

## Internationalisation of service firms through social entrepreneurship and networking

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**Internationalisation of service firms through corporate social entrepreneurship and  
networking**

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**Purpose** - The purpose of this paper is to explore how employing corporate social entrepreneurship and developing a network of relationships with non-governmental organizations (NGOs) can support and contribute towards the internationalisation of service firms into the base of the pyramid (BOP) markets in emerging markets.

**Design/methodology/approach** - This research adopts an exploratory approach employing qualitative multiple case studies. Three service firms that have targeted the BOP markets in India were studied. In total, 25 in-depth interviews were conducted with MNCs and their NGO partners. Data analysis was facilitated through pattern matching and systematic case comparison.

**Findings** – The findings reveal that, by engaging in social entrepreneurship, these MNCs have focused on the neglected needs of the BOP population, developed sustainable solutions and empowerment, and started with social value creation and postponed value capturing. The pursuit of corporate social entrepreneurship has paved the way for them to establish relationships with NGOs. While the MNCs have mainly had the technical knowledge and financial resources required, collaboration with NGOs have allowed them to learn about the BOP's specific needs and benefit from the NGOs' knowledge, human resources and good relationships in this market.

**Originality/value** - This research unravels how service firms can seize opportunities at the BOP. We build on social entrepreneurship theory and bring new insights to the field of international business. In addition, we broaden the network view and show how networking with social actors such as NGOs enables the mobilization of resources, actors and activities in emerging markets.

**Keywords:** service firms, internationalisation, base of the pyramid (BOP), non-governmental organizations (NGOs), social entrepreneurship, network, emerging markets, corporate social entrepreneurship

**Article Classification:** Research paper

# **Internationalisation of service firms through corporate social entrepreneurship and networking**

## **1 Introduction**

With the increasing saturation of the mainstream markets in both developed and developing countries, service multinational corporations (MNCs) are under pressure to find new solutions to unlock the opportunities in the base of the pyramid (BoP) market segment (London and Hart, 2004, Webb et al., 2010). The BoP markets has traditionally been ignored because of its low purchasing power, different consumer behaviour and lack of proper infrastructure (Prahalad, 2010). However, with its population of 4 billion, and aggregate purchasing power of US\$5 trillion (Hammond et al., 2007), entering the BoP markets is perceived as “the engine of the next round of global trade and prosperity” (Prahalad, 2010, p.6).

Despite being potentially attractive, evidence illustrates that expanding international markets into the BoP is not easy and requires different approaches and strategies (Schuster and Holtbrügge, 2012, London and Hart, 2004). While research into the activities of service MNCs at the BoP has gained momentum (e.g. Prahalad, 2010, Schuster and Holtbrügge, 2012, Dey et al., 2013), there is still a dearth of research into how service MNCs can tackle the dominant poverty and enter this market (Tasavori et al., 2014, London and Hart, 2010). This research aims to bridge this gap and provide new insights into this phenomenon.

To answer this question, we are employing the two theories of social entrepreneurship and network. First, social entrepreneurship theory is used in this research because viewing social problems, such as poverty, as potential opportunities (Grayson and Hodges, 2004) and addressing them through entrepreneurial solutions are related to that emerging domain (Mair

and Marti, 2006, Peredo and McLean, 2006). Recently, some scholars have suggested that MNCs can employ socially entrepreneurial solutions at the BoP (Tasavori and Sinkovics, 2010) and be referred to as corporate social entrepreneurs (Austin et al., 2008, Kuratko et al., 2011). Second, network theory has been selected as prior studies have revealed that, at the BoP, service MNCs are increasingly establishing relationships with non-traditional partners such as non-governmental organisations (NGOs) (Teegen, 2006, Reficco and Márquez, 2012, London and Hart, 2004, Calton et al., 2013, Tasavori et al., 2014). While the role of NGOs has been corroborated in the field of international business, there are fewer studies unravelling their contribution to the international market expansion of MNCs into the BoP (Tasavori et al., 2014, Perez-Aleman and Sandilands, 2008). The research questions of this study can thus be summarised as follows:

1. How can service MNCs enter the BoP markets?
  - a. How can networking with NGOs enable service MNCs to enter the BoP markets?
  - b. How can the pursuit of social entrepreneurship facilitate service MNCs' entry into the Bop markets?

To answer these questions, we have employed an exploratory multiple case study of three service MNCs operating in the insurance, banking and telecommunications industries in the Bop markets in India.

This research makes several contributions. First, it unravels how service firms can enter huge market segments at the BoP in emerging markets. This responds to the call for more research into service firms (Kundu and Merchant, 2008, Merchant and Gaur, 2008) and their internationalisation (Rialp and Rialp, 2007, Javalgi and Martin, 2007), specifically at the

BoP in emerging markets (London and Hart, 2004). Second, we provide empirical support for the theory of social entrepreneurship (Santos, 2012), extend it to the context of service firms, and augment the existing knowledge on social entrepreneurship in corporations (e.g., Austin et al., 2008, Kuratko et al., 2011). Third, the findings of this research bring new insights to the field of international marketing by applying social entrepreneurship theory to it, as suggested by Tasavori and Sinkovics (2010). Fourth, while the majority of network studies have focused on the business relationships MNCs have with suppliers and customers (Ghauri et al., 2008, Elg et al., 2012), we employ this theoretical perspective to explain the relationships between service MNCs and NGOs. We thus broaden the boundaries of the MNCs' network to include social actors, as emphasised by other scholars in recent years (Elg et al., 2008, Hadjikhani and Ghauri, 2001, Hadjikhani et al., 2008). The implications of this research for managers are related to its illumination of how they can seize the opportunities in BoP markets through social entrepreneurship and networking with NGOs.

## **2 The context of the base of the pyramid in India**

The BoP segments are constrained by their disposable income; of the 4 billion living at the BoP, 1.4 billion have daily incomes of between \$2 and \$8, and 2.6 billion of them earn less than \$2 per day (Hammond et al., 2007, UNDP, 2008). In India, 469 million people earn less than \$1.25 per day and 850 million people earn less than \$2 per day (The World Bank, 2014). The aggregated purchasing power of the BoP people in India represents more than \$1 trillion, while the global figure is more than \$5 trillion (Hammond et al., 2007).

The majority of the BoP population in India lives in rural areas (Hammond et al., 2007). The poor infrastructure makes transportation from and to these villages difficult. As a result, poor people lack easy access to more competitive markets (Vachani and Smith, 2008). The majority of poor people are illiterate, which constrains their decision making; according

to the 2013/14 Education for All Global Monitoring Report published by UNESCO (2014), India has the highest population of illiterate adults at 287 million.

These characteristics of the BoP markets have several implications for the MNCs targeting it. Studies have revealed that companies cannot apply their traditional marketing strategies, such as advertising in television and magazines, due to BOP people's illiteracy and lack of access to such media (London et al., 2010, Prahalad, 2010). Traditional distribution channels cannot be employed at the BoP due to the insufficient physical infrastructure. When MNCs target this market, they cannot rely on their own existing knowledge based on developed markets, and have to devise innovative solutions. Some scholars argue that innovation at the BoP should be built around the four As of Awareness, Acceptability, Affordability and Availability of products (Anderson and Billou, 2007); MNCs have to build awareness about the product, make sure that low-income people accept the benefits of using it, ensure its affordability and make it available in remote areas (Anderson and Billou, 2007).

### **3 Theoretical background**

#### *Social entrepreneurship theory and corporate social entrepreneurship*

The practice of social entrepreneurship has a long history (Zahra et al., 2009). However, it has only recently begun to attract the attention of a growing number of academics (Mair and Marti, 2006, Peredo and McLean, 2006, Neck et al., 2009). Certo and Millera (2008, p.267) refer to social entrepreneurs as those who pursue the goal of social value creation where “social value creation has little to do with profits but instead involves the fulfilment of basic and long standing needs such as providing food, water, shelter, education and medical services to those members of society who are in need”. To define the concept of social entrepreneurship and distinguish it from commercial entrepreneurship, Santos (2012, p.337) employs economic theories and the concept of value, the latter being defined in terms of the



“increase in the utility of society’s members”. According to Santos (2012), the difference between social entrepreneurship and commercial entrepreneurship is related to social value creation and value capturing. Social value creation occurs “when the aggregate utility of society’s members increases after accounting for the opportunity cost of all the resources used in that activity. Value capture from an activity happens when the focal actor is able to appropriate a portion of the value created by the activity after accounting for the cost of resources that he/she mobilized” (Santos, 2012, p.237). Based on these definitions, social value creation is measured at the societal level and value capture at the organisational.

It should be noted that, if organisations tend to succeed in capturing value (gaining profit), they have to offer social value creation. Commercial companies have to consider both social value creation and value capturing, and make a trade-off between them (Mizik and Jacobson, 2003). How companies balance their value capturing and social value creation will affect how they are perceived by their stakeholders and customers. MNCs usually have the core aim of maximising value capture and just satisfying social value creation by obeying laws and embarking on socially responsible activities. On the other hand, social entrepreneurs and NGOs usually pursue the maximisation of social value creation, and capture value only as needed to sustain their activities. In addition, some activities that create value for society may not allow value to be captured. For example, in the context of the BoP, companies may not be able to capture value because of people’s low incomes and their inability to pay even if they want to (Seelos and Mair, 2005). This is where social entrepreneurs come to the fore. They set the prices of their products and services in such a way that maximises the utility for their customers. In contrast, commercial companies that are focused on value capturing will tend to set their prices at a level that maximises their own profit.

The activities of a company will also have negative/positive externalities. An externality is related to the generation of an impact (or value spillover) beyond the objectives

of the agents that produce it (Rangan et al., 2006). A negative externality occurs when the consequences of an agent's decisions damage the society (e.g., the dumping of toxic waste). A positive externality occurs when the agent provides goods (e.g., education or vaccinations) that not only benefit their recipients but also create value for the society. In the field of corporate social responsibility, scholars attempt to direct for-profit corporations to take into account the costs of their activities for society (Sprinkle and Maines, 2010).

According to Santos (2012, p.342) social entrepreneurs are involved in areas with strong positive externalities, “where the potential for value capture is lower than the potential for social value creation because the benefits for society of the activity go much beyond the benefits accrued to the entrepreneurs”.

Building upon this understanding, Santos (2012, pp. 341-347) offers a theory of social entrepreneurship that has four building blocks:

1. Social entrepreneurship involves addressing neglected problems in a society and creating positive externalities. These problems are usually ignored by the private sector and the government and, when addressed, they create value and benefit society.
2. Social entrepreneurship focuses on positive externalities whose benefits are both localised and favour less powerful segments of the population.
3. Social entrepreneurs aim to offer sustainable solutions to social problems. Sustainable solutions are methods that either permanently remove the key causes of the problem or develop a system to solve the problem on an ongoing basis.
4. Social entrepreneurs develop solutions based on empowerment logic. They endeavour to empower actors and entities (e.g., beneficiaries, users or partners) beyond organisational boundaries. Empowerment is the “process of increasing the assets and

capabilities of individuals or groups to make purposive choices and to transform those choices into desired actions and outcomes” (World Bank, 2009).

Following the social entrepreneurship and corporate entrepreneurship literature, we refer to the pursuit of social entrepreneurship by MNCs as corporate social entrepreneurship (Austin et al., 2008, Tasavori and Sinkovics, 2010).

*The network perspective and the internationalisation of service firms*

Prior research on international entry into emerging markets highlights the necessity of overcoming entry barriers, networking and developing market knowledge (Akbar and Samii, 2005, Pedersen and Petersen, 1998, Chandra et al., 2009). The role of networks in the internationalisation of firms has been corroborated by many researchers (Vasilchenko and Morrish, 2011, Elg et al., 2008, Coviello, 2006, Coviello and Munro, 1997, Johanson and Mattsson, 1988, Veludo et al., 2004). This theoretical perspective relies on the assumption that an MNC does not possess all the resources required for entering an international market; instead, it is dependent on other businesses and social entities (Hadjikhani et al., 2008). Johanson and Vahlne (2009) argue that an MNC establishes a network relationship with an entity in another country to reduce the liability of outsidership and foreignness. In other words, being embedded in a network relationship gives the advantage of insidership. It also provides the potential for learning, and developing trust and commitment, which are necessary for internationalisation (Johanson and Vahlne, 2009). Similarly, Elg et al. (2008) point out that, by building relationships, MNCs can gain legitimacy and earn the support necessary to have success in a market.

The extant literature suggests that successful entry into the BoP requires the establishment of relationships with NGOs (e.g., Perez-Aleman and Sandilands, 2008, Teegen,

2006, Reficco and Márquez, 2012, London and Hart, 2004, Tasavori et al., 2014). Prior studies have revealed that collaborative relationships with NGOs can enable MNCs to get access to different resources, that other for-profit companies may lack or their internal development may take a long time (Teegen et al., 2004, Rondinelli and London, 2003). The importance of NGOs' resource contribution are more critical at the BoP as the required resources are not available for purchase (Madhok, 2000). To analyse the collaboration of MNCs with NGOs, and specifically the NGOs' activities and resources that can facilitate entry of MNCs into the BoP markets, we adopt the actors, resources and activities framework (Elg et al., 2008, Ghauri et al., 2008, Hakansson and Snehota, 1995). In a network relationship, the actors exchange and combine their resources through various activities for their mutual benefit. The actor dimension in this research comprises the MNCs and NGOs, the activities are those tasks that take place in order to facilitate collaboration, and the resources are associated with what the MNCs and NGOs bring to the table to facilitate their collaboration at the BoP.

#### *Theoretical framework of this research*

Based on the two theories of social entrepreneurship and network, the following framework is used to answer the research question of this study (see Figure 1). As the figure illustrates, we endeavour to shed light on how the pursuit of social entrepreneurship and networking with NGOs can facilitate service MNCs' entry into the BoP markets.

\*\*\*Insert Figure 1 about here\*\*\*

## 4 Research method

### *Research design*

This research adopts a qualitative approach as we are taking an exploratory stance and would like to provide a richer understanding of the phenomenon in question (Ghauri and Gronhaug, 2010, Eisenhardt and Graebner, 2007). Through a multiple case study strategy we explore how service MNCs can enter the BoP markets. This strategy allows the use of replication logic, whereby each case is used to confirm/disconfirm inferences drawn from the other cases (Yin, 2009). It reduces researcher bias and enhances the possibility of building empirically valid theories (Siggelkow, 2007).

### *Case selection*

MNCs that had entered the BoP markets in India were identified and invited to participate in the research. Of those invited, eight agreed to participate, six of which were service MNCs. Because of space limitations, in this paper we only present the results from three service MNCs, although the findings were inferred from all six service MNCs interviewed. India was selected as the majority of the world's BoP population live there (Hammond et al., 2007), and increasing numbers of MNCs are entering this market to serve the needs of the low-income population (Jain and Vachani, 2006). An overview of the case companies, their fields of activity and their initiatives at the BoP are presented in Table 1.

\*\*\*Insert Table 1 about here\*\*\*

### *Data collection*

In each company, we interviewed senior managers at the headquarters of the MNCs and at their subsidiaries, who had been involved in the MNC's market expansion into the BoP. After interviewing the first informant, snowball sampling (Kuzel, 1992) was employed to identify other key respondents. Interviewing several informants enabled us to obtain a holistic view

and mitigated subjective bias (Golden-Biddle and Locke, 2007). Some of the NGO partners of the company cases were also identified and interviewed so as to triangulate the findings of the research (Ghauri and Firth, 2009, Perry, 2001). In total, 25 interviews were conducted, 16 with the MNCs and 9 with the NGOs (see Table 2 for the details of interviews).

\*\*\* Insert Table 2 about here\*\*\*

An interview guide was developed with semi-structured questions based on the theoretical framework of the research. The questions were mainly related to how the MNCs had entered the BoP markets in India, the role of NGOs and how the pursuit of social entrepreneurship had contributed to the process. A pilot interview was conducted in February 2010 to test the suitability of the interview guide questions and to enhance the researcher's interviewing competence. The interviews with the firms in India were primarily conducted between April and June 2010 by two of the authors. Due to time and money restrictions, the interviews with the managers from the western headquarters were conducted by phone/Skype. The duration of the interviews ranged from 45 to 90 minutes. The interviews were digitally recorded, transcribed and sent to the interviewees for their review and confirmation. After a preliminary analysis of the data, additional interviews were conducted where further clarification was required.

Two strategies were pursued to reduce interviewer bias (Patton, 2002). First, we attempted to build a good rapport with the respondents and obtain their trust. At the beginning of each interview, the nature of the research was explained and permission for recording the interview was obtained so as to prevent any misunderstandings. The interview process then started with non-controversial questions (Ghauri and Gronhaug, 2010). Second, we endeavoured not to communicate our own opinions on the subject matter to the respondents. Therefore, where possible, open questions starting with 'what', 'how', or 'why' were used, to allow the respondents to explain their answers as they wished, and to express

their own opinions and experiences (Rubin and Rubin, 1995). These kinds of open questions avoid suggesting possible answers to the respondents (Perry, 2001) and prevent them from being influenced by the interviewer's opinion.

In addition to primary data, secondary data were used for identification and corroboration purposes (Ghauri and Firth, 2009). The major sources of secondary data included company websites, company reports, articles from newspapers, magazines and journals, videos of presentations by executives (e.g. press conferences or speeches) and online sources.

### *Data analysis*

The analysis was carried out in two phases: within-case and across-cases. First, each case was analysed separately, and then the cross-case analysis was carried out (Miles and Huberman, 1994, Ghauri, 2004). The cross-comparison included a search for any cross-case patterns and was employed to strengthen the conclusions drawn from each case (Yin, 2009, Miles and Huberman, 1994, Ghauri, 2004).

The data analysis in each case followed the steps suggested by Saunders et al. (2012) and Ghauri (2004). A case story incorporating a chronological order of events was developed based on the interviews conducted in each company and the secondary data. Then, categories or codes were identified in each case. The identification of categories was guided by the theoretical framework of the research as suggested by Ghauri (2004) and was facilitated by Nvivo. During this stage, the data were reduced and arranged into a more manageable form. During the next stage, we were open to developing new categories or themes and patterns or relationships in the arranged data. Finally, we attempted to reveal patterns within the data and to identify relationships between the categories (Yin, 2009, Miles and Huberman, 1994). The analysis of the data was conducted by two of the authors separately, and then discussed to achieve an agreement. Finally, the analysed data and the findings of the research were sent to

the interviewees to confirm our understanding and reduce bias (Patton, 2002). It should also be pointed out that the processes of collecting data, analysing the data and finding patterns were interrelated and interactive.

Interviewing representatives from NGOs facilitated triangulation, which can be achieved by collecting data from different sources (Ghauri and Firth, 2009). The analysis of those interviews in relation to the research questions enhanced our confidence in the accuracy of our findings, reduced the chances of misinterpretation and enabled us to check and validate the data obtained from various sources so as to provide a better understanding and explanation of the phenomenon at hand (Ghauri and Firth, 2009, Bryman and Bell, 2007).

## **5 Overview of the entry of the company cases into the BoP markets in India**

### *Overview of Insurance Co.'s entry into the BoP markets*

Insurance Co., headquartered in Germany, is one of the largest financial service providers in the world, with its main focus on insurance. It started its activities in India in 2001, entering into a joint venture with a local firm, and targeted the BoP markets in 2005.

In late 2004, the eastern coast of India was hit by a devastating tsunami affecting the many poor people who lived there. While serving the BoP population that had been affected, Global Support, an international NGO, asked several MNCs, including Insurance Co., for donations. The company decided to donate money with the proviso that part of the donation would be used to build awareness about insurance. Before signing a contract regarding the collaboration, Global Support conducted a survey to ensure that it would make sense for the BoP people to spend part of their limited income on insurance. The findings of the survey confirmed that there was a strong demand for *specific* types of insurance. Global Support was working with many other NGOs in disadvantaged areas, and agreed to introduce Insurance



Co. to its NGO network to help with the marketing and distribution of micro-insurance (see Figure 2).

\*\*\*Insert Figure 2 about here\*\*\*

#### *Overview of Alpha Bank's entry into the BoP markets*

Alpha Bank is headquartered in the Netherlands and provides financial services. It entered the Indian market in 2007 by acquiring a bank there. Its subsidiary is now one of the largest banks in the country. In order to enter the BoP markets and learn about the needs of the poor, the company has established a non-profit foundation, Alpha Foundation, to which it allocates a part of its profits.

The foundation took the decision to offer a technical assistance programme to micro-finance institutions in the north and east of India, as statistics showed that these institutions were unable to borrow money from the bank. When it learned about this goal, a Dutch NGO, Overcome, which was working with micro-finance institutions in the same area, suggested a collaboration with Alpha Foundation. Their mutual interest led to cooperation and the two launched a technical assistance programme in 2006. Alpha Foundation also signed a contract with a successful international micro-finance consultancy NGO, MF Consult, in order to provide world-class capacity-building training to micro-finance institutions.

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

Alpha Foundation decided to launch a livelihood programme to educate poor people about investing their money in micro-enterprises whose products could be sold in the market. To run this programme, it is working with Livelihood NGO. The NGO trains poor people in starting a business and Alpha Foundation monitors this process and provides the necessary funding to the NGOs. The relationships between Alpha Bank and the various NGOs in entering the BOP are presented in Figure 3.

\*\*\*Insert Figure 3 about here\*\*\*

#### *Overview of Telecom's entry into the BoP markets*

Telecom is a global telecommunications company headquartered in the UK. It is one of the world's largest mobile telecommunications companies in terms of revenue and number of subscribers. Its activities in India started in 2007 as the result of a joint venture with a local company. The company decided to seize opportunities at the BoP in 2008 by providing mobile network infrastructure in rural areas. The company's analysis illustrated that almost 75% of India's population lived in rural areas. Another factor that motivated the firm to address the needs of low-income people was related to the demand from existing urban consumers to be able to get in touch with people in rural areas.

Although building infrastructure in rural areas and the amount of investment are quite similar to that in urban areas, the return on the investment in rural areas is very long term. According to one of the managers in the firm, the population density in rural areas is low and many of the investments there are not yet profitable, but the financial capacity of the firm has enabled it to look past this in the short term. Moreover, they believed that it enhanced the value of their corporate brand and goodwill in all segments in the Indian market.

When targeting the BoP markets, the company was challenged by the dominant poverty and in ensuring the four As. First, the distribution of SIM cards in scattered rural areas was a challenge. The company, thus, decided to invest in and develop a widespread distribution network so that customers could easily add credit to their phones. It developed an effective rural distribution method based on exclusive distributors who each managed a number of other distributors (called a hub of distributors). Developing this kind of distribution channel has been very costly for the firm and it hopes to receive a return on its investment in the near future. The company is also working with an NGO called Empower that is working with women from self-help groups. Telecom offers training to these women so that they can work as its representatives and sell mobile services in their villages. Telecom also signed an agreement with a micro-finance providing NGO, Access Money, to offer people loans for the purchase of handsets.

As a mobile network provider, the company would earn profits only when the rural people started using the mobile phones sufficiently. Therefore, the company developed a win-win solution; it searched for and developed micro-business ideas that were based on the use of mobile phones. To promote these ideas while ensuring the acceptability of the product, Telecom sought the collaboration of another local NGO, Start Biz. This relationship worked well as it supported the poverty alleviation goal of the NGO.

Figure 4 demonstrates the network of relationships between Telecom and the NGOs, in entering the BoP markets.

\*\*\*Insert Figure 4 about here\*\*\*

## 6 Findings

### *Addressing neglected key needs of the BoP people*

One factor that has enabled the MNCs to enter the BoP markets and mobilise the NGOs' resources is related to the fact that they are all offering services to meet the unsatisfied basic needs of the BoP population. These services that the MNCs wanted to sell to the poor were what they really needed; purchasing the products could benefit them and bring them out of poverty. One of the interviewees from Global Support commented:

We wanted to create products for our community. We work for the most vulnerable and the poorest of the poor communities. If a person has a boat of [worth] 2000 rupees, we want to insure him for 2000 and to have the premium based on a 2000-rupee asset, whereas an off-the-shelf product will give you insurance for an asset of 15000. So, whether you have [an asset worth] 5000, 10000 or 15000, your premium will be calculated based on 15000. We wanted to ask Insurance Co. to help us design products in line with the affordability of the community.

In the case of Alpha Bank, the company noticed that it had not been able to enter the markets in the north and east of India. Further investigation revealed that this was because of the low incomes of the people living in those areas and the absence of professional micro-finance institutions. Micro-finance institutions borrow a large amount of money from banks and lend it out in smaller amounts to those on low incomes. However, in order to be able to borrow money from banks, these institutions have to meet various requirements. While there were many NGOs working as micro-finance institutions in the north and east of India, their activities were based on receiving grants and donations, and they did not have the capability to borrow money from banks and thereby offer lower-rate loans to the poor.

Similarly, Telecom developed telecommunications networks in rural areas where people did not have access to mobile phones. Access Money agreed to work with Telecom and offer loans for the purchase of handsets because Telecom was targeting poor people who could benefit from access to mobile phones.

*Offering sustainable solutions and empowerment*

The services that the MNCs targeted at the BoP people were developed in such a way as to reduce poverty, either permanently by removing the key causes of the problem, or by developing a system that would continue to solve the problem on an ongoing basis. The technical assistance programme of Alpha Bank, for example, offered training to micro-finance institutes in order to help them qualify to borrow money from banks and consequently offer lower-rate loans to the poor. The livelihood programme of Alpha Bank actually started because of the need to offer sustainable solutions:

About a year later, we realised that you can give the poor many loans but eventually you will have ten buffalos or cows in a village and no way to sell the milk. So we are back to square one. There is no increase in income....That is how the livelihood programme got launched.

Similarly, Telecom pursued a viable solution for the eradication of poverty through the use of mobile phones. First, it invested in rural areas so that poor people would have access to mobile communication. This enabled the poor to save money by not having to travel physically in order to communicate with each other or share information. Second, the company is now working with NGOs to educate people about how to earn money through their mobile phones. One of the managers at Telecom pinpointed this aspect:

We are actually conscious that a very large part of the Indian population are not using their phones for anything but talking to each other, but there is a lot they can get in terms of education, information, removing the middleman, getting better use out of their business,

which can be done through education, and that is something that we are working on right now.

In the case of Insurance Co., although it could not prevent the occurrence of further disasters, by offering insurance coverage it could help poor people to cope with them.

Offering empowerment opportunities is also playing a critical role in the long-term success of service MNCs in the BoP markets. The endeavours of all three companies investigated went beyond their organisational boundaries by enhancing the incomes and/or capabilities of the BoP people or NGOs. Alpha Bank, for example, is working with Start Biz to teach poor people how to start their own small businesses and earn money. Similarly, Telecom is not only educating people about starting a phone-based micro-enterprise, but is also giving jobs to women from self-help groups, who are selling and distributing its product.

Insurance Co. and Alpha Bank are empowering their NGO partners by building their capacity. The former is training NGOs about the importance of insurance, enabling them to work as its agents, and paying them commission. Building the capacity of NGOs can help them to achieve their goal of poverty reduction.

#### *Starting with social value creation and capturing value in the long term*

All three service MNCs interviewed are engaging in social value creation and offering positive externalities through empowerment and sustainable solutions. They are hoping that their social value-creating activities will bring the poor out of poverty. Currently, these MNCs cannot capture as much value and earn as much money as they are earning in other markets. In fact, Alpha Bank has started out with non-profit initiatives at the BoP. Similarly, Telecom is not earning a profit in most of the BoP markets that it has entered. Insurance Co.

is earning a very marginal profit. The main reason that service MNCs have to postpone the capturing of value from this market is because of the dominant poverty in this segment of society. However, all of the company cases confirmed that they were hoping that their investment in this market would pay off in the long term. To illustrate, one of the managers from the headquarters of Insurance Co. remarked:

The benefit is not immediate, but the benefit is definitely in the future because...now poor people are our customers and actually they have benefited from us when claims have occurred.... Their claims have been paid by Insurance Co. So now they are satisfied clients and the people who are poor today will not remain poor on a permanent basis. Some day in the future, their children will recognise the name of our company, they will know that Insurance Co. is a company who provides insurance...and when some devastation happened, this company came forward and met some claims and gave compensation, and helped the community to come through those catastrophes. So, these are the benefits that are seen closely by the communities. ...today's customers are tomorrow's middle class.

Similarly, Telecom pointed out that, by offering access to mobile phones, they were giving the poor the opportunity to earn higher incomes and, as a result, they too would earn higher profits in the long term.

#### *Using NGOs' knowledge of and good relationships with the BoP people*

According to our interviewees, there is not much structured market research carried out into the BoP people. In order to be able to offer a product that meets the four As, the MNCs have to collect data and learn about this market, their values, their behaviour and their purchasing power. The findings of this research illustrate that MNCs can benefit from collaborating with

NGOs as they have long experience of working with the BoP people and addressing their needs. This was emphasised by one of the interviewees:

... we realised that there was a customer segment that we did not know. We had never been in touch with [it] and it was a kind of black box for a large international company. So, we realised that, in order to serve these customer segments, we would need to reach out to organisations that were working closely with this customer segment and seek their advice and cooperation. (Insurance Co.)

Even when the NGOs do not have the required knowledge about the market, they can utilise their good relationships with poor people and ask them to collaborate with the MNCs

Collaboration with NGOs also facilitated the acceptability of the micro-insurance in this case. Once the NGOs were convinced that insurance could benefit the poor people, they agreed to educate them about the importance and advantages of insurance, and even to sell and distribute micro-insurance products in the areas where they had ties with the community.

#### *Using NGOs' human capital and infrastructure*

For their entry into the BoP markets, all three service MNCs employed NGOs' human capital and infrastructure to ensure the four As. The MNCs had to establish systems for distributing their products in rural areas. However, establishing their own distribution channels could have been a costly practice for some of the MNCs. In the case of Insurance Co., NGOs' human resources facilitated the building of awareness and the marketing of the product, as this had to be done face-to-face because of the lack of media in rural areas.

The NGO Empower's access to women from self-help groups contributed to the distribution of the product in the case of Telecom. Meanwhile, Alpha Bank is working with Livelihood NGO to implement its livelihood programme:



One reason why we are working with NGOs is the workforce...they have numbers that we don't have in our team. (Alpha Bank)

The Livelihood NGO partner conducts door-to-door surveys to identify the socio-economic requirements, incomes, assets, etc. of the households in each region. Then, based on the data, customised business plans are developed by Alpha Foundation and implemented by the Livelihood NGO.

## **7 Discussion**

Considering the conditions at the BoP and the necessity of ensuring the four As, the service MNCs studied in this research had to devise solutions to aid their entry into the BoP markets. The majority of the BoP population in India are illiterate, live in scattered rural areas and suffer from poor infrastructure and low incomes (Hammond et al., 2007). The findings of this research illustrate that MNCs do not possess all of the resources required for entry into the BoP markets, that is, for building awareness and offering a product that is affordable, accessible and acceptable (Anderson and Billou, 2007). As a result, and in line with the argument of Hadjikhani et al. (2008), MNCs seek collaboration with the key actors in the market to complement their own resources. Prior studies have highlighted that companies benefit from participating in networks in which their partners bring resources, capabilities or other assets that they cannot easily attain on their own (Kogut and Zander, 1992). The benefits of participating in such relationships are more prominent in BoP markets where “a firm is unable to purchase the [required resources] through a market transaction” (Madhok, 2000, p.76). NGOs prove to be one of the best choices for partnerships at the BoP as they are embedded in the BoP through decades of social efforts (Johnson and Prakash, 2007). This was pointed out by one of the interviewees from Telecom:

... you can think of other institutions that have access to these markets. You can think of mobile phone companies, utility companies etc., ... but normally these institutions do not know the clients' needs ... [instead] the first focus of NGOs is to defend the interests of the clients because they speak on their behalf. They are also better at developing products because they know their clients' needs.

As illustrated in Figure 5, this research has identified a set of factors that can be regarded as critical for the entry of service MNCs into the BoP markets. As the framework shows, these factors are related to the central tenets of actors, activities and resources, inspired by social entrepreneurship theory.

\*\*\* Insert Figure 5 about here\*\*\*

The findings of this research have revealed that, in order to successfully enter the BoP markets, service MNCs engage in activities such as addressing the neglected needs of the BoP people and offering sustainable solutions and empowerment opportunities, and even start with social value creation, accepting that value will only be captured in the long term. The pursuit of these activities is in line with social entrepreneurship theory (Santos, 2012) and confirms the results of prior studies (e.g., Prahalad, 2010, London and Hart, 2010, Hartman et al., 2008). London et al. (2010), for example, find that success at the BoP requires mutual value creation. In another study, they point out that next-generation businesses at the BoP should incorporate doing business not only *at* the BoP but also *with* the poor people, by means of local entrepreneurs working with the firm (London and Hart, 2010).

The socially entrepreneurial activities pursued by the MNCs were in line with the NGOs' goals of creating social value and eradicating poverty, and facilitated the collaboration between these two entities. As corroborated by prior studies, MNCs can

contribute to poverty alleviation by offering job opportunities (Winters et al., 2004), enhancing access to education and training (Driffield and Taylor, 2000), and improving people's quality of life by providing them with better products (Jain and Vachani, 2006). Defining a mutually beneficial goal and balancing value capture with social value creation has inspired both types of organisation to invest more resources into their relationships, confirming the findings of prior studies (Ghauri and Holstius, 1996, Ghauri et al., 2008, Gadde and Hakansson, 2001).

NGOs can also benefit from collaborating with MNCs. Although the NGOs could have generated value through conventional means, by bringing resources into their own organisations and developing products/services themselves, they were better able to achieve their goals by forming networks and mobilising the complementary resources of the MNCs (Wei-Skillern, 2010). MNCs are resourceful organisations with knowledge of how to develop products and access to financial resources that can help the NGOs to achieve their goals of creating social value. The necessity of NGOs partnering with MNCs in order to benefit from their resources has been suggested by other scholars (Webb et al., 2010, Sen, 1999). Table 3 presents a summary of the actors, activities and resources in each company case.

\*\*\* Insert Table 3 about here\*\*\*

The findings of this research illustrate that the key resources of NGOs that can contribute to ensuring the four As and the entry of service MNCs into the BoP markets are related to their knowledge of poor people, their good relationship with poor communities, and their established infrastructure and human resources. Over time, successful NGOs are able to obtain the trust of people at the BoP and build good relationships with them (Lorenz, 1999). In addition, local NGOs benefit from workforces who are able to implement their social projects. Access to all these resources makes the NGOs legitimate partners for MNCs

wanting to target the BoP (e.g., Perez-Aleman and Sandilands, 2008, Teegeen, 2006, Reficco and Márquez, 2012, London and Hart, 2004, Das and Teng, 2000).

## **8 Conclusion**

This study enhances our understanding of the internationalisation of service firms into the BoP. In this research we have attempted to answer the question of how employing socially entrepreneurial initiatives and developing a network of relationships with NGOs can facilitate service MNCs' entry into the BoP markets. The findings of this research illustrate that MNCs' pursuit of socially entrepreneurial activities facilitated their establishment of relationships with NGOs and the mobilisation of the latter's resources to achieve the critical factors of the four As.

Several lessons can be learnt from the findings of this research. First, those MNCs that offer products that address the real unsatisfied needs of the poor can win the limited disposable income of the BoP people much more easily. In addition, when BoP people can see the immediate benefits of using a product, they will be much more likely to accept that product. For example, while the benefits of mobile phones were easily accepted by the poor people in India, Insurance Co. had to invest more in educating people about the potential benefits of insurance. The findings of this research illustrate that, in these types of industries, MNCs will benefit more from establishing relationships with NGOs to ensure they fulfil the four As.

Second, it can be seen that the initiatives of service MNCs in the BoP markets may not be profitable in the short term. This explains why many MNCs have ignored this market. However, the interviewees in this research pointed out that they were trying to learn about this huge market, build their brand and benefit from future demand. In addition, they were getting positive impact on their profits elsewhere in the market.

It should be noted that the MNCs interviewed were all contributing towards bringing the BoP people out of poverty by offering sustainable solutions and empowerment opportunities to them. Of course, it is not guaranteed that, when these people are more fortunate, they will definitely buy the products of these companies. However, the companies interviewed believed that, if they could create a satisfactory experience for their BoP customers, those customers would prefer their brand in the future.

The findings further show that establishing relationships with NGOs and developing propositions that are mutually beneficial can motivate NGOs to share their resources with MNCs. According to the findings of this research, these resources include knowledge of the BoP markets, good relationships with poor communities, and on-the-ground infrastructure and human resources. Therefore, when deciding on NGO partners, they selected those NGOs that possessed these resources.

Finally, it should be noted that establishing relationships and collaboration with NGOs may not be easy for MNCs as the two promote seemingly incompatible agendas (Berger et al., 2004). NGOs are more socially oriented and want to create value for the society rather than capturing value for themselves. On the other end of the scale are MNCs that are primarily driven by earning a profit and capturing value. The findings of this research highlight that, when MNCs are pursuing non-profit activities (e.g., as in the case of Alpha Bank), their partnerships with NGOs might be much easier to create, and may even be suggested by the NGOs (e.g., in the case of Overcome).

This research makes several contributions. First, it contributes to the social entrepreneurship domain. It confirms that social challenges such as poverty can be viewed as potential opportunities (Grayson and Hodges, 2004) and tackled through business practices (Perrini et al., 2010). It also broadens the boundaries of social entrepreneurship, and provides

empirical support for the social entrepreneurship theory in the context of service firms. In addition, this research has brought new perspectives to the fields of international business and social entrepreneurship by integrating these two domains. Our findings also respond to the call for more research on corporate social entrepreneurship and the relationship between MNCs and NGOs in the implementation of socially entrepreneurial projects. Specifically, our paper provides further insights into network theory (Hadjikhani and Ghauri, 2001, Hakansson and Johanson, 1992) and its application to the international business domain (Johanson and Vahlne, 2009). It strengthens the view that MNCs can benefit from expanding their networks to include NGOs at the BoP (London and Hart, 2004, Perez-Aleman and Sandilands, 2008).

Our research also provides some implications for the managers of both MNCs and NGOs. First, it confirms that the managers of MNCs can view the BoP as a market opportunity for their international expansion. However, they have to pursue different strategies in this market, such as employing social entrepreneurship and networking with NGOs. In addition, they need to learn to incorporate social value creation into their agendas when entering BoP markets in emerging economies. Pursuing such a strategy will also allow them to network with NGOs and seek their collaboration in entering the BoP markets. To aid relationships between MNCs and NGOs, managers should endeavour to devise solutions that enable both partners to achieve their goals. It is through developing mutually beneficial objectives that the two partners can engage in collaborative activities and contribute their complementary resources to them.

This research carries some limitations, which emanate from its qualitative exploratory nature and offer new avenues for future studies. First, the findings of this research are based on the BoP markets in India and are limited in their generalisability to other BoP markets. Second, this research was conducted based on three service MNCs in three specific industries. While the case-study approach enabled an in-depth exploration of the market entry

of service firms, more systematic studies could be conducted to provide more generalisable insights. The findings of this research could also be tested more rigorously by following a quantitative approach.

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**Table 1 - Overview of company cases**

<b>Company*</b>	<b>Field of activity</b>	<b>Initiatives at the BOP</b>
<b>Insurance Co.</b>	Finance and insurance	This company offers affordable micro-insurance for the most vulnerable people.
<b>Alpha Bank</b>	Financial services	Through its foundation, this company offers technical assistance and financial education to micro-finance institutions to enable them to borrow money from banks. It also offers a livelihood programme in which it trains poor people to help them establish their own micro-enterprises.
<b>Telecom</b>	Telecommunications	Telecom has invested in rural areas in order to provide mobile network access for villagers. The company also educates people about starting micro-enterprises using mobile phones.

\*To maintain confidentiality and anonymity, the names of the companies and the NGOs have been changed.

**Table 2 - Overview of interviewees' positions and number of interviews**

<b>Company</b>	<b>Headquarters/ Subsidiary (H/S)</b>	<b>Interviewee's position</b>	<b>Number of interviews</b>
Insurance Co.	H	Head of Micro-Insurance Project	2
	S	Associate Vice President, Business Procurement	1
	S	Senior Vice President, Head of Business Procurement	1
	S	Head of General Insurance for the Company's Rural Business	1
	S	Head of Corporate Communications	1
Alpha Bank	S	Vice President, Head of Foundation	1
	S	Programme Director	1
	S	Senior Project Manager (of technical assistant)	1
	S	Senior Project Manager (of livelihood programme)	1
	S	Vice President, GBM Credit Risk	1
	H	Head of Community Programmes	1
Telecom	S	Head of Public Relations	1
	S	Vice President of Consumer Insight and Communication	1
	S	Sales and Marketing - Vice President	1
	S	Manager - Corporate Responsibility	1
Global Support - partner of Insurance Co.		Chief Operating Officer	2
		Manager (livelihood)	1
		Sr. Technical Specialist (Education)	1
		Programme Director	1
A micro-finance institute - partner of Alpha Bank		Co-Founder	1
A micro-finance institute - partner of Alpha Bank		Founder	1
Access Money - Partner of Telecom		Head	2
Total number of interviews			25

**Table 3- Network relationships between the service firms and their NGO partners at the BOP**

Network factor		Actors	Activities	Resources
Case	Organisation			
Case1	Insurance Co.	Managers Workers	-Donation of money  -Learning about BOP's needs and developing products/services  -Training of NGOs about insurance and the collection of premiums  -Offering agency licence	-Financial resources (donation of money, paying commission to NGOs, etc.)  -Knowledge of developing insurance products
	Global Support	Managers Workers	-Requesting donations of money after tsunami  -Conducting survey about the need for micro-insurance  -Getting BOP communities to share their needs with Insurance Co.  -Using donated money to build awareness about insurance  -Marketing, selling and distributing micro-insurance	-Knowledge of BOP population's needs  -Human resources in disadvantaged areas for conducting surveys, educating the poor about insurance, marketing and selling insurance  -Network of other NGOs  -Good relationships with the BOP communities
Case 2	Alpha Bank/ Alpha Foundation	Managers Workers	-Offering technical assistance to micro-finance institutions to develop their capacities  -Developing and monitoring livelihood programme	-Knowledge of capabilities required in order to be eligible to borrow money from banks  -Financial resources to offer free training to micro-finance institutions  -General knowledge of micro-finance  -Knowledge of developing and monitoring the implementation of

				business plans for micro-enterprises through its livelihood programme
	Overcome	Managers Workers	-Educating people about the use of micro-finance	-Prior experience of implementing social programmes in the north and east of India -Good relationships with the BOP communities in the area
	MF Consult	Managers Workers	-Offering technical assistance and capacity building to micro-finance institutions	-Knowledge of micro-finance -Prior experience of offering technical assistance programmes in other countries
	Livelihood NGO	Managers Workers	-Conducting a survey about the socio-economic requirements and potential business opportunities in each region -Implementation of the livelihood programme	-Prior experience of working with the BOP communities and benefiting from their trust -Human resources for the implementation of the livelihood programme
Case 3	Telecom	Managers Workers	-Developing the infrastructure required for offering mobile network access to low-income people -Collaboration with mobile handset providers to offer cheap handsets -Training and recruiting women from self-help groups to market, sell and distribute its product	-Knowledge, expertise and financial resources in establishing telecommunications network infrastructure in rural areas
	Access Money	Managers Workers	- Offering micro-finance to the BOP population for the purchase of mobile handsets	-Knowledge and resources required for offering micro-finance
	Empower	Managers Workers	-Introducing women from self-help groups to Telecom	-Good relationships with and access to self-help groups



	Start Biz	Managers  Workers	-Training and educating people at the BOP about using mobile handsets and implementing mobile-based business ideas	-Experience of working with the BOP -Human resources for educating people
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Figure 1 - Pursuit of corporate social entrepreneurship and networking in order to enter the BOP markets

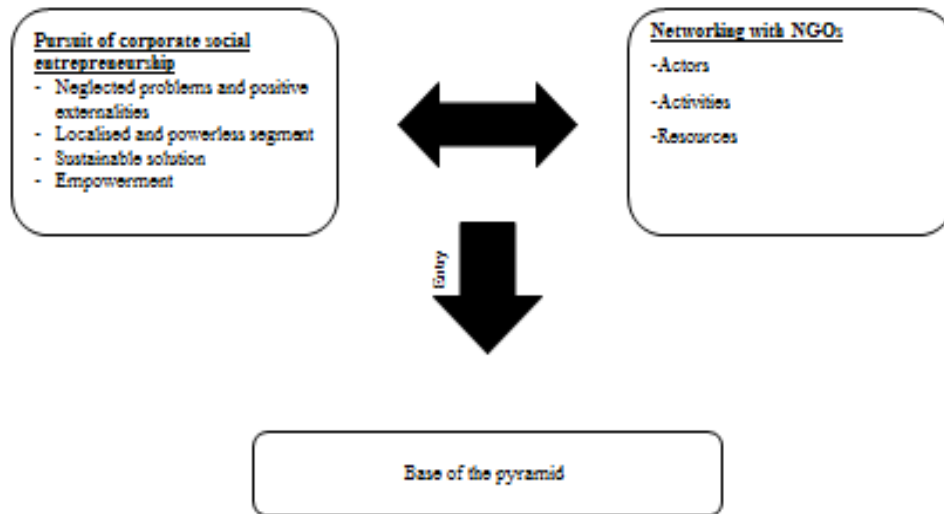


Figure 2 - Entry of Insurance Co. into the BOP markets

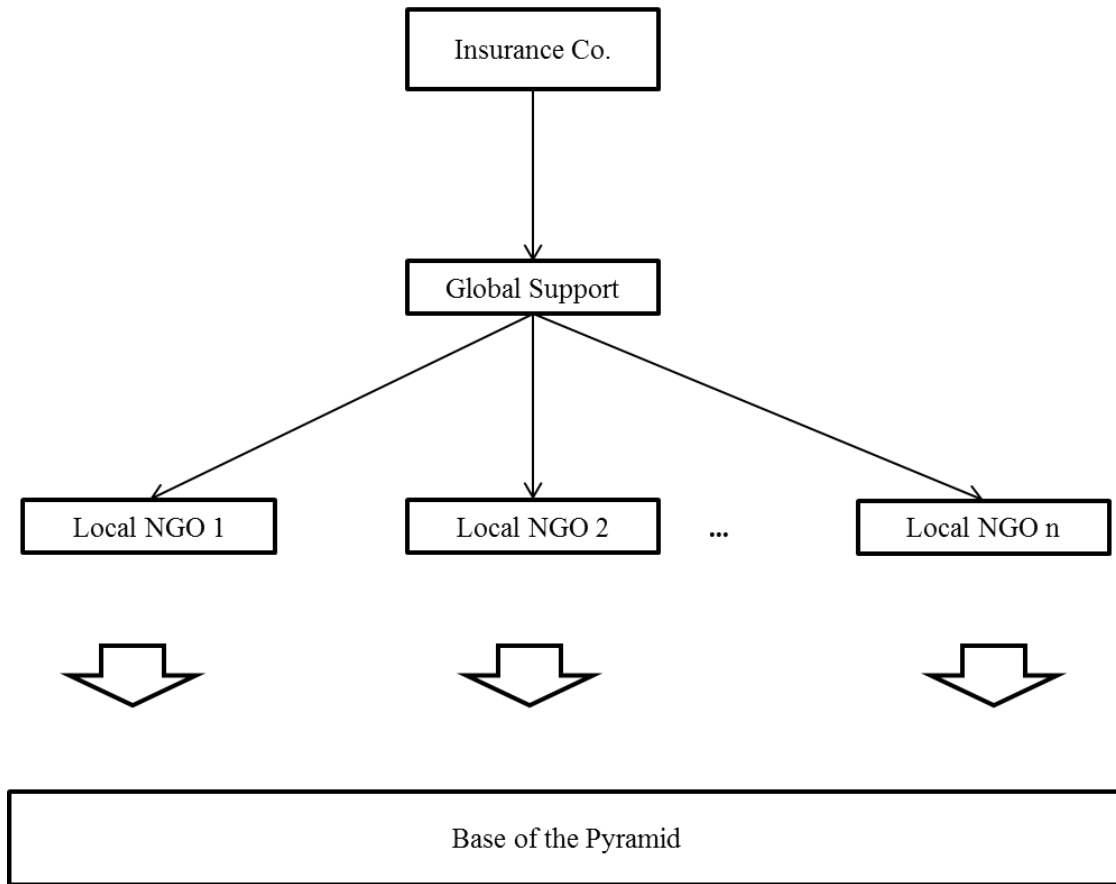


Figure 3 - Entry of Alpha Bank into the BOP markets

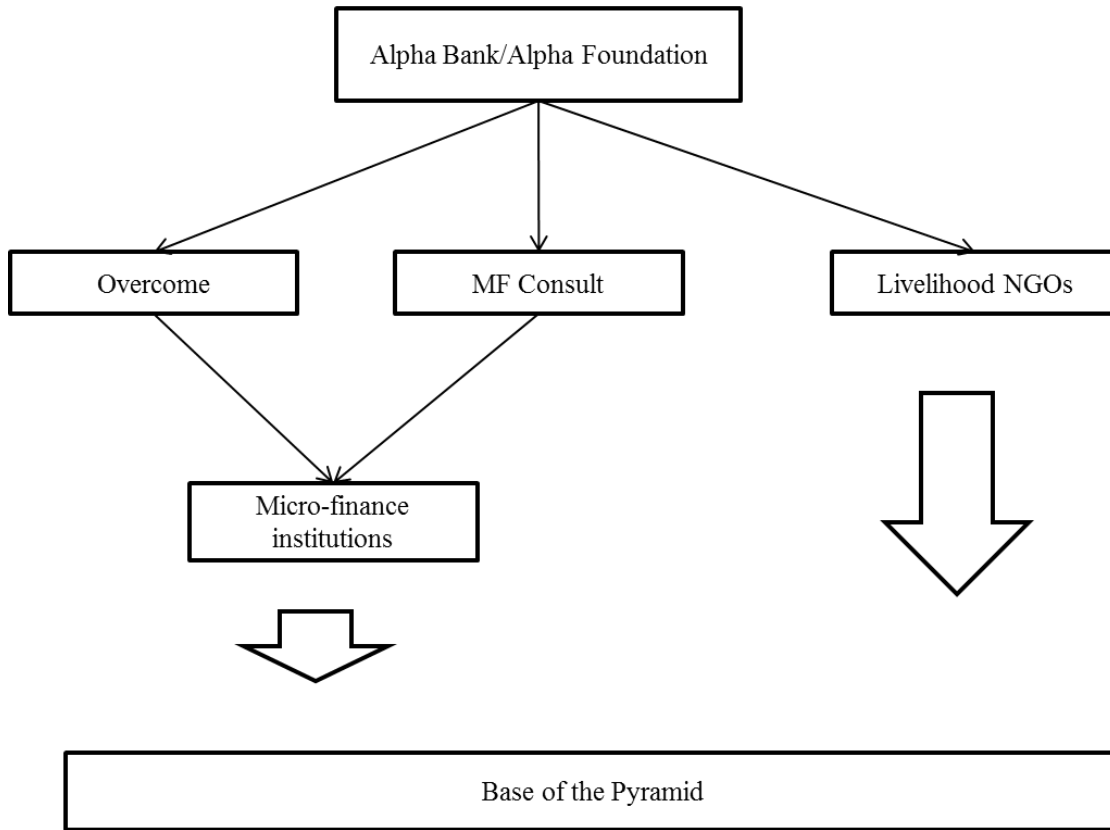


Figure 4 - Entry of Telecom into the BOP markets

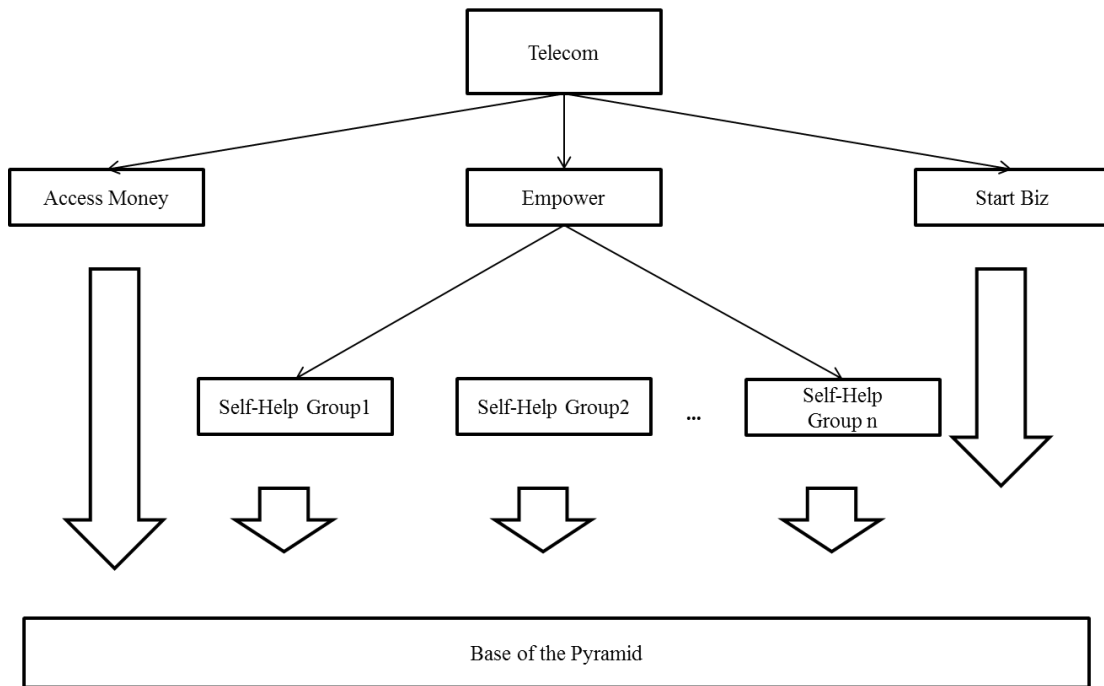


Figure 5 – Entry of service MNCs into the BoP markets through the pursuit of social entrepreneurship and networking with NGOs

