



# The role of social value creation in business model formulation at the bottom of the pyramid – Implications for MNEs?



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## ABSTRACT

This paper presents an exploratory study of how social value creation and business models may be interrelated in the context of the bottom of the pyramid (BOP) business formation. We develop our analysis around five case studies of actual businesses set up in rural India by people in the BOP. We attempt to draw implications from the performance of the business models in the BOP for what MNE strategies of engagement with the BOP may learn from the processes we analysed.

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## 1. Introduction

China, India, Brazil, Indonesia, and other economies of the global south are more and more frequently referred to as “heavyweights”, “rising stars”, or “rising powers” (e.g. Bremmer, 2010). What makes these countries interesting for politicians, business practitioners and researchers alike, is not only their fast growing economy. These countries are often the birth place of firms that are capable of teaching developed market MNCs a valuable lesson in terms of new models of innovation such as “cost”, “reverse” and “polycentric” innovations (Madhavan, 2010), that pose quite serious challenges to incumbent western companies including in their own territories (Brittain, 2010) and force them to rethink their dominant business or innovation models.

Paradoxically perhaps, Rising Powers are also countries where the majority of people in the so-called bottom or base of the pyramid (BOP) are struggling to work and live. IB scholarship has recently displayed an increasing cognizance of the BOP

(Dahan, Doh, Oetzel, & Yaziji, 2010; London & Hart, 2004, 2010). This strand of literature seeks to enhance understanding of how working with the BOP can generate mutual value for both BOP ventures and their partners such as producers and sub-contractors (London, Anupindi, & Sheth, 2010). Thus the key issues in the International Business (IB) related literature on Rising Powers boil down to appropriate business strategies and social value creation.

The present paper seeks to make a contribution to this literature by enriching our understanding of how BOP business models and social value creation are actually related. Here, we define social value creation as an activity that leads to the realisation of any of the three core values of development, i.e. sustenance, self-esteem, and freedom from servitude (Todaro & Smith, 2011). These dimensions along with the debate around social value creation will be discussed in detail in later sections.

There is already a recognition of the fact that existing, dominant MNE business models will prove ineffective at the lowest level of the BOP (Rohatynskyj, 2011) and that MNEs will be challenged to develop BOP-relevant business models without developing strong partnerships in host countries in order to build ‘mutual’ value (Dahan et al., 2010). The majority of these studies focus on ventures that are at the intersection of the bottom and the middle or the bottom and the top of the pyramid. In other words, although they are aimed at the BOP they are actually set up by individuals or companies originating from outside the BOP.

In this paper we take a rather different approach. Our starting premise is that in order to gain a better insight into how business models can build social value ‘for’ or ‘with’ the BOP, we should start by investigating how social value creation actually takes place by the BOP and in BOP communities. Thus our key objective is to gain

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an understanding of how BOP firms themselves use their business models to simultaneously create commercial and social value. Surprisingly, research on this subject is limited within the IB literature. Social value creation has been discussed largely as part of a broader discourse about social entrepreneurship research. However, on top of the debate about the definition of social value (Rohatynskyj, 2011), social value creation seems to be predominantly characterised as a behaviour that is not confined within the boundaries of an enterprise. It “can occur within or across the non-profit, business, or government sectors” (Austin, Stevenson, & Wei-Skillern, 2006, p. 2). Furthermore, even if it takes place within a business organisation that achieves more than full cost recovery (Yunus, 2008), the company’s social mission is prioritised over its financial goals (Dees & Elias, 1998). Hence, it might impair the firm’s sustainability and/or scalability. Resulting from this differentiation, the social value creation in organisations that belong to the commercial end of the spectrum are often dismissed as “secondary gains” (Certo & Millera, 2008, p. 268). This perspective effectively “relegates” social value creation to an analytical arena where business models have a minor role. In the context of BOP, this perspective is bound to be unhelpful or even irrelevant.

Thus, whereas in advanced country contexts social value creation as distinct from business value creation might make sense in terms of causes or missions for advancing particular, ‘non-business’ social values often pursued by driven, single minded, “social entrepreneurs” (Dacin, Dacin, & Matear, 2010), people in the BOP may find it difficult or impossible to *conceive*, let alone create and sustain businesses that do not have social value creation as a major outcome or benefit. From their vantage point, BOP business entrepreneurs are a part of the ‘social’ for which value needs to be created! They do not necessarily need an outsider’s ‘mission’ but need to find out how to reduce or overcome constraints they and their communities face. Of course one can point out successful businesses emanating from the BOP where social value creation may have been a clearly articulated objective (Acs, Boardman, & McNeely, 2013). This raises the following research questions that we seek to explore in this paper: (1) In the context of BOP what factors influence whether social value creation is an OBJECTIVE of business formation? (2) In the context of BOP, how is social value creation related to business model formulation and dynamics?

In an attempt to avoid the definitional and operational minefield that surrounds the word “entrepreneurship”, we focus on small and medium sized businesses pursuing sustainability and growth as their primary goal. Expanding on Cantillon’s initial definition (2010 [1755]), the term “entrepreneurial” is used here to describe commercial behaviour within the boundaries of a business. It involves inherent financial risk-bearing as opposed to the relative financial security of fixed wage workers. Section 2 forms the bases of our arguments. We use abductive reasoning to frame our research questions by drawing on the debate around the nature of social value creation. As a result we identify an “anomaly” in the literature from where we infer that social value creation may take a different form in BOP markets in that it forms an organic part of the business model design. Furthermore, we build on the business model, management, and development economics literatures in addition to the social entrepreneurship literature to construct a conceptual background. The present paper investigates five rural businesses in India in order to satisfy the condition of BOP-embeddedness.

## 2. Literature review

As outlined in the introduction, this paper sets out to investigate the factors that influence whether social value creation

is a conscious objective, a by-product, or an organic part of business formation in BOP markets. For this reason, it is important to give a short overview of the debate on the relationship between business activities and social value creation. At the heart of the debate are the following questions. Is an explicit social mission a necessary condition for social value creation and can a business simultaneously and equally pursue social and economic goals?

On the one hand, policy makers such as the UK’s Department for International Development as well as international organisations such as the World Bank and the United Nations emphasise the importance the private sector can play in advancing social agendas (Newell & Frynas, 2007). On the other hand, the literature tends to suggest that although commercial enterprises can have transformative social impact, social value creation as a primary mission is more commonly found in social enterprises rather than in commercial ones (Austin et al., 2006). This view implies that enterprises with an emphasis on public good rather than on private gain will be less successful in terms of market growth and profitability. In other words, enterprises with social value creation as their main objective are expected to experience some degree of conflict between the commercial and social dimensions of their business model (McDonald, 2007).

Vega and Kidwell (2007) construct a typology to capture the similarities and differences between social and business ventures. While a pure form of social entrepreneurship termed “deeds social entrepreneurship” centres around the passion for a cause, especially a greater good for society, “dollars social entrepreneurs” are more focused on facilitating social value creation by generating money to fund ideas without significant operational involvement in the projects. The latter category displays an entrepreneurial behaviour in terms of the ability to raise money. On the commercial end of the spectrum, “incubating entrepreneurs” are argued to focus more on products and ideas and are driven by their passion to live a lifestyle of creating a business. “Enterprising entrepreneurs” on the other hand, are more market-focused and driven by the prospect of making profit. The product and the business idea are seen as a means of making money rather than a lifestyle (Vega & Kidwell, 2007).

Vega and Kidwell (2007) propose that it is possible for an entrepreneur to move through the entire spectrum of these typologies over time. Nevertheless, their typology implies that social mission and commercial mission do not occur at the same time in the same intensity. In a similar vein, Acs et al. (2013) associate “deeds entrepreneurs” with charity and “dollars entrepreneurs” with philanthropy. While charity is aimed at immediate relief and income redistribution, philanthropy’s goal is the reconstitution of wealth and opportunity creation. Charities mostly rely on donations and are thus not sustainable in the long-term. Philanthropy on the other hand relies on foundations and can be said to be self-sustaining. The main difference between these two forms of social value creation and social entrepreneurship lies in the existence of a viable business model. Social entrepreneurship creates social value through acting as a change agent and/or providing social innovation by relying on a sustainable business model (Acs et al., 2013).

At the same time, contrary to Vega and Kidwell (2007), Acs et al. (2013) suggest that all productive entrepreneurship has a double bottom line and thus creates social value. Furthermore, they make the observation that stated intentions not always lead to tangible outcomes and social value can be created without the statement of any social value creation goals (Acs et al., 2013, p. 791). The conceptual implication of this observation is that while there is some evidence of the motivating impact of a well-defined and well-communicated social mission (McDonald, 2007), the conscious statement of a social mission is neither a necessary nor a sufficient condition for social value creation.

However, if all productive enterprises indeed contribute to social value creation and a social mission statement is neither a necessary nor a sufficient condition for social value creation than the question arises, why is it important to know whether social value creation is a conscious objective, a by-product, or an organic part of business formation in BOP markets? In order to answer this question, first we need to briefly discuss the importance of context for the emergence of what Baumol (1990) terms productive, unproductive and destructive entrepreneurship.<sup>1</sup>

Both Baumol (1990) and Acs et al. (2013) suggest that economies with some degree of political instability and less developed institutions are more likely to foster the occurrence of destructive entrepreneurship and some more extreme forms of unproductive entrepreneurship. In a similar vein, Olson (1996) proposes that differences in economic development between countries is mainly due to “differences in the quality of their institutions and economic policies”. As BOP markets are invariably nested within broader country environments, they are subject to weak rules of the game that hinder potentially productive entrepreneurs. Furthermore, these markets are characterised by a large proportion of their population living under the poverty line and by limited or no formal mechanisms to empower them and lift them out of poverty. These characteristics confront potentially productive entrepreneurs in BOP markets with a number of institutional and operational constraints (London et al., 2010). These constraints make the process of social value creation itself in BOP markets distinctive as compared to that in developed countries (Leff, 1979; Vega & Kidwell, 2007). Acs et al. (2013, p. 794) indirectly support this point by suggesting that “social impact is created as each organisation negotiates its way through various institutional and structural layers and relationships.”

In their comparison of the Grameen Bank in Bangladesh with the US-based Microsoft Corporation Acs et al. (2013) ascribe the main difference in terms of social value creation between the two companies to the difference in their driving forces. While the Grameen Bank is attributed poverty alleviation and empowerment as its main driver, Microsoft is characterised as driven by commercial goal and market presence. Notwithstanding this and despite a range of criticisms towards Microsoft (Fisher, 2000), the company is given credit for creating social value in terms of job creation, “democratisation” of information technologies, inventing software to aid people with disabilities, etc. (Acs et al., 2013). This point is further underpinned with the observation that while the Grameen Bank tends to operate more locally, Microsoft aims at achieving a global market presence (Acs et al., 2013). Microsoft’s global strategy is seen as part of the evidence for its profit-drive.

However, it can be argued that the main difference between the two companies lies in the context of their emergence rather than in their motivations. Both the Grameen Bank and Microsoft acted as change agents and brought about a certain degree of social transformation that was necessary to enable the survival of their respective business models (Campbell-Kelly, 2001; Sarasvathy, 2008). However, while Microsoft started out in an economy where capitalism was already well-advanced, the Grameen Bank was conceived in a developing country context with a comparatively low level of economic development. While the Grameen Bank’s focus was on the issue that banks were not lending to the poor (Sarasvathy, 2008), Microsoft was driven by the problem that there was no user-friendly operating system that was capable of

multi-tasking (Campbell-Kelly, 2001). Furthermore, the historical account provided by Campbell-Kelly (2001) also shows that instead of pursuing short-term gains, Microsoft remained problem-focused and achieved its leading position by continuously improving its solutions to those problems. Thus, the success of both companies can be boiled down to two factors. First, to the sustainability of their business models and second the fact that both companies adopted a long-term orientation and changed the rules of the game to a certain extent.

The point we wish to stress is that what qualifies as social value in one country context may differ greatly in another country context due to differences in the economic, political and institutional environment. Therefore, comparisons between the social value created by companies originating from developed and developing countries need to consider the different manifestations and shades of social value. Furthermore, it is not surprising that Acs et al. (2013) conclude that social value contributions on the margin are greater for the developing world as the underlying social problems in these countries are more visible than in developed countries. As a consequence the created social value is more easily discernible in BOP markets than in developed economies.

A further implication of this argument for MNEs wishing to expand to BOP markets is that they can be expected to have a different understanding of social value and how it can be created than incumbent companies. This fundamental difference in understanding may be one of the factors contributing to the divide between corporate social responsibility (CSR) as a business tool and CSR as a development tool (Newell & Frynas, 2007). A further argument is that it is not possible to do long-lasting business at the BOP without engaging constructively with the BOP (London & Hart, 2010). Engagement with BOP consumers, producers, entrepreneurs, and employees manifests itself as mutual value creation (London, 2010) and a deep understanding of BOP needs and problems (Rohatynskyj, 2011). Section 3 introduces the methodology and conceptual background used to gain a better understanding on how social value is created in the BOP by incumbent businesses.

### 3. Conceptual background and methodological approach

As outlined in the previous two sections, this paper seeks to achieve a better understanding of how rising power firms create social value. This study is exploratory in nature. Instead of an inductive or deductive reasoning, we build our case on abduction (Van de Ven, 2007). From the conceptual commonalities and contextual differences between the Grameen Bank and Microsoft in Acs et al.’s (2013) analysis of the social value created by the two companies, we infer that social value manifests in different ways in different contexts. To explore this inference, the present study concentrates on mapping five business models in rural India and how social value creation is integrated into these models. Specifically, we aim to investigate whether the creation of social value is a conscious objective, a by-product, or an organic part of business formation and business model design. The rest of this section is structured as follows. We first provide an outline of the three concepts (namely business models, constraints and social value) deemed necessary for the task (Eisenhardt, 1989). Second, the research design and the data collection criteria are described.

#### 3.1. Conceptual building blocks

##### 3.1.1. The business model concept as an analytical framework

There are two prominent debates in the business model literature. The first one concerns the lack of a generally accepted definition including the number and nature of business model components (e.g. Shafer, Smith, & Linder, 2005). The second debate

<sup>1</sup> Baumol (1990) provides rent-seeking, litigation, and tax evasion as examples for unproductive entrepreneurship. In other words, unproductive entrepreneurs are entrepreneurs who are taking advantage of weaknesses of an institutional system. Although their activities can border on illegality they are mostly operating within grey areas of the rules of the game. Destructive entrepreneurship on the other hand engages in value-destroying activities and tends to decrease social value (Acs et al., 2013).

is on the question whether business models should be regarded as static or dynamic (e.g. Demil & Lecocq, 2010).

Shafer et al. (2005) identify four major business model components, reflecting the underlying patterns, i.e. strategic choices, creating value, capturing value, and the value network. Thus, Shafer et al. (2005, p. 202) define business models as the “representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network”. In this paper, we adopt this definition. The categories identified by Shafer et al. (2005) are by and large consistent with the dimensions in Osterwalder’s (2004) business model ontology. Osterwalder (2004) applies a programming language to map the underlying core logic of companies and to define the relationships between individual business model components. To our best knowledge, his is the first attempt to approach the concept from a holistic perspective in a systematic way and as an in-depth business analysis tool. In this study, we use the more practitioner friendly business model canvas (Osterwalder & Pigneur, 2010) to map the five rural Indian business models.

The canvas has nine components, i.e. key resources, key activities, key partners, value proposition, customer relationships, customer segments, cost structure, revenue streams, and channels. However, despite its rigour it is still static in nature (e.g. Baden-Fuller & Morgan, 2010) and does not capture changes in strategy or the evolution of the model. To this end, we extend Osterwalder and Pigneur’s (2010) business model canvas by adding two more dimensions, namely change in offering and change in strategy. The literature often emphasises the importance of experimentation (e.g. Chesbrough, 2010), trial and error (e.g. Baden-Fuller & Morgan, 2010), reinvention (e.g. Johnson, Christensen, & Kagermann, 2010), innovation (e.g. Teece, 2010), and adaptation (e.g. Meyer, 1982). Most of these actions reflect an attempt to respond to an anticipated or actual change or constraint in the company’s environment (Afuah, 2004). They frequently manifest themselves as changes in offering or changes in strategy which in turn require an adaptation or complete redesign in one or more of the nine initial business model components (Linder & Cantrell, 2000). While we hold the assumption that business models should be regarded as dynamic, we acknowledge that representing and capturing this

dynamism is a difficult task to achieve. We propose that a possible way to capture the dynamism is to focus on the relevant constraints that triggered some kind of change in the company’s business model.

3.1.2. The constraint concept

As a consequence of the dynamism assumption, a business model case analysis is not only required to map the current business model, it also needs to capture the changes that occurred over time, and the reasons for those changes. Furthermore, London and Hart (2010) suggest that the best way to create mutual value when entering BOP markets is to first achieve a deep understanding of the constraints BOP consumers, producers, and entrepreneurs face. For this reason we are also investigating the constraints our five case companies have been facing and the ways they responded to those constraints.

The investigation of BOP related issues need to consider two sets of constraints. The first set of constraints is known from development economics as binding constraints. They are “circumstances or factors which, as long as they remain in place, would hinder [economic] growth, even if other possible constraints or determinants of growth are addressed” (Naude, 2011, p. 34). In the context of our study, binding constraints are mostly institutional in nature and characterise a government’s inability to address market failures (Olson, 1996). In other words, binding constraint constitute weaknesses in the formal and informal institutional frame within which market participants set their actions. The second set of constraints is found at the firm-level and can be defined as circumstances or factors that hinder the growth and/or the sustainability of a business. Consequently, the viability of a firm’s business model is expected to be a function of how it responds to the constraints it is confronted with.

We anticipate that by looking into the constraints faced by our case companies will yield additional information about the context in which social value is created. After a literature search we could only identify three studies within the international business and management literature with a deliberate focus on constraints. Table 1 provides an overview of the constraint dimensions.

**Table 1**  
Studies providing a list of constraints in developing countries.

Chowdhury, M.S. (2007)	London et al. (2010)	Dahan et al. (2010)
Poor transportation facilities Lack of entrepreneurship education and training Financial assistance	Productivity (value creation constraints) • Raw material resources (lack of access to high quality input material, low quality local material) • Financial resources (lack of working and investment capital, exploitation by extra-legal lenders, no access to insurance)	Lack of knowledge Information asymmetries Lack of appropriately prices and designed products Financing
Haratal (strikes)	• Production resources (inadequate or lacking technology/equipment/infrastructure, storage space)	
Law and order situation Bureaucracy Lack of control of corruption	Transaction (value capture constraints) • Market access (poor infrastructure, lack of awareness of market expectations, inability to meet market expectations) • Market power (lack of capacity to link directly with buyers, lack of direct access to end markets, exploitation by middlemen) • Market security (lack of consistent buyers, price fluctuation)	Underdeveloped human capital Access to local networks and supply chain Lack of knowledge surrounding distribution and use of water No product solution to a problem/need
Lack of adequate investment		
Lack of government support and assistance Lack of research and development Inadequate information Inability to forecast demand Frequent power failure Inadequate telecommunication services Fear of failure Lack of technology		

**Table 2**  
Summary of case study firms.

	Industry	Nr. of employees	Year of company founding	Net profit	Turnover	Prior experience	Year of graduation	Highest education	Location
IT BPO	IT	60	2007 September	Not available	Rs 50 lakh	IBM	2005	B.E. (Hons) electrical and electronics engineering	Pilani
Incense stick producer	Handicraft	400	2004	Rs 190,000	Not available	Selling essence sticks in a bus stand	Not available	Bachelor of commerce, 2nd year	Madhya Pradesh
Painting	Handicraft	60	1990–91	Rs 100,000	Not applicable	Farming/painting	Not available	12th Grade high school	Madhubani, Bihar
Bangles	Handicraft	15–20	1930	Covers subsistence	Not available	Family business	Not available	12th Grade high school/export marketing diploma	Indore
Amla products	Agriculture	16	1984	Rs 1.5–2 lakhs	Rs 300,000–600,000	Family business	Not available	BSc biology/bachelor of education/eiploma in food preservation	Pratapgarh

Out of the three studies, London et al.'s (2010) constraint framework is the most elaborate. He differentiates between productivity/value creation constraints and transactional/value capture constraints. While the former occur within the boundaries of the firm and mostly concern its productivity and/or value creation, the latter emerge outside the boundaries of the firm and affect its ability to capture the value created. Some of the constraints that London et al. (2010) identify on the value capture side are in fact binding constraints or constraints emerging due to the existence of a binding constraint.

### 3.1.3. The social value concept

In order to be able to achieve a better understanding of how social value is created by the selected BOP entrepreneurs, first a frame of reference needs to be provided for how social value can be measured. In his discussion about what constitutes social value Auerswald (2009) lists financial, reputational, ethical value, consumer surplus, positive externalities, and the enhancement of human capabilities as dimensions of social value creation. The achievement of financial value not only allows the firm to sustain its existence, but also provides opportunities for reinvestment and/or cross-subsidisation of projects that may benefit individuals not directly involved in the original transactions. Furthermore, the reputational and ethical values achieved through the interaction of the enterprise with its environment (Auerswald, 2009) can also be leveraged to scale up the social value creation activities and to benefit people not directly involved in the original transactions. These dimensions of social value creation along with positive externalities can be seen as indirect social value creation as the benefit generally goes to individuals not directly involved in the original transactions. Consumer surplus and the enhancement of human capabilities are more direct forms of social value creation.

The most heralded approach to this latter form of social value creation is social innovation. Phills, Deigmeier, and Miller (2008, p. 39) define social innovation as a “novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals”. A social innovation may manifest itself as a product, production process, or technology. However, it may also take the form of a principle, an idea, some kind of legislation, a social movement, or a combination of the above, etc. The main criterion for an innovation to qualify as social innovation is its ability to benefit “the public or [...] society as a whole—rather than private value—gains for entrepreneurs, investors, and ordinary (not disadvantaged) consumers”

(Phills et al., 2008, p. 39). However, following our arguments from Section 2, while this differentiation may make sense in developed countries, it may not be a useful differentiation point in the BOP as the majority of BOP consumers would qualify as “disadvantaged” as compared to the middle or the top of the pyramid.

As a consequence, in this paper we adopt the three core values of development described by Todaro and Smith (2011) as a starting point to investigate how social value is created in the BOP by incumbent companies. The three core values are sustenance, self-esteem, and freedom from servitude. Sustenance can be defined as the ability to meet basic needs such as food, shelter, healthcare, etc. Self-esteem touches upon dimensions such as dignity and legitimacy. Freedom from servitude goes beyond physical incarceration and labour exploitation. This dimension also includes the ability to choose from a wide range of options in a wide range of areas in one's life such as education, products, housing, etc. (Todaro & Smith, 2011).

### 3.2. Research design and data collection

We chose a multiple case study approach as we are interested in the “dynamics present within single settings” (Eisenhardt, 1989, p. 534). We identified five companies in rural India based on the assumption that in rural areas the social, economic, and institutional constraints entrepreneurs face are more visible than in urban areas. Table 2 gives a summary of their main characteristics.

The main selection criteria were the firms' impact on their local communities and their potential sustainability. Handicrafts and agriculture are important sectors in rural India. This is also reflected in our sample with three firms belonging to the former, and one to the latter industry sector. However, as Information and Communication Technologies (ICT) are playing an increasingly important role in emerging markets (Heeks, 2008), our fifth case is an information technology (IT) business process outsourcing (BPO) firm called IT-BPO, which at the time of data collection was India's only rural BPO company.

We conducted face-to-face interviews with the business owners and in the case of the rural BPO firm also collected secondary material, mainly newspaper articles. Unfortunately, there was no secondary material available for the remaining four businesses. To facilitate data analysis and to make it more systematic, we used NVivo, a Computer-Assisted Qualitative Data Analysis Software (Sinkovics & Alfoldi, 2012). Tables 3 and 4 summarise the final result of our template analysis (King, 1998).

**Table 3**  
Business model analysis of the five case firms.

BM components	Amla	Bangles	Incense stick	IT BPO	Paintings
Customer segment	High end consumers who like quality, consumers with health problems	Targeting big buyers, at the moment at mercy of intermediaries	Religious people who light incense sticks, people who like nice scents in their homes	No industry specifications	Everybody who likes art
Key resources	<b>Employees</b> Labour intensive <b>Capabilities</b> Opportunity recognition Path-dependent improvement	<b>Employees</b> Artists <b>Capabilities</b> Path-dependent discontinuation Employee identification Employee training	<b>Employees</b> Labour intensive Key innovators <b>Capabilities</b> Path-dependent discontinuation Networking Employee training	<b>Employees</b> Well-trained employees are key <b>Capabilities</b> Path dependent discontinuation In-house software development Networking Employee identification Employee training Infrastructure VC (funding) University (expertise, prospective employees) Training consultancy Competitors Intermediaries (client acquisition) Suppliers Government (support in building infrastructure, community acceptance)	<b>Employees</b> Artists <b>Capabilities</b> Path-dependent improvement Employee identification
Key partners/supporters	Local authorities/government (loan subsidy, providing platform for trade, e.g. fairs) Banks (loan)	Government (website)	Local authorities government (public awareness creation, platform, information/training, technology support, monetary support) District majesty (loan support, administrative support)	Government (support in building infrastructure, community acceptance)	Local authorities/government (public awareness creation) NGO (public awareness creation—magazines, adverts)
Key activities	Cultivation, processing, sale of Amla	Design, manufacture, sale of bangles	Design, manufacture and sale of incense sticks	BPO services (back end, medical transcription, social media marketing)	Traditional paintings
Value proposition	<b>Product:</b> superior quality natural health supplement <b>BM:</b> <u>Community impact</u> Showing the way Livelihood, dignity, legitimation for people in poverty Transferable skills Education for children (indirect)	<b>Product:</b> - quality - longer product life - no health hazard <b>BM:</b> <u>Community impact</u> - Showing the way (200–300 independent artisans are earning a living now after their received training, a few of them opened a business thus becoming direct competitors) - Livelihood (for employees) - Education for employees' children (administrative help) - Support network	<b>Product:</b> Quality - eco-friendly -longer product life -no health hazard no price increase <b>BM:</b> <u>Community impact</u> showing the way livelihood, legitimacy, dignity for handicapped and poor Transferable skills Education support for children (monetary) Support network <b>Indirect BM impact</b> <u>Local development</u> Political function due to business	<b>Product:</b> efficient, reliable, quality service (99% accuracy) Key account management for all accoutns 30–50% cost reduction for client <b>BM:</b> <u>Response to industry constraints</u> Attrition rates, high costs <u>Community impact</u> Legitimacy for women Livelihood for educated but unemployed training education for children (indirect) better healthcare (indirect) <b>Indirect BM impact</b> <u>Local development</u> Rs 21 lakhs per annum in local economy	<b>Product:</b> handmade, natural colours traditional art in many forms all (gift articles, wall paintings, etc.) <b>BM:</b> <u>Community impact</u> Livelihood for the villagers who became unemployed after drought made farming impossible Dignity
Clients/customers	End consumers, intermediaries	Wholesalers, retail (small percentage)	End consumers	B2B	End consumers, corporate buyers
Competitors	Local copycat businesses	Intermediaries, exporters Chinese businesses Worse quality cheap alternatives Copycat businesses	Large MNCs Worse quality cheap alternatives Copycat businesses	Intermediaries No direct competitor at same level due to successful differentiation Partners	Chinese businesses Worse quality cheap alternatives Copycat businesses

Table 3 (Continued)

BM components	Amla	Bangles	Incense stick	IT BFO	Paintings
Channels	Own stores, fairs, exhibitions	Fairs, exhibitions, intermediaries, retail (small percentage), website (recent collaboration with government)	Fairs	Independent business, website, intermediaries	Fairs, exhibitions, (earlier middlemen were the only possibility)
Cost	Labour, supplementary raw material	Raw material, labour	Labour, (they have farms to cultivate raw material), transport, delivery cost	Labour, infrastructure maintenance, training	Labour (artists buy material)
Revenue	Amla products and recently mango and ginger products	Bangles, jewellery, gift articles (seasonal variation). Very low margins – only enough for subsistence	12 h (in stock) and 72 h (on order) incense stick in different scents	USD 2.5 per hour, no downtime	Corporate line, private line
Change in offering	Product diversification Incremental quality improvement	New product development (improvement by innovation) Diversification	New product development (improvement by innovation) Diversification	Standard BPO offering (back end services) Medical transcription services Social Media Marketing Change in focus No industry limit	Product diversification
Change in strategy		Production according to season (e.g. Diwali, Christmas, etc.) Website development			

The original template was based on [Osterwalder and Pigneur's \(2010\)](#) business model canvas and the constraint dimensions adopted from the three studies summarised in [Table 1](#). The actual questions have been derived from the business model literature. In developing the guideline, we followed the approach previously successfully applied in the Aston Programme of Organisation Studies ([Pugh, Hickson, & Hinings, 1969](#); [Pugh, Hickson, Hinings, & Turner, 1969](#)).

#### 4. Results

The analysis yielded two key findings. The first one reveals that regardless of the level of intentionality, social value creation forms an organic part of all five business models. As we already pointed out in the previous chapter, while it may make sense to draw the boundaries around the social value concept along the lines of disadvantaged consumers and general societal problems in a developed country context ([Phills et al., 2008](#)), this distinction makes less sense in a BOP context. The reason for this is that in BOP markets the majority of actors (entrepreneurs, employees, consumers, and sometimes even investors) qualify as disadvantaged to a certain degree. Consequently, what qualifies as private value in a developed context often qualifies as social value in a developing context. Furthermore, simply addressing disadvantaged actors without an appropriate understanding of their needs and problems may fit the definition of social innovation without actually delivering the promised social value ([Rohatynskyj, 2011](#)). Conversely, given the dramatically bad living conditions in BOP markets, businesses that employ, train and support people from under the poverty line with no other alternatives automatically create social value in these markets. It needs to be noted that all five businesses go beyond simple employment in the sense of providing employees with a little money. They all provide some kind of support network as a compensation for lacking institutional support in terms of health care, education, administrative support, etc. At this point, a differentiation between social value creation as output variable and social value creation as organic outcome needs to be made. When social value creation is regarded as an output variable (c.f. [Rohatynskyj, 2011](#)), a group of disadvantaged individuals are provided with some kind of product, service, or package for which they are expected to make a monetary contribution. Hindustan Unilever's famous Shakti project requires women to make a minimum investment of Rs 10,000. As a result, there is an entry barrier for the bottom of the bottom and while social value is created it is often not for those who would need it the most (c.f. [Karnani, 2007](#); [Rohatynskyj, 2011](#)). When social value creation is an integral part of a firm's business model, it can be seen as an organic outcome. There is a sustainable change in individuals' lives that have spill-over effects on younger generations in the form of better access to schooling, better healthcare, and better employment prospects.

The second key finding concerns [London et al.'s constraint \(2010\)](#) framework. As can be seen from

[Fig. 1](#), an entirely new constraint category emerged from the analysis. As a consequence, we term this new category of constraints "trigger constraints". The initial template was based on the dimensions identified in [Table 1](#). The dimensions in italics emerged from the interviews and are not covered by the three previous studies.

Trigger constraints can be broadly defined as limitations the entrepreneur as an individual, a particular community, or society as a whole is facing. As the setting up of the business happens in an attempt to alleviate or bypass the limitation(s) in question, these constraints can be associated with problem solving capabilities. The results in [Table 4](#) show that two of the five businesses were set up as a response to a trigger constraint. [Table 4](#) also shows that

Table 4

Constraints and firm responses to the constraints.

Constraints	Response	A: Amla	B: Bangles	C: Incense stick	D: IT BPO	E: Painting
<b>1. Trigger constraints</b>						
1.1 Act of God						x
	Starting this business					x
1.2 Industry condition changes					x	
	Starting this business				x	
1.3 Social constraint					x	x
	Starting this business				x	x
<b>2. External event</b>						
2.1 Economic recession					x	
2.2 Act of terrorism			x			
<b>3. Productivity/value creation constraints</b>						
<b>3.1 Production input constraints</b>						
3.1.1 Supplier power			x			x
3.1.1.1 Price			x			x
3.1.1.2 Quantity			x			x
3.1.1.3 Access to input market			x			x
<b>3.2 Financial constraints</b>						
3.2.1 Working and investment capital		x	x	x	x	x
	Loan by local authorities/government	x		x		
	Cross-subsidy from other activities					x
	Reinvestment of profits					x
	VC				x	
	State award		x	x		
	Non-refundable monetary support by government	x		x		
	Bank loan	x				
<b>3.3 Production resources constraints</b>						
3.3.1 Technical and business know-how		x		x		x
	Attending informations events organised by government			x		
	Hiring the right people				x	
	University collaboration				x	
3.3.2 Equipment		x	x	x		
3.3.3 Storage and protection of goods		x				
3.3.4 Underdeveloped human resources		x	x	x	x	x
3.3.4.1 Business related skills/know-how		x				
3.3.4.2 Language skills					x	
3.3.4.3 Industry related skills/know-how			x		x	x
	Hiring people with potential:					
	- Quick learner		x		x	
	- Commitment				x	x
	- Abstract thinking				x	
	- Sleight of hand					x
	in-house training		x	x	x	
	Collaboration with training consultancy				x	
	University collaboration (alumni)				x	
3.3.5 Broadband					x	
	Government lobbying				x	
3.3.6 Electricity		x	x	x	x	x
	Investment in alternative				x	
	Government lobbying				x	
3.3.7 Water			x	x		
<b>4. Transactional/value capture/outer constraints</b>						
<b>4.1 Market access</b>						
4.1.1 Roads			x	x		
	Money collection from public			x		
	Government lobbying			x		
4.1.2 community acceptance/legitimacy		x		x	x	
	Leading by example	x		x	x	
	Partnering with NGO				x	
	Partnering with government				x	
	Partnering with VC				x	
	Partnering with university				x	
4.1.3 Lack of awareness in the market about company's products/services		x	x	x	x	x
	Collaboration with local authorities/government to create a platform	x	x	x		x
	Collaboration with competitors				x	
	Collaboration with intermediaries				x	
	own website				x	
4.1.4 Export barriers			x			x
4.1.4.1 Administrative			x			
4.1.4.2 International regulations			x			
4.1.4.2 Substitutes and alternatives				x		x
4.1.4.3 Market scepticism					x	



Table 4 (Continued)

Constraints	Response	A: Amla	B: Bangles	C: Incense stick	D: IT BPO	E: Painting
	Investment in state-of-the art equipment				x	
	Ensuring business continuity				x	
	Partnering with already well known competitors/intermediaries				x	
	High product/service quality				x	
<b>4.2 Market power</b>						
4.2.1 Intermediary power			x			
4.2.2 Fragmented market/intensive competition			x		x	
	Change in business focus				x	
4.2.3 Lack of capacity to link directly with buyers			x			
	Collaboration with local authorities/ government to create a platform		x			
<b>4.3 Market security</b>						
4.3.1 Price fluctuation			x			
4.3.2 Government corruption			x			

there can be more than one trigger constraints prompting the creation of a business.

In the case of the Madhubani Paintings firm, the original business idea to transfer the paintings from the walls to paper and sell these was a response to a drought that destroyed the livelihoods of the whole area. The trigger constraint that led to the establishment of the case firm was a reaction to an injustice suffered by the artists, including the entrepreneur’s family, from the middlemen. In the IT-BPO’s case, the original business model (the Gram-IT model) responded to changes in the urban BPO sector, i.e. high attrition rates and rising costs. However, the entrepreneur responded to the social constraints of unemployment, poverty, and labour immobility ingrained in socio-cultural values by fine-tuning the initial idea and developing his IT-BPO business.

In the remaining three cases the creation of the business was primarily motivated by other factors. The Amla processing and marketing firm’s founder is a case in point for a Kirznerian

opportunity recognition (Shane, 2004). There was a decision error from past market participants in the area (local villagers) due to the lack of information about the prices of Amla fruit in other states. When the entrepreneur realised that the market prices in other states are manifolds of what farmers earn by selling to middlemen, he decided to start his business and capitalise on that price difference. Nevertheless, there is a hidden social constraint behind this opportunity recognition pertaining to the exploitation of farmers by middlemen.

The incense stick producer and marketer falls into the category of “necessity-motivated” entrepreneurs (Reynolds, Camp, Bygrave, Autio, & Hay, 2001). He first started by selling his incense sticks to avoid unemployment due to his handicapped status, which indicates the alleviation of a personal social constraint. After his stall was burnt down he was faced with this constraint again. Yet, it was not him who actually alleviated the constraint, but the local district majesty. Finally, the bangles producer’s firm is a family

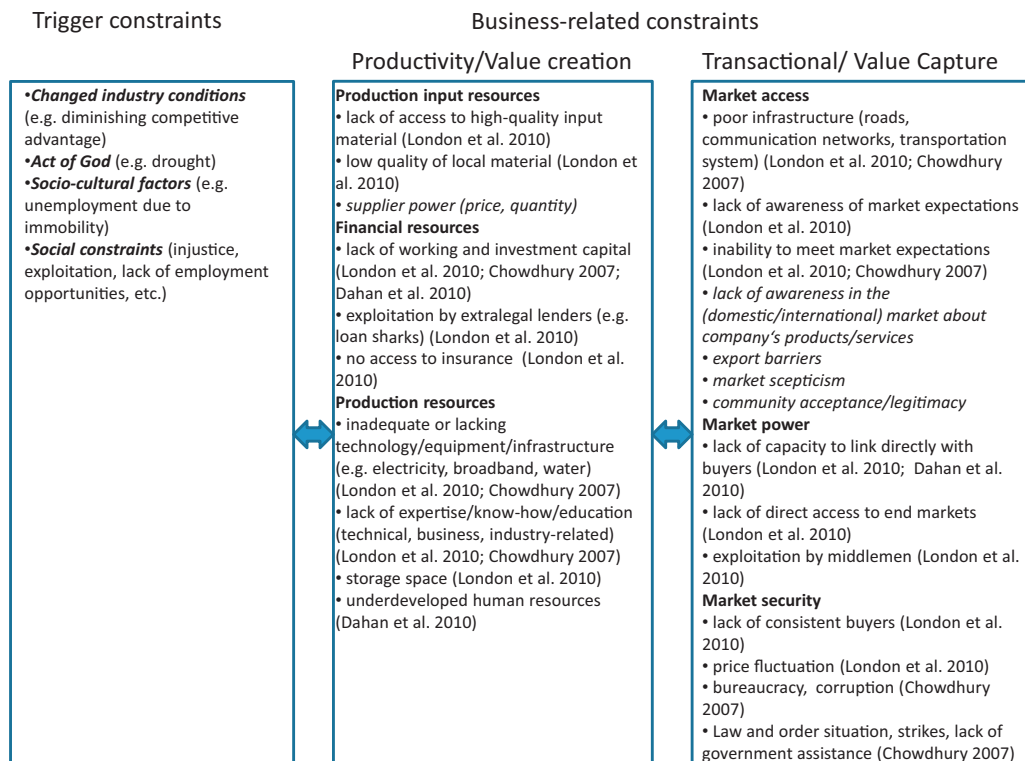


Fig. 1. Extended constraint framework based on London et al. (2010).

business. As artists they started selling what they produced as a means for earning a living. Given the general poverty conditions, being able to earn a living while others are unemployed and short on food also qualifies as alleviating a personal social constraint.

In contrast to trigger constraints, business level constraints occur after a business is already set up. They are either operational in nature and regard the value creation process, i.e. input factors, financial resources, and/or production resources. Or, they are limitations in the firm's external environment that concern the value capture process, i.e. market access, market power, and/or market security. Our findings are largely consistent with the dimensions derived from the literature (see [Table 1](#)). At the same time, the data analysis yielded some new dimensions not considered by the three existing studies.

On the value creation side, the sub-dimension "supplier power" emerged under the "production input resource constraints" heading. Rural firms that do not have direct access to raw materials, e.g. in the case of the bangles producer firm, are highly dependent on their suppliers and don't have any bargaining power. The more interesting dimensions emerged on the value capture side of the framework under the heading "market access". Although the nature of the product supports the scalability of the case firms' business model, the main constraints hindering their expansion are the "lack of awareness in the (domestic/international) market about company's products/services". Businesses are also often facing "export barriers". "Market scepticism" is a constraint dimension that is especially relevant when the product/service or the business model requires a change in the customers'/buyers' mind-set. "Community acceptance/legitimacy" is a necessary condition for the survival and expansion of a business as good employees represent a key asset/resource. The achievement of community acceptance may constitute a constraint in cases where the product or the business model requires a change in the mind-set of the community as the source of labour. The IT-BPO case is a good example.

#### 4.1. The rural IT-BPO

##### 4.1.1. History, social value creation, and business model evolution

The founder is a graduate of the Birla Institute of Technology and Science and a former employee of IBM. Encouraged by his former university professor, he established the company in September 2007. The initial idea was inspired by the example of Gram IT, the pioneer in the rural BPO industry. The firm's concept is based on rural employment, transformation, development and empowerment. It is built upon the fact that around 130 million rural skilled workers are still unemployed due to the lack of opportunities in rural India. The company aims at providing specific training, generating livelihoods and employment opportunities via its BPO services, and at facilitating the development of the local village economy.

The business model contributes to the community's economic development by upgrading the life quality of the rural educated but unemployed without destroying the cultural fabric of the society they live in. Hence, it satisfies all three dimensions of [Todaro and Smith's \(2011\)](#) qualitative construct, i.e. sustenance (the ability to meet basic needs), self-esteem (to have dignity), and freedom (the ability to choose). In most cases, despite their education the rural educated but unemployed live under the poverty line struggling to meet their most basic needs. Due to socio-cultural values, they are not mobile which cancels out the option of migration to urban areas. Living in extreme poverty, often at the mercy of relatives, robs them of their dignity and their freedom to make their own choices.

The development of the business model was dynamic in nature and had three stages. In the initial stage, it was not majorly

different from other rural BPOs in terms of offering, and mainly focused on back-end services. In the second stage, the firm sought to find a way to differentiate itself from its competitors. By collaborating with intermediaries it launched into medical transcription services. Due to the fragmented nature of the medical transcription market not allowing for adequate margins, a third stage of business model adjustment was needed. In addition to back-end services and medical transcription services, they developed competencies in social media marketing. Other points of differentiation were the way they addressed a number of constraints within their firm boundaries as compared to their competitors.

As demonstrated above, social value creation is an organic part of the company's business model as the model addresses all three core values of development through employing the rural educated but unemployed. At the same time, the business cannot function without employees, thus mutual value is created ([London et al., 2010](#)). Hence, instead of treating this group of disadvantaged individuals as a recipient of some kind of output or package, they are incorporated into the business model. Another interesting implication of this view is that if social value creation is viewed as an output variable or performance measure, a business model change can be expected to change the quantity and/or quality of the delivered social value. However, if social value creation is viewed as internal to the business model, then changes to the business model are necessary measures to the continuation of the social value creation although they will not necessarily impact the quantity and/or quality of the delivered value.

##### 4.1.2. Financial constraints

While many of IT-BPOs competitors depend in their strategic decision making on other institutions such as banks, large domestic and multinational companies sitting on their boards, our case company succeeded in safeguarding its independence. The dependence on these large organisations tends to be twofold. They supply rural BPOs with funds and/or with large assignments. In the case of our rural IT BPO, the initial capital came from venture capitalists (VC). The link to the VC was established through the founder's university connections. Although, this decision to accept venture capital instead of forming an alliance with large firms or banks created a trade-off in terms of the pace of growth, the resulting independence led to increased flexibility and responsiveness in its business model development.

##### 4.1.3. Production resource constraints

As all their rural competitors, our case firm also faced infrastructure constraints such as discontinuous electric power supply, no access to broadband, underdeveloped human resources in terms of language and computer skills, and a lack in certain technical and business skills. While investing in back-up generators is a common solution to electricity shortages, the case firm also engaged in government lobbying not only to improve electric power supply but also to gain continuous access to broadband. A widespread way among rural BPOs to bypass the broadband constraint is to specialise in back-end services that do not need high speed Internet connection or 24/7 connectivity. By alleviating both the electricity and the broadband constraint, as well as investing in state-of-the-art equipment, the case firm not only insured its competitiveness vis-à-vis urban competitors but also enabled itself to operate without downtime. By hiring employees who have at least a high school but preferably a bachelor degree, the company gained access to human resources with "potential", i.e. persons with a certain level of abstract thinking capabilities, learning abilities, and commitment. This potential could then subsequently be deployed by providing them with a firm-specific training programme. The identification of the "right employees"

was facilitated by the strong ties established with the university's alumni office. Further collaboration with the university provided the company with the required expertise in terms of business strategy, marketing, and other business and technology related know-how.

#### 4.1.4. Market access constraints

The first constraint in this category was to achieve community acceptance/support, i.e. to prove to the rural community the legitimacy of the business. Despite the increasing level of education among the young population in rural areas, the importance of community acceptance regarding new or so far unknown business ideas still cannot be taken for granted. Due to the socio-cultural structures, in most cases it is the older generation in the family who needs to be persuaded that working for a BPO is beneficial not only for the young person in question, but for the entire family. The firm's collaboration with the university, the well-respected venture capitalists, NGOs, and the local government hugely facilitated the acquisition of goodwill from the local village communities.

Another two related challenges the firm had to confront were to identify potential customers and to overcome their scepticism regarding the quality of its facilities, equipment, and know-how to deliver the required service-quality at the promised low costs. In order to strengthen its credibility, our rural BPO partnered with already well-established competitors and trusted intermediaries. The continuous delivery of high quality services (above 99% accuracy rate in medical transcription services) and its on-time delivery gradually built up the firm's reputation. Furthermore, the transparency of the tangible positive community impact of the business offered a cost-efficient way for foreign and domestic clients to improve their CSR (corporate social responsibility) activities.

#### 4.1.5. Market power constraint

As indicated above when introducing the history of the business, the business model had to be adapted due to the fragmented nature of the medical transcription services market. Instead of discarding this business area as low-margin and not lucrative, the company simply modified its strategy. In addition to launching into social media marketing, it lifted its policy to specialise in certain industries and leveraged its competencies across all industries.

#### 4.1.6. Capabilities

As listed in Table 3 under "key resources", the firm demonstrated a number of capabilities that played a major role in its business model development. As well-trained and competent employees are a key asset in this company, without employee identification and training capabilities it would not be able to be profitable. The firm's networking capability (with the university, intermediaries, competitors, etc.) allowed them to compensate for lacking know-how, market acceptance, and lacking customer acquisition skills. Finally, it also demonstrated a high level of path dependent discontinuation capability. We define it as the ability to let go of gridlocked practices and models and to bring in a fresh perspective based on past knowledge and experience. This capability enabled the firm to discover a profitable niche, i.e. social media marketing and to become rural India's first IT-BPO.

### 4.2. Handicraft producer A: unbreakable bangles

#### 4.2.1. History, social value creation, and business model evolution

This company is already a third generation family business, established by the owner's grandfather in around 1930 in Rajasthan. The business is based on the traditional Rajasthani art in Kishangarh district to make bangles. Following the death of

the original founder, they relocated the business into another state in an attempt to address the growth constraint they were facing in Rajasthan. The techniques had been further developed by the owner's father and later by himself after he joined the family business in the late 1990s.

The core of the business model is to gain livelihood by cultivating the traditional art of making bangles out of natural, eco-friendly materials. The point of differentiation compared to competitor products such as Chinese bracelets is that the case firm developed a way to create durable (unbreakable), biodegradable artwork jewellery. Comparable competitor products are usually made with chemicals which may pose health hazard while in use and environmental hazard when disposed of.

Throughout the history of the business there have been several adjustments in the product line component of the business model in terms of assortment and seasonality. However, despite its potential scalability (with adequate market access the model could support 10,000–15,000 artisans) the firm is struggling for sustainability. The reason for this stagnation is the inability of the company to alleviate the major constraint hindering its growth, i.e. becoming independent from its intermediaries. The results of the company's latest attempt to break through this constraint by creating an online platform in collaboration with the government are yet to be seen.

As apparent from Table 3, the business model by its very nature creates social value by addressing the following social constraints, i.e. the issue of education, healthcare, and unemployment. Although the firm has only 15–20 employees (see Table 2), it has already trained between 200 and 300 people, mostly women, with no other education or opportunity to work. Few of them set up their own businesses with a number of employees; others earn a livelihood as freelance artisans. The management and the employees of the case firm form a support network to cater for healthcare and other potential emergency needs. The company also provides support in terms of administrative help to place employees' children into schools. In this case again, social value creation is not an external performance measure. It is deeply ingrained in the business model and is based on mutual value creation (London et al., 2010) as opposed to facilitated value acquisition by disadvantaged individuals (Rohatynskyj, 2011).

#### 4.2.2. Product input constraints

The specific raw materials the artisans need for the production of bangles are coming from Naxalite dominated areas. Due to high bribes and occasional terrorist attacks the procurement of these materials is increasingly difficult. As a consequence of limited access to these areas, the firm is highly dependent on its suppliers. They capitalise on this situation and control the price and quantity of raw materials.

#### 4.2.3. Financial constraints

The firm won a state award after their relocation to Madhya Pradesh. However, apart from this the owner did not succeed in securing any additional funding. The lack of investment capital has implications for many of the constraints described below.

#### 4.2.4. Production resource constraints

In terms of production resources, they suffer from electricity and water shortage as well as underdeveloped human resources. In the area where the company is situated the majority of the population is uneducated due to the lack of schools. Although they offer in-house training, the low level of abstraction capability usually augmented through schooling, makes the training process difficult. The electricity and water shortage often causes up to six hours or more production downtimes. The lack of financing affects the quality of equipment used. On the other hand, the owner addressed his lack of business know-how, especially regarding

export marketing knowledge by obtaining a diploma in export marketing and also consulting a local management expert.

#### 4.2.5. Market access constraints

The firm used to export to the US, but after the 9/11 attacks the regulations changed and barred market access from the case company. Other export barriers such as costly and complicated administrative procedures in combination with a lack of awareness in international markets about the company's products are currently holding it back from exporting.

#### 4.2.6. Market power constraint

Linked to market access constraints, the firm is highly dependent on intermediaries and exporters to sell its products. In order to retain their power, these intermediaries do not intensively promote the products thus keeping the level of awareness among potential big buyers low. There is also intensive competition from Chinese producers of bracelets and other jewellery articles. Given the Chinese government's initiatives to support exports, these producers do not face market access and market power constraints to the same extent as Indian producers do. The company's capacity to link directly with international buyers is further impaired as they do not have the finances to go to international exhibitions and fairs (e.g. in Milan or Germany). A recent attempt has been undertaken to alleviate this latter constraint and achieve greater visibility by joining an online platform operated by the government.

#### 4.2.7. Market security

Government corruption and fluctuating prices as a result of intermediary power also hinder the growth of the company.

#### 4.2.8. Capabilities

Similarly to the case of the IT-BPO, this firm cannot function without its employees, i.e. the artists who produce the bangles and other gift and jewellery articles. Consequently, the company's employee identification and training is a key capability. The current owner of the firm also demonstrated his path-dependent discontinuation capability when he developed their core product, the unbreakable bangle.

### 4.3. Handicraft producer B: incense stick

#### 4.3.1. History, social value creation, and business model evolution

The founder had an interest in fragrances and incense sticks from his early childhood on. To make a living, he started selling purchased incense sticks in front of a temple along with other merchants of the informal economy. After the authorities ordered all the merchants with his exception to cease their commercial activities and leave the premises, his stall was set on fire out of revenge by one of the sellers. Being handicapped and having lost his livelihood, he started to produce eco-friendly incense sticks from natural materials. The district majesty, after buying some of his products, recognised that with adequate support this activity could be developed into a viable business. He provided the founder with administrative support to get the company registered and to apply for bank loans.

The business model creates social value in two ways. Firstly, it is built around the development of an environmentally friendly product. The firm developed incense sticks that can burn up to 72 h and do not contain any chemicals in contrast to competitor products mostly manufactured by large multinationals. The life span of competitor products usually does not go beyond 30 min. Secondly, the company trains and employs highly vulnerable individuals such as the physically disabled and slum dwellers, but also others who are living under the poverty line. Through

integrating them into its business model as a key asset, the firm provides them with dignity and legitimacy.

#### 4.3.2. Production input constraints

Due to the support from the district majesty, the local authorities, and the government the company does not face any significant production input constraints. The government provides them with farms where they can grow the ingredients needed for production and also with grants to procure basic equipment.

#### 4.3.3. Financial constraints

The initial financial constraints were alleviated through the administrative support of the district majesty, i.e. help with registration, loan applications, establishing contact with officials, etc. The firm also won government grants to help finance the training of the physically and financially marginalised.

#### 4.3.4. Production resource constraints

In terms of production resources, the company is encountering limitations regarding technical and business know-how, modern equipment, industry ready human resources, water and electricity. As one of the pillars of the business model is training people, the firm is solving the human resources problem in-house. To obtain up-to-date technical and business know-how, the founder and other members of the upper echelon are attending seminars organised by the government about standards and regulations.

#### 4.3.5. Market access constraints

The nature of the product facilitates the psychological access to the market. Especially in India's culture of daily worship, but also with the increasing importance of new age practices in the global north, no introduction to the product is needed. As a consequence of the Indian Diaspora, the incense sticks are also known abroad through family connections. At the moment of data collection, the company had not been engaging in exporting yet. Through collaboration with local authorities the firm has access to exhibitions and fairs in many states. Participation in these fairs promotes awareness in the market and leads to repeat sales. Community acceptance was instantaneously achieved by addressing the primary constraints outlined in Section 4.3.1. Furthermore, there is an education support scheme for employees' children. Employees obtain an additional payment out of the profits if their children reach grade 10, 11, 12 in high school. The support continues if they enter college. In terms of physical market access such as roads, the company started a public fund raising to build new roads and is actively participating in government lobbying.

#### 4.3.6. Market power constraint

In order to avoid exploitation from intermediaries, the firm is focusing on direct sales. Although there was an opportunity to export directly into foreign markets in the past, at that time the firm did not have the required scale. At the time of data collection it had achieved the scale and was actively looking for export partners.

#### 4.3.7. Capabilities

Despite its labour intensive nature, employee identification capabilities are not relevant for this business model. All the more important is the firm's employee training capability. Its networking and path dependent discontinuation capabilities are the drivers of its rapid growth.

### 4.4. Handicraft producer C: Madhubani Paintings

#### 4.4.1. History, social value creation, and business model evolution

In the 1960s there was a major draught in the area which destroyed the livelihood of the inhabitants that was based on

farming. The traditional art of that region involved wall painting on houses. In an attempt to support the farmers, the government sent a well-known designer from New Delhi to the village. After seeing the wall paintings he recognised that there is a business opportunity in transferring the designs from the walls onto paper. This art allowed the villagers to earn a living. However, due to their inability to link directly with end buyers, the artisans had been exploited by the middlemen who bought their artwork.

After witnessing the exploitation of the artisans including his own parents, to address this higher-order constraint, the founder started his own business. The goal of the organisation is to offer fair wages to the artisans they employ and to promote this traditional art both nationally and internationally. Now their major buyers are not only end consumers but also corporations. The contribution to economic development lies in the firm's ability to hinder the exploitation of the artisans and giving them back their dignity.

#### 4.4.2. Production input constraints

Due to the unavailability of natural colours in the required quantities, the company is now forced to source more artificial colours. As a consequence it is facing the problem of supplier power in terms of quantity, quality, and price.

#### 4.4.3. Financial constraints

The investment capital came exclusively from the family's farming activities and later from the reinvestment of profits.

#### 4.4.4. Production resource constraints

As most rural enterprises, this company also faces limitations in terms of business know-how, underdeveloped human resources, and electricity. In order to address the constraint regarding the quality of their employees, the firm seeks to identify committed artisans with an exceptional sleight of hand.

#### 4.4.5. Market access constraints

The owner regularly visits fairs and exhibitions. Through government support the company has access to a platform where it can promote this traditional art. However, as other rural handicraft producer and distributor firms, it also faces the problem of export barriers and intensive competition of cheap products from China, especially block prints and other poorer quality alternatives. The major export barrier is the complexity of the documentation required and the corruption of government officers in terms of subsidy allocation. Larger firms who can afford substantial bribes receive the majority of the subsidies to attend international fairs as well as support with the required documentation such as entry visa.

#### 4.4.6. Capabilities

The two main capabilities the firm has are employee identification and path dependent improvement capabilities. The former is important as the business model is dependent on the skills-quality of the artists they employ. The latter allows the firm to recognise market wants and to be responsive to them.

### 4.5. Agriculture: Amla

#### 4.5.1. History, social value creation, and business model evolution

The business opportunity was recognised by the father of the business owner during his holiday to Calcutta. While amla (Indian gooseberry) was growing in his village area in abundance, no one has thought of selling it outside the village or to process it. During his travel the founder noticed that in that state there is not only high demand for the fruit, but merchants are making more than 400% profit on it compared to what the growers receive. On his return to his village he quit his job in the electricity

department and set up his own business. First they focused on transporting the fruit to other states and selling it there for a higher price, later they started processing it into different products. Since the time of founding in 1984 the company opened shops in major cities such as Delhi, Calcutta, Mumbai, Kanpur, Lucknow, and Allahabad.

The main pillar of the business model is incremental quality improvement and process refinement. The firm's value proposition lies in offering high quality amla products as health supplements, mostly to higher end consumers. A second and equally important pillar of the model is the women's self-help group upon which the initial growth of the company was based. The government of India launched a scheme to support women. The representative of the project saw potential in the case firm and introduced the scheme to the owner and his wife who also worked in the family business. They organised a group of 12 women to work in the amla business. After the women economised a sufficient amount of money (Rs 50–100 each) for a deposit from their salaries the government supplied the company with a subsidy of Rs 25,000 on a loan of Rs 250,000. At the time of data collection this bank loan has already been repaid. The women receive a fair share of the profits and the business has some investment capital to sustain growth.

#### 4.5.2. Financial constraints

Although the firm still faces financial constraints as for smaller firms it is more difficult to get loans sanctioned, they have sufficient funds from day-to-day business activities to sustain organic growth. The company won various awards, and also receives some support from the government to participate in fairs. As delineated in the previous sub-section, they secured a substantial bank loan to invest into initial growth.

#### 4.5.3. Production resource constraints

In terms of production resource constraints, the firm is faced with insufficient business know-how in terms of marketing and advertising and other marketing related activities. They learn by trial and error. Electricity and storage constraints are also prevalent.

#### 4.5.4. Market access constraints

The two major constraints in this category are the initial lack of community acceptance and the still insufficient awareness about the benefits of amla and amla products in the market. The first constraint was successfully alleviated by simple endurance and good example. Gradually, community members witnessed the success of the firm and the tangible benefits for the employees/self-help group members, i.e. increased salary, better clothing, ability of parents to send their children to school and free them from work, etc. Consequently, the company did not only gain community acceptance, it also showed the way for many people out of poverty. At the time of data collection there were 20–30 copycat businesses in the region inspired by our case firm. The alleviation of the second constraint is still work in progress. The company promotes its products in fairs and exhibitions in collaboration with the government. They also heavily rely on word-of-mouth.

#### 4.5.5. Capabilities

In contrast to the other four case firms, the founder of this company demonstrated opportunity-recognition capability himself. In the other four cases the initial business opportunity was recognised by someone else. The second main capability of the company is its path dependent improvement capability which allows it to engage in successful quality improvement and product diversification.

## 5. Discussion, conclusions and future research

We conclude by first discussing our findings in relation to the two questions that motivated the research. Subsequently we consider the implications of our findings for MNE engagement with BOP

### 5.1. Social 'missions' and social value creation in BOP business models

In this paper we set out to investigate the following two questions: in the context of BOP (1) what factors influence whether social value creation is an OBJECTIVE of business formation? and (2) how is social value creation related to business model formulation and dynamics?

With respect to the first question our findings highlight two points. The first point is that a conscious and deliberate social 'mission' does not appear to be a necessary precondition for BOP enterprises to generate social value as a main outcome. Thus, in three of our cases there was no explicit or deliberate sense of mission underpinning the business models and yet social value creation was unambiguously an important or central outcome of the businesses. Therefore dismissing the social value creation impact of business enterprises in the absence of conscious social mission formulation as "secondary gains" does not seem valid in a BOP context. Second and more importantly, perhaps, our findings also suggest that when a social mission does underpin the BOP business models, such mission is intimately linked with a "struggle" to overcome locally experienced constraints. Thus the mission cannot be seen as abstracted from the context. Specifically, in our case studies, a 'social mission' appeared as a salient feature, when the enterprise's *raison d'être* was to overcome a deeply impacting local constraint: we consider these as "trigger constraints". While London et al. (2010) only focus on constraints after a business has already been created, our results suggest the existence of constraints in response to which businesses are created.

In our case studies the trigger constraints were the experience of particular instances of injustice by BOP population as producers, consumers or debtors or, more generally as manifestations of social deprivation. Thus the constraint that led to the establishing of the Madhubani Paintings firm was a reaction to the injustice suffered by the artists, including the entrepreneur's family, from the middlemen while the IT-BPO's case was also driven by a social mission: the original business model (the Gram-IT model) was an answer to industry changes in the urban BPO sector, i.e. high attrition rates and rising costs. However, the entrepreneur responded to the social constraints of unemployment, poverty, and labour immobility by fine-tuning the initial idea and developing his IT-BPO business.

Reflecting on the above arguments, it seems clear that in the BOP context social missions aimed at removing or ameliorating the impact of key constraints in BOP can enhance the social and ethical legitimacy of the businesses and the marketability of their products/services. However while social missions can underpin social value creation the prioritisation of a social mission as a point of differentiation between social entrepreneurship and business entrepreneurship is not always accurate. The critical point seems to be whether constraints act as a trigger for *starting* a business or whether constraints shape the business after its foundation.

With respect to the second question, our findings clearly suggest that in order to have a positive social impact in BOP contexts, business models need to connect local communities' economic development needs in a broad way in terms of sustenance, self-esteem, and freedom of choice *regardless of the intentionality of social value creation*. In all five cases the achievement of community impact was *deeply ingrained* in the core of the business model.

### 5.2. Implications for MNE strategies

The discussion in the previous section connects well with emerging recognition in the IB literature of the inappropriateness of dominant MNE strategies in developing countries. Thus Dawar and Chattopadhyay (2002) chastise MNEs for being "trapped by their own devices in gilded cages, serving the affluent few but ignoring the potential of the billions of new consumers". A similar criticism is developed by London and Hart (2004) who recommend a "reinvention" of MNE strategies for LDCs and emerging economies and propose a departure from the current low involvement strategies and operational modalities in LDCs. London and Hart (2004) argue that these require that MNEs develop a global capability in "social embeddedness". In subsequent contributions (London et al., 2010; London & Hart, 2011), develop this line of thinking, advocating strategies for working with the BOP to generate business models that specifically create social value (London et al., 2010).

However even though London and Hart (2004) provide examples of MNEs which have succeeded with "non-traditional" strategies, the "message" from our case studies would caution that the adoption of strategies focused on mutual value creation is a challenging phenomenon. We observe that, in Western MNEs in particular, current strategies have mostly nurtured capabilities for flexibility, achieved through remote, largely contractual, governing of dispersed and highly "sliced" activities where local engagement or social embeddedness is not a necessary dimension of good performance (Buckley, 2011; Yamin, 2011). The essence of social embeddedness by contrasts is a commitment to building relationships and engaging with communities over the long term (Tasavori & Sinkovics, 2011; Yamin & Sinkovics, 2013). Given the prevalence of global factory type strategies, MNEs also suffer a capability gap with respect to launching strategies which promote sustainable development. However, even when MNEs are following strategies whereby social embeddedness may be an outcome such embeddedness does not necessarily traverse localities or communities where poverty reduction is particularly urgent.

Arguably MNEs would be in an even more disadvantaged position to recognise and act on 'trigger constraints'. Even if there is a desire to champion poverty reduction, they may not be successful in coming forward with appropriate business models, if they have insufficient insights to recognise and act on 'trigger constraints'. One can also surmise that they may be disinclined to take on the entrenched power of distributors or money lenders with monopoly power in specific localities.

Thus, in trying to develop BOP-relevant business models, established MNEs may be said to suffer, almost literally, from a 'liability of outsider-ship' (Johanson & Vahlne, 2009). As suggested by Johanson and Vahlne (2009) the liability of outsidership is the disadvantage faced by a firm attempting to enter a foreign market where it has no position in the relevant business network. It is arguable that, in the BOP context, the liability of outsidership is at least equally great for MNEs with respect to social networks and their embeddedness in these which, as London and Hart have pointed out, are crucially important in developing BOP relevant business models. As outsiders, MNEs cannot gain fine-grained and operationally effective insights into real needs of the BOP, or would not be inclined or able to take on the task to address the core problems such as culturally ingrained gender inequality (Rohatynskyj, 2011). Johanson and Vahlne (2009) also point out that building business relationships (which are the building blocks of business networks) takes time – around 5 years on average – and considerable managerial efforts and that many attempts at building relationship fail. Extrapolating this to the context of social networks, it becomes clear that developing network connections at the BOP and hence developing a capability for

'co-inventing' requires long term commitment and efforts by the MNE or its affiliate at the local community level. This is unlikely to happen, unless there is a change of strategic mind-set at the top. In this respect it is arguable that some emerging country MNEs may possess a relative competitive advantage, especially those that follow 'local optimising' (Ramamurti & Singh, 2009) or 'cost innovation' (Williamson, 2010) as the basis for their business models.

### 5.3. Future research

Understanding the nature and impact of trigger constraints is clearly important, particularly in relation to what set of capabilities and strategies may enable MNEs to realise mutual value creation at the bottom of the pyramid. This is perhaps the most urgent question that future research needs to explore. Contextual studies of trigger constraints and their impact on business would be of value to develop a deeper understanding of social value creation in the context of BOP. Furthermore, future research may wish to further explore the concept of trigger constraints both conceptually and empirically. The relationship between binding constraints and business model development and adaptation is also an interesting area that needs to be explored further. As the nature of the present study is strictly exploratory, future research will need to explore the ideas put forward in this paper in more detail.

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