, valor compartilhado, capitalismo consciente, empresas B, empreendedorismo social.

1 Introduction

Until 1997, most of the discussion about low income population in the management field was much more oriented to their lack of access to large retail chains and the need to buy in small inefficient and more expensive stores. The main point was to analyze the poverty penalty, *ie*, why do poor people pay more for the same products and the proposal was to create mechanisms to facilitate the operation of larger retailers and/or professionalize the smaller stores in the inner cities.

Since 1998, the subject had broadened in several aspects. Many different authors from distinct countries joined the debate, which turned into a global discussion, with a strategic orientation aiming at creating opportunities to sell profitable goods and services for the poor and simultaneously improve their welfare.

In that year, Prahalad and Hart wrote an article that was still underground called "Raising the Bottom of the Pyramid: Strategies for Sustainable Growth". It was only published in 2002 with the name "The Fortune at the Bottom of the Pyramid", and was considered one of the most influential papers on the subject (London and Hart, 2010). The main objective was to show the enormous potential of the low income population, mainly in the emerging markets. This opportunity, still out of MNCs lens could mean "*lifting billions of people out of poverty and desperation*" (Prahalad and Hart, 2002, p.3).

The BoP paradigm was important to look at this almost 3 billion people that live worldwide with less than US\$ 2 per day in another perspective. Many large corporations, such as Nestlé, Unilever and Tetrapak created distinct business units in order to develop new products and services that could offer access to basic needs to this population improving their wellbeing.

Although there was not a consensus of the meaning and comprehensiveness of the base of the pyramid, different approaches were discussed in order to define strategies and business models to reach this population and several issues appeared regarding the feasibility of accessing this population in a profitable, sustainable and inclusive way. Currently, many organizations from the third and second sector are working to improve the lives of the poor. The first approach to BoP (Prahalad and Hart, 2002), the so-called BoP 1.0, has evolved to a second and third generation, with a more inclusive perspective. Moreover, the challenges and basic needs not fulfilled by the BoP have created the urgency to rethink the way businesses were done. The BoP is, therefore, a fertile field to bring innovation. Reverse innovation, disruptive innovation, social innovation are some of the new trends to try to deal with the difficulties brought by the BoP.

However, one of the most important innovations is the innovation in the business models. Is it possible to rethink the way businesses are done in order to improve the lives of the poor and to have a less unequal society? With this perspective, this article aims to analyze the common arguments of different business approaches to deal with poverty and social inequality in the world.

Many authors from different fields have discussed possibilities to change the world in a more mindfulness manner. BoP 2.0, BoP 3.0, Shared Value, Conscious Capitalism, B Corps, Social Entrepreneurship are some of the concepts and movements that aim to define new ways to create a more inclusive and purposeful capitalism. In the next sessions we will analyze these trends to understand what they have in common.

2 BoP 2.0 / BoP 3.0

The seminal article from Prahalad and Hart (2002) was very important to shed light to the importance of the Base of the Pyramid and to stress the possibilities that businesses might have to improve the lives of the poor.

After their article, the discussion has evolved to the strategies that best fit emerging markets, the differences between emerging poor markets and developed markets, BoP consumer behavior, sustainability, poverty alleviation, clean technology and new business models. The interest on the subject has risen among scholars and practitioners.

At the same time, many criticisms appeared (Jenkins, 2005; Wilson and Wilson, 2006; Karnani, 2007) praying that the “BoP approach” was much more about selling to the poor and having more profits and less about helping the poor and eradicating poverty. Karnani (2007) the most straightforward critic of Prahalad stated that the BoP was not a market for corporations, instead should be accessed by the government or NGOs and that firms were just able to reach a middle class and were mainly exploring the poor instead of benefiting them.

A second wave appeared (Simanis and Hart, 2009) with a new proposition of engaging the Base of the Pyramid as business partners instead of narrowing them as consumers. The second generation BoP strategy was based on a more embedded approach with the objective to create partnerships with the poor, through direct, personal relationships facilitated by NGOs. The so-called BoP 2.0 aimed to have a more inclusive view, in which the poor had a central role in the definition of the best ways to create value for society.

Although, currently, many organizations are still working in the BoP 1.0 perspective with a distance from the real needs of the community, recently it was theorized the idea of BoP 3.0 (Cañeque and Hart, 2015), in which the BoP market is not seen just as a protected space to work, but as part of the core purpose of the organization, its ambition. This means that BoP from a tangential strategy from a corporation, should be considered in its central core value, in its DNA. In addition, more than just seen as poverty alleviation, BoP might be a fertile field for innovation of the ecosystem and for sustainable development, joining clean technology with BoP needs (Hart, 2005).

This evolution from BoP 1.0 to 2.0 and now to 3.0 shows some important changes. Firstly, from a perspective of mainly seeing the poor as consumers, it advanced to a more engaging attitude, with the BoP as partners. Secondly, from a top down model, it switched to a more inclusive view. Lastly, from a structural innovation, it evolved to a more embedded and open innovation (Simanis and Hart, 2009; Cañeque and Hart, 2015).

All these changes bring a more purposeful and inclusive perspective in which the poor receive more attention from the firms. In this way, there is a double win. For the BoP is a manner to diminish their vulnerabilities, and access basic products and services. For the firms, it is a way to profit, innovate and learn new practices of doing businesses.

3 Shared Value

The concept of Shared Value relies on the idea that firms might seek economic and social benefits simultaneously.

“The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while

simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress” (Porter and Kramer, 2011).

According to Porter and Kramer (2011) there are three ways to create shared value:

- **Reconceiving Products and Markets:** there are many societal problems, such as health, education, financial inclusion, water that might be solved with new products or business models that deal with those issues and might be beneficial to corporations and society.
- **Redefining Productivity in the Value Chain:** there is an opportunity to rethink the use of natural resources, the working conditions and the engagement of small suppliers that can diminish costs, increase productivity and at the same time benefit society.
- **Enabling Local Cluster Development:** Clusters might improve the company productivity while addressing gaps or failures in the framework conditions surrounding the cluster.

Moreover, Pfitzer, Bockstette and Stamp (2013) identified five mutually reinforcing elements that enhance the shared value practice. Those elements are:

- **Embedding a Social Purpose:** “creating shared value entails embedding a social mission in the corporate culture and channeling resources to the development of innovations that can help solve social problems” (Pfitzer, Bockstette and Stamp, 2013, p. 4).
- **Defining the Social Need:** firms go deep into the social problems to understand the real needs of the population in order to design scale into the business model.
- **Measuring Shared Value:** Companies should measure the financial and social impact of their business models. For instance, Coca-Cola Brazil in its well-succeeded program Coletivo Coca-Cola has four metrics of success, two economic (sales and brand love) and two social (employability and self esteem).
- **Creating the Optimal innovation Structure:** The shared value proposition happens when the firm: has already a clear social purpose, create a semiautonomous unit and/or obtain philanthropic or government support.
- **Co-create with external stakeholders:** For the success of shared value proposition, it is important to enlist a wide range of stakeholders in order to leverage capabilities and deepen understanding of the social needs.

The concept of shared value has also received many criticisms, such as: it is unoriginal; it ignores the tensions inherent to responsible business activity; it might promote more sophisticated strategies of greenwashing; it has a myopic focus on reconceiving new products and markets; it glosses over the complexities of value chains; that clusters, like value chains and hybrid organizations are not unproblematic purveyors of social good, that it is naïve about business compliance and that it is based on a shallow conception of the corporation’s role in society (Crane et al., 2014).

Although all those valid critics, the main argument is that several large companies are pursuing the proposition of shared value delivering products and services that create economic benefit with a higher social value. For instance, in Brazil, Nestlé and Coca-Cola have business units of shared value and are intensively working with this concept.

4 Conscious Capitalism

More than a business model, conscious capitalism is a philosophy of doing business (Sisodia, 2011). The concept of conscious capitalism seeks to create a series of benefits for all its stakeholders: financial, intellectual, physical, ecological, social, cultural, emotional, ethical and even spiritual. It is a way of thinking about the business with a higher purpose. It has a more inclusive and holistic approach (Sisodia, 2011). Companies within the characteristics of conscious capitalism pursue affection, love, happiness, authenticity, empathy, compassion. They are companies with "body and soul" and that are different from the traditional companies for presenting a more emotional side. This might seem to distract companies from their profitability goal. However, what is perceived is that these companies are able to combine this emotional side with a rational business vision and, as well as being better companies to work and do business, turn out to be more profitable companies (Mackey and Sisodia, 2013; Sisodia, Wolfe and Sheth, 2007).

Conscious capitalism is based on four basic pillars (Mackey and Sisodia, 2013):

- Higher Purpose: Conscious businesses have strong values and purposes that go beyond profit.
- Orientation to stakeholders: Conscious companies act by seeking benefits from various stakeholders, including suppliers, consumers, employees, investors, environment and the community.
- Conscious Leadership: Leaders have a holistic view, viewing the company as part of a complex, interdependent and evolving system. Always seek win-win relationships.
- Conscious Culture: They have a strong culture based on Trust, Authenticity, Care, Transparency, Integrity, Learning and Empowerment.

According to Sisodia (2011, p. 99),

“these four elements of Conscious Capitalism are mutually reinforcing, and describe a comprehensive systems perspective on business that is far richer and more complex than traditional machine metaphors [...]. Companies that adhere to these principles outperformed the market by a 9-to-1 ratio over a ten-year period. Beyond financial wealth, these companies also create many other kinds of societal wealth: far more engaged and fulfilled employees, loyal and trusting customers, innovative and profitable”.

There are some critics towards conscious capitalism regarding the feasibility to sustain commitments to virtue over the long run, that is not the only viable business model that drives success, the difficulty (or unfeasibility) to treat all stakeholders equally and fairly and the limited potential of firms to do good (O'Toole and Vogel, 2011).

However, the argument is that Conscious Capitalism might be seen as a philosophy to pursue better results, not only in a financial perspective, but also in a more holistic view. And those companies are seen as good places to work, have good financial results, have a better relationship with stakeholders and better impact on society/environment.

5 B Corporations

B Corps are for-profit companies, purpose driven and designed to create benefits for all stakeholders and not only the shareholders (Kim et al., 2016; Pippin and Weber, 2016). They are certified by the nonprofit B Lab to meet standards of social and environmental performance, accountability, and transparency. The first B Corps were certified in June 2007 and as of November 2016 there were almost 2,000 certified B Corporation in 50 countries.

The B Corporations are certified based on five main metrics: environment, workers, customers, community and governance. Two reasons to become a B Corp are: (1) the interest of some corporations to identify themselves as truly engaged in social and environmental issues, differentiating them from the hype of greenwash or social responsibility revolution, and (2) the belief that the current business models are a central part of the current world crisis and that new ways of conducting businesses are important to create a new economy with new rules, redefining the way people perceive success in the business world (Kim et al., 2016).

These two arguments emphasize the perception that the corporations might be managed in a different way, and the capitalism might be reconceived to create a more sustainable world with less social problems.

In this regard and according to Honeyman (2014),

“a more valuable measurement of success, and perhaps the true legacy of the B Corp movement, would be a dramatic increase in the number of businesses that measure what matters—social and environmental performance, in addition to financial performance—by using credible, whole-business benchmarking tools such as the B Impact Assessment. When businesses measure the effects of their operations on all of their stakeholders, compare themselves with their industry peers, and start to compete to be the best for the world rather than just the best in the world, we will be making progress toward a shared and durable prosperity for all”.

6 Social Entrepreneurship / Social Business

There are many different concepts of Social Entrepreneurship / Social Business (SE/SB) (Comini et al., 2012). The main idea behind those concepts is the fact that SE/SB are organizations that aim as their main goal a social/environmental benefit and are financially sustainable (Barki et al., 2015). There are some different views regarding the distribution of dividends. Some authors are in favor of the distribution in order to attract more capital (Chu, 2007), while others state that the distribution of dividends might take the organization out of the track of the social objective, prioritizing the financial outcomes (Yunus, 2010).

Although the concept of Social Entrepreneurship is not new (Dees, 2001), it has gained force recently due to its appeal of how to use market mechanisms - and the strength of corporations - to do good to the society.

Currently, there is a momentum in the field of SE/SB. A GIIN (2016) research with 157 impact investors shown that they have committed a total of USD 15.2 billion to 7,551 impact investing deals in 2015. Moreover, many new organizations such as accelerators, incubators and intermediate organizations appear in order to foster this ecosystem, that is still in its infancy, but that is growing fast.

Moreover, it is a concept that engage some local companies and startups that proliferate around the world looking for innovative ways to tackle social problems as well as large companies that partner with social enterprises in order to create new products and services as the cases of Danone and Veolia that both partnered with Grameen Bank in Bangladesh.

7 Putting all Together

The concepts and movements presented before have some differences. For instance, while the conscious capitalism is considered more as a philosophy, the B Corporations have a certification and Shared Value is a concept of business model with defined strategies. Moreover, some are more focused on large corporations (Shared Value) while others might integrate local and global (BoP 2.0/BoP 3.0, SE/SB). Lastly, they are not all focused on BoP. For example, Whole Foods is one of the main corporations cited in the conscious capitalism movement. Although the company does not target BoP as their customers, it works to have a more inclusive and sustainable supply chain.

Nevertheless, the main argument here is to understand the similarities of those movements/concepts. Table 1 presents their main proposition and main elements.

Table 1 - Some characteristics of different concepts/movements

	BoP 2.0/3.0	Shared Value	Conscious Capitalism	B Corporations	SE/SB
Main Proposition	“Creating a fortune <i>with</i> the poor” (London and Hart, 2010)	“Expanding the connections between societal and economic progress” (Porter and Kramer, 2011)	“Creating a series of benefits for all its stakeholders” (Sisodia, 2011)	Purpose driven companies designed to create benefits for all stakeholders.	Organizations that aim a social /environmental benefit and are financially sustainable.
Main Elements	<ul style="list-style-type: none"> - Core Purpose / ambition - Embedded and open innovation - Cross Sector Partnerships - Sustainable development 	<ul style="list-style-type: none"> - Embedding a Social Purpose - Defining the Social Need - Measuring Shared Value - Creating the Optimal innovation Structure - Co-create with external stakeholders 	<ul style="list-style-type: none"> - Higher Purpose - Conscious Leadership - Conscious Culture - Orientation to Stakeholders 	<ul style="list-style-type: none"> - Environment - Workers - Customers - Community - Governance 	<ul style="list-style-type: none"> - Social Purpose - Financial Sustainability - Orientation to Stakeholders - Innovation

One of the most striking points is the fact that all of these concepts/movements have in their core a higher purpose mindset. It is not enough to make money. What interest here is the process and the way the organizations are built. Their objective is to do good to society, diminishing vulnerabilities and inequalities.

A second common characteristic is the concern with all stakeholders, not only the shareholders. Clients, workers, suppliers, society, environment. All these trends seek models that might work in a more holistic view and are interested in the consequences of the organizations to everyone. It is a concern with a more sustainable development.

A third essential part of these trends is that they are all based on a distinct governance, that is more conscious (Conscious Capitalism), balanced (B Corp) and humanistic and in which the social aspect is in the core of the organizational culture.

A fourth element is the need to measure other things than just financial returns. This is stronger in the case of B Corps that are indeed measured and certified, but is true to all these trends that look for different metrics that evaluate also the social and environment impact of their operations.

A fifth characteristic is the inherent innovation aspect on many of these trends. The BoP 2.0/3.0 states clearly the importance of the embedded and open innovation to create new business models. The Shared Value Proposition affirms that corporations should create an optimal innovation structure. Innovation is also present in the SE/SB concept that is based on new products and services that solve social problems in a low cost effective manner.

Overall, these trends consider that more humanistic and purposeful organizations might be part of a more inclusive society. They bring an innovative way of creating products and services that diminish inequalities, have a higher purpose, with different governance, with a positive impact to all their stakeholders and that evaluate those impacts.

8 Final Considerations

Poverty is a multidimensional problem. To eradicate poverty, it requires many different structural, political and societal changes. Some authors believe that companies might be part of this solution and that we might create a more mindfulness and inclusive capitalism.

This article presented some concepts and movements that, although different in many aspects, have some complimentary and similar approaches. BoP 2.0/3.0, shared value, conscious capitalism, BCorp and Social Entrepreneurship: all of them have in common the idea of having a higher purpose and a more holistic view, addressing not only the shareholders, but having a broader understanding of the impacts of the corporations in all the stakeholders.

All these concepts and movements show a trend of looking for more consciousness and purpose. They present a new perspective of doing business with a more idealistic and humanistic approach. At the same time, all of them suffer of criticisms, mainly because they are seen as naïve, that corporations are meant to offer dividends to stakeholders and that not all the companies fit those movements.

The fact is that they represent different paths for a more inclusive and purposeful capitalism. They are not complete solutions, but possibilities to rethink the way businesses are done. They do not solve the problem of eradicating poverty or diminishing vulnerabilities, but they are part of the solution, instead of enhancing those problems.

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