

Strategic Initiatives at the Base of the Pyramid

A Protocol for Mutual Value Creation



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Base of the Pyramid Protocol™

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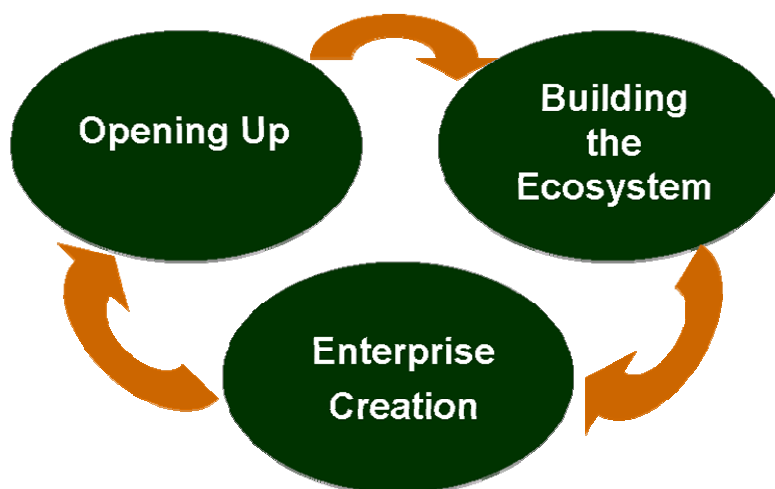
The Base of the Pyramid Protocol™

Introduction

The Base of the Pyramid Protocol™ working group was guided by the vision of an inclusive capitalism, one in which the corporate sector prospers by engaging local communities in the co-creation of business models that simultaneously generate economic, social and environmental value. The resulting Protocol represents a collaborative effort to articulate a radically different approach to business development that might better serve the diversity of needs and values of people across the globe, in particular, those who have been by-passed or actively exploited by globalization. This latter group comprises the Base of the Pyramid (BoP).

The Protocol that follows is a process-based framework by which a corporation can acquire a deep understanding of local needs and perspectives and then develop sustainable business models in partnership with BoP communities. The Protocol, which is written from the perspective of the corporation, is divided into three interdependent phases, each with specific business outcomes:

- ♦ Opening Up – Launch non-business specific immersion guided by two-way dialogue and humility to co-identify local needs, capabilities and business opportunities
- ♦ Building the Ecosystem – Generate a diverse network of partners to advance ideas for mutual value creation and to support the co-creation of a business plan
- ♦ Enterprise Creation – Formalize a business venture by pilot testing, evaluating, and scaling-out business experiments that generate triple-bottom-line value for all constituencies



The concept that unifies the Protocol is that of *mutual value creation* – each phase is designed to simultaneously generate value for the corporation, the local community and the other constituencies affected by the project. Therefore, each phase is modeled as a set of processes and activities that comprise a *mutual value chain* in which some activities contribute to local value creation while others generate value for the MNC.

In addition, the key content dimensions for each mutual value chain are given by a “4 Ps” model at the conclusion of each section. The 4 P’s include:

- ◆ People and Preparation – key people within the MNC needed for the project and the necessary training and skill-sets that they require
- ◆ Partners – key people outside of the MNC and from the local BoP community that need to be materially involved in the effort
- ◆ Places and Structures – organizational systems and infrastructure that need to be put into place
- ◆ Performance – dimensions that an MNC might use to evaluate its performance in applying the Protocol

Although the Protocol document is narrated sequentially, beginning with Opening Up and ending with Enterprise Creation, a corporation may enter the Protocol process at any phase, depending on existing skill sets, capabilities and relationships with the BoP community. These pre-requisites are identified in the Overview section for each phase.

To better ensure that the Protocol achieves its objective of generating mutual benefit, a set of business principles is expected to guide the MNC’s engagement with the BoP community. These business principles are stated at the beginning of the Protocol in the form of Operating Guidelines and a Code of Conduct.

BoP Business Principles

Operating Guidelines

- 1) Suspend Disbelief – *willingness to admit ignorance*
- 2) Put the Last First – *seek out the voices seldom heard*
- 3) Show Respect and Humility – *all parties have something important to contribute*
- 4) Accept and Respect Divergent Views – *there is no one best way*
- 5) Recognize the Positive – *people that survive on \$1 per day must be doing something right*
- 6) Co-Develop Solutions – *mutual learning among MNCs, partners and BoP members*
- 7) Create Mutual Value – *all parties must benefit in terms important to them*
- 8) Start Small – *begin with small pilot tests and scale out in modular fashion*
- 9) Be Patient – *it takes time to grow the ecosystem and win trust before the business takes off*

Code of Conduct

- 1) Design businesses that increase earning power, remove constraints, and build potential in the BoP
- 2) Ensure that wealth generated by the business is shared equitably with the local community
- 3) Use only the most appropriate – and sustainable – technologies
- 4) Promote the development of affected communities as broadly as possible in ways defined by the local people themselves
- 5) Track the “triple bottom line” impacts associated with the entire BoP business system
- 6) Monitor and address any unintended negative impacts associated with the business model
- 7) Share best practices with local partners to the extent possible
- 8) Report transparently and involve key stakeholders in an on-going dialogue
- 9) Commit to increase community value regardless of the business outcome

MUTUAL VALUE CHAIN 1

Opening Up



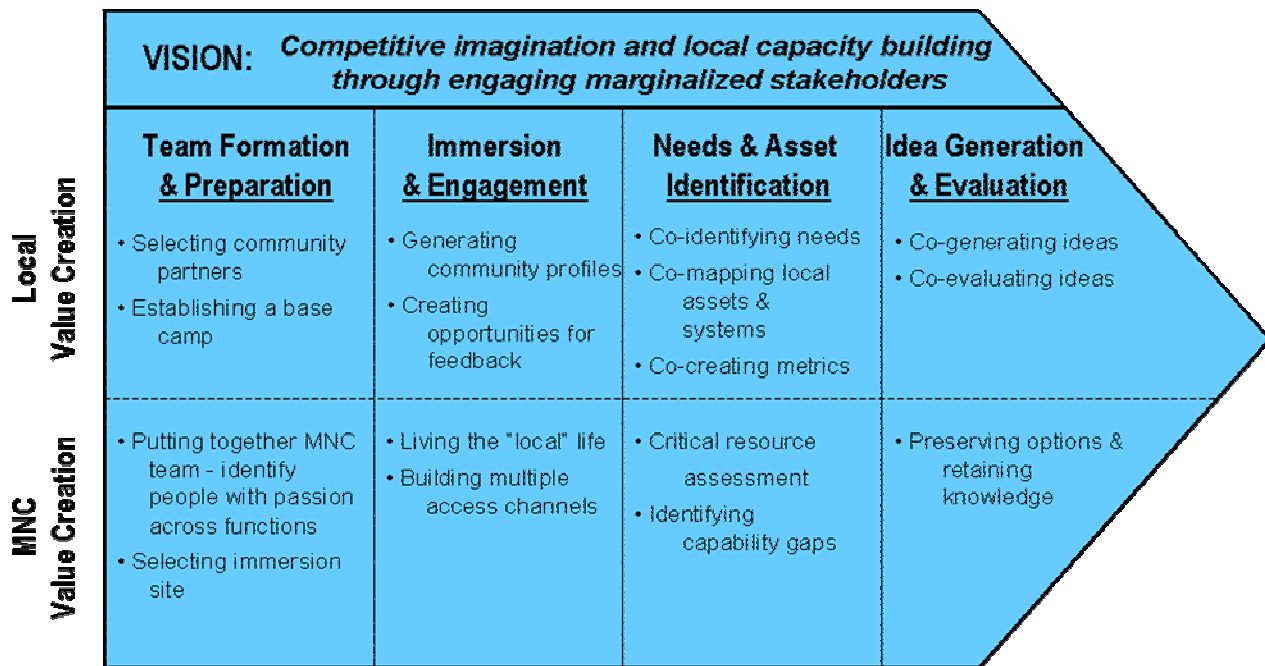
Opening Up: Overview

The objective of the “Opening Up” phase is to establish a deep learning process that leads to the co-generation of ideas and opportunities that use local capabilities and socio-economic systems as basis for creating mutual value. Based on principles of community empowerment, humility, and “putting the last first”, this learning process can be thought of as a two-way dialogue between the firm and the local community. It is a “learning-with” the community rather than a “learning-about” the community.

Through such a dialogue – one which requires the MNC to “suspend disbelief” and to think from the perspectives of the community – the MNC opens itself to the possibility of *competitive imagination*: for radically rethinking its own business models and for generating innovations with application in the BoP as well as in its current markets.

The process described below is envisioned as ongoing and iterative. It can be conceptualized as a *mutual value chain* comprised of four overlapping tasks that are guided by a common vision:

Mutual Value Chain – Opening Up



Opening-Up: Process Summary

Though the model above suggests a sequential process, the four sub-processes that comprise the Opening-Up phase are, in fact, interdependent and overlapping. Indeed, knowledge gained in one “stage” may cause a change in another. For example, having gained a deeper understanding of local diversity and needs, it may be necessary to alter the Team composition or provide specialized training to the MNC Team. For this reason, there is an emphasis on maintaining flexibility within the organizational structures created. Below are summaries of each of the four sub-processes:

1. Core Team Formation & Preparation

Four primary tasks comprise the creation & preparation of the Core Team: the creation and training of a multi-disciplinary MNC Team, the identification of a BoP site, the selection of a representative set of community partners, and the creation of a “base camp”. It is important that all members of this Core Team be recognized and treated as equals.

- a. Putting together the MNC Team – The firm should assemble a small, cross-functional team of people (e.g., R&D, Sales, Manufacturing or Service Delivery) with a passion for the idea, an affinity for the culture and/or a connection to the area chosen. An example might be someone on staff with Peace Corps experience. To prepare the Team for the co-learning and immersion process, the MNC Team should be trained in participatory techniques such as Rapid Assessment Process (RAP), participatory rural appraisal (PRA), and participatory action learning (PAL). These techniques build the Team’s skills and capability to engage in peer-to-peer, 2-way dialogues that are sensitive to differentials of power and wealth among the participants. *Appendix 1* provides a number of sources of information on these techniques. There should also be a mechanism (reporting or otherwise) in place that allows the knowledge and insights gained by the Team to flow back to the corporation.
- b. Selecting the Immersion Site – There are two perspectives on the criteria for site selection. One argument would suggest that a firm choose a location that is generally supportive or convenient. Thus, it might seek to find one that is geographically proximate to an in-country HQ or a larger metropolitan area, has a supportive local government and populace, has a pre-disposition to wanting the firm’s products, and/or has a (relatively) good infrastructure. Though this might increase the probability that a successful venture may at some point be launched, it also reduces the likelihood of more radical innovation and idea generation. An alternative argument would be to conduct the “opening up” phase in a location that is the most divergent from what the firm is accustomed to and which presents the greatest “obstacles”. By locating in an area least apparent to use or benefit from the firm’s current products (i.e., umbrella manufacturer going to desert climate), the firm is more likely to “suspend disbelief” and engage in non-business specific immersion.

- c. Selecting Community Partners – To help the MNC Team identify and select local community team members, the MNC Team should seek out individuals or organizations with extensive local experience and expertise (e.g., academics, embassy, local NGOs or enterprises). These persons or organizations would act as a bridge, helping to assemble a provisional team that reflects the local diversity as best as possible. This person or organization can also help create a common language and shared vision among the various team members. The Team should be viewed as flexible, as people will likely be added and others dropped as the process evolves.
- d. Establishing a “Base Camp” – In recognizing that this process of co-learning is an effort *jointly* undertaken by the MNC and the local community, the process itself as well as the output should be viewed as co-owned by the community. Therefore, it is necessary that a local office or base camp be established that serves as an “open-source” hub where information is documented and made available to the community. This base camp also increases the transparency of the project, as it provides a means by which the broader community can engage with the Core Team and report back on the Team’s activities.

2. Immersion & Engagement

An extended period of non-business specific immersion within the local community plays a critical role in building trust and developing a deep understanding of how people live their lives. This is not just about identifying needs and wants, but about coming to truly appreciate the way other people and communities make sense of the world and their daily lives. This is particularly important at the BoP for two reasons. One, the MNC Team brings with it a set of perspectives and assumptions (e.g., what constitutes ‘good health’) that may differ markedly from local conditions. Without having a clear understanding of its own biases and assumptions, as well as an appreciation of local perspectives and capabilities, a business may fail to meet local needs and/or undermine existing economic and social support structures. Second, “the local” is highly heterogeneous and dynamic, with no single snapshot in time able to represent the “true” community. Recognizing the absence of an “average person”, an extended period of immersion and engagement provides a better understanding of local contingencies and variation.

The Opening-Up phase is characterized by a number of interrelated and iterative tasks, all of which utilize participatory practices to develop a deeper understanding of local ways of life and aspirations. Again, although the tasks below are presented sequentially, they are highly interdependent and may take place concurrently.

- a. Living the Local Life – The primary objective of this task is for the Core Team (in particular, the MNC Team members) to participate as fully as possible (or allowable) in the local way of life, thus fostering empathy and appreciation for

local values and practices. The MNC Team and its partners should spend, at the very least, weeks or months, *living* within the community – eating, drinking, sleeping, cooking, grocery-shopping, walking and working alongside people of the community. As much as possible, the team members should avoid the trappings of the “development tourist” – in place of taxi-cabs and four-wheel drive vehicles, the Team should use the most common forms of transportation; instead of hotels and restaurants catering to the elite, the Team should seek out opportunities to live with local families and eat at local establishments. Indeed, the Team should try to live off of the local wage. During this period, the Team should be guided by an attitude of openness and humility, reserving judgment on the “rationality” of how and why things are currently done.

b. Generating Community Profiles – Employing participatory techniques (see *Appendix 1*), the Team should generate ethnographic stories and other “thick” representations (e.g., video, oral, written) of local ways of life in cooperation with the community. Participatory techniques share the common goal of empowering people for social and economic change by actively involving them in generating knowledge about their own condition. Some of the key practices endorsed by participatory methods include:

- The process, as well as all of the “data” generated through the engagement, need to be documented - either by writing, video, voice recording, or some other fashion – and made available in a manner that is both useful and readily accessible to the community. The data should be viewed as co-owned with the local community.
- All engagements with local people should “reimburse” them for their time, as that is one of their most valuable assets. The engagements themselves should be understood as mutually benefiting, even empowering.
- The Team should consult not only the “community leaders” but also the “troublemakers” and those who may not be immediately visible because of physical weakness or marginality within the community. This latter group may include the elderly, children, women, ethnic minorities, homeless, etc.

The stories (broadly speaking) will be generated from both “open observations” by team members and through conversations and interactions with community members. All data acquired through “open observation” (e.g., written accounts, video) should be viewed and interpreted together with community members, having them comment on the contents. Conversations should be open-ended and un-rushed, generating discussions that have an organic flow and make use of all the senses (not just intellectual). Throughout the process, the Core Team should be open and transparent, its members sharing their own “stories” as well as their intentions. Analysis should be conducted across levels (individual, family, community, region, national, and even transnational), paying particular attention to the constitution of and linkages across those levels.

- c. Building Multiple Access Channels – Because of local heterogeneity and hierarchies, the Team should cultivate multiple and parallel channels for engaging with the community, being vigilant to seek out its least visible members. Doing so allows the Team to develop a richer understanding of local dynamics and conditions. Furthermore, it minimizes the creation of a class of “gatekeepers” in the community - people who, by virtue of their being “privileged informants” (they may speak English, for example, or are in a position of power or authority within the community), come to mediate the rest of the community’s interaction and access to the Team.
- d. Documenting & Creating Opportunities for Feedback – All video, stories, and data should be kept at the local base camp and made readily available to the community. Also, throughout the immersion process, there should be a provision that allows community members to comment on and intervene in how the Team conducts its activities. Doing so helps to ensure that participatory methodologies and techniques stay consistent with the guiding principles of co-development, transparency, responsibility, and humility.

3. Needs & Asset Identification

Once a working trust has been established between the Core Team and the local community, attention should shift towards identifying specific needs and aspirations, as well as the socio-economic systems and resources already in place.

Five primary tasks comprise this process: the co-identification of needs, the co-mapping of local assets and systems, the co-creation of metrics to evaluate mutual value creation, a critical assessment of the MNC’s resources, and the identification of capability gaps within the MNC. As in the Immersion phase, participatory methodologies and practices constitute the basis for engaging with the community. Both the process and the resulting data should be documented and made available to the community through the base camp. All information is jointly owned.

- a. Co-identifying Needs – Working in cooperation with the broader community and using participatory techniques, the Core Team’s objective is to identify the various needs of the community. At this stage, the objective is to uncover as many needs as possible, regardless of their apparent feasibility. Every effort should be made to frame or articulate the needs from the perspective(s) of the community members and to seek out as many voices as possible. Again, analysis should be conducted across levels (e.g., individual, family, community, region, national, and even transnational), paying particular attention to the linkages across levels.
- b. Co-mapping Local Assets & Systems – Using an asset-based community development lens – a perspective that starts from the assumption that the local community possesses the wherewithal for self-directed change - the Core Team’s task is to identify and categorize the various resources, assets

and capabilities that currently exist within the community. The objective is to not only identify resources in isolation, but to understand their relationship with one another in forming a larger socio-economic system. These resources and systems will provide the foundation for the idea generation phase.

- c. Co-creating Metrics – Concurrent with asset and needs mapping, the Core Team should begin to co-develop a broad set of metrics that reflect both the firm's needs, as well as local understandings of value and well-being. This effort should be as inclusive as possible, being careful to capture the perspectives of those who may be disempowered (e.g. women) and/or most vulnerable in the community. It is important that the firm be transparent of its intentions throughout this process.
- d. Critical Self-Assessment – The Core Team, thinking from the perspective of the local community, should begin to identify the assets and resources located within the MNC and to relate them to the community's needs. This process requires the MNC Team to “suspend disbelief”, to think outside of its traditional categories and to relax assumptions about the firm's core competencies. The objective is to utilize the insights and perspectives of the local community to open up new avenues of possibility within the corporation.
- e. Identifying Capability Gaps – The MNC Team should also begin to identify potential gaps in its current suite of capabilities based on the initial needs and resource assessments. These gaps can be used by the MNC as a way to target those new capabilities and competencies that it wishes to develop through the creation of a BoP enterprise. The Team should assess the potential contribution of any new capabilities against the corporation's strategic plan in order to best leverage the BoP enterprise.

4. Idea Generation & Selection

Having gained an understanding of local needs, aspirations, and determinants of value and well-being, the Team's focus shifts towards the generation of specific ideas and opportunities to be pursued by the Core Team. During this process, it is important that the MNC Team members manage the community's expectations, being careful not to over-promise on what they can do. Indeed, the Team should not be looked upon nor represent themselves as possessing solutions for the community's problems, but instead as participants in a locally-driven effort for positive change.

Three primary tasks are involved in this phase: the co-generation of ideas, the co-evaluation of alternatives, and the retention of knowledge and preservation of options. As before, both the process and the output should be documented and made available to the community.

- a. Co-generating Ideas – Using participatory methods, the Core Team should engage in a process of idea and opportunity generation with the broader community. This entails bringing into the discussion the firm's existing resources and capabilities, as well as those new skills and competencies that

it plans to develop. This task is about imagination, about creatively blending the firm's current and future resource and capability endowment with local resources and socio-economic systems.

- b. Co-evaluating Ideas** – Having identified various ideas and opportunities for meeting local needs, the focus shifts to narrowing down the list to those few opportunities to be pursued by the Core Team. Again, a participatory process involving the greater community is the means by which this is done. The ideas should be assessed against the metrics of mutual value creation created earlier. It is critical to know both the possible positive and negative effects of an enterprise on the various local constituencies and to ensure that the weakest are, at a minimum, not made worse off through the intervention. The MNC Team should also consider how the various opportunities facilitate the development of new firm capabilities.
- c. Preserving Options & Retaining Knowledge** – The Core Team should also make arrangements for ideas that are not selected by the Team but for which there are interested community members. Support might include the provision of resources, technical assistance, or simply establishing a network of contacts that may help identify additional resources. An “idea bank”, for example, could be established which would serve as a knowledge repository for both the Team and the community. In addition, the MNC Team should broaden its linkages back to the firm in an effort to capture the knowledge and insights gained through the visioning process.

Opening-Up: Content Summary

The key content dimensions of the “Opening Up” process can be summarized in the following 4 P’s model:

The 4Ps – Opening Up

<u>People & Preparation</u> <ul style="list-style-type: none">• Cross-functional Team – people with a passion• Training in participatory techniques• Training in ethnographic methods• Training in needs analysis & asset-based community development	<u>Performance</u> <ul style="list-style-type: none">• Core Team diversity• Shared vision among Core Team• Days lived within community• Number & diversity of people engaged• Number & diversity of needs & assets identified• Number of existing & “new” firm resources identified• Number of options generated
<u>Partners</u> <ul style="list-style-type: none">• Core community partners• Skilled advisors and trainers• “Bridging” expert• Community Team representative of local diversity• Additional community members based on immersion	<u>Places & Structures</u> <ul style="list-style-type: none">• Base camp in local community• Knowledge link from MNC Team to corporate structure• Feedback link from community to Team• Idea Bank

MUTUAL VALUE CHAIN 2

Building the Ecosystem



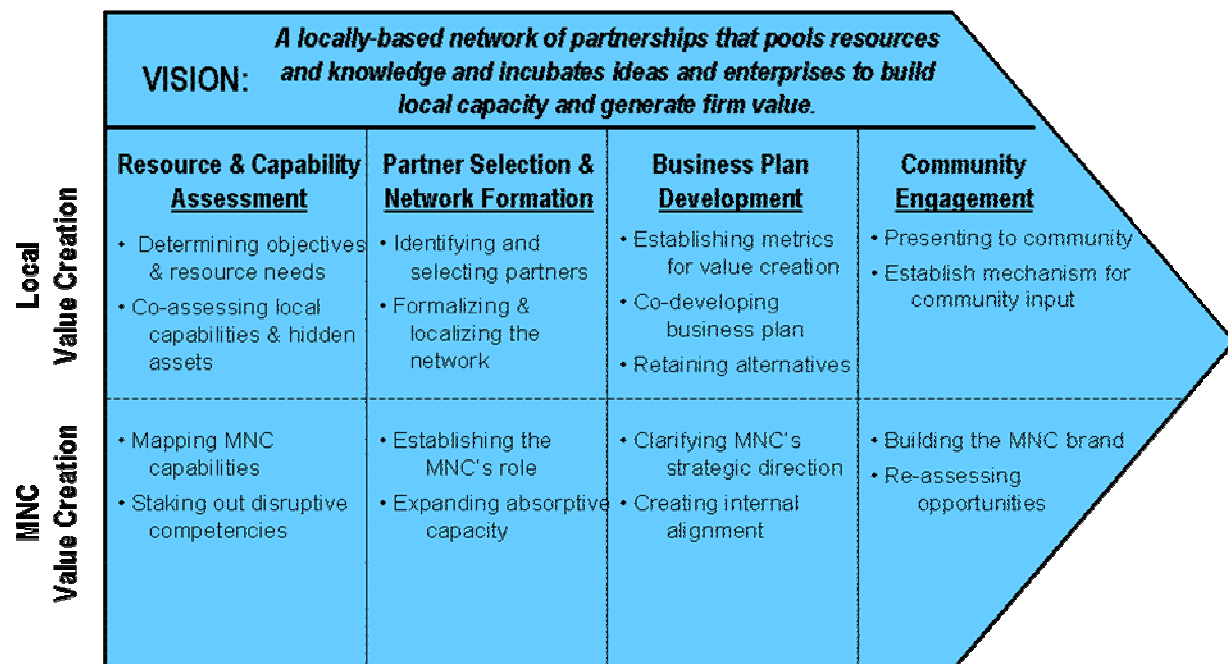
Building the Ecosystem: Overview

The objective of the “Building the Ecosystem” process is to incubate and advance ideas for mutual value creation by catalyzing a diverse network of partnerships among the MNC and different actors within the local community. This locally-based, semi-institutionalized network performs a number of functions, including:

- serving as a conduit or “clearing-house” for knowledge, capabilities and other resources necessary for launching a given enterprise
- maximizing the effectiveness and impact of both local resources and the MNC’s resources
- spreading the risk involved in bringing ideas to fruition
- supporting the development of new MNC capabilities and competencies
- enhancing the transparency and responsiveness of new ventures to the local community
- acting as an ongoing new-venture support network for local community members

The “Building the Ecosystem” process can be conceptualized as a *mutual value chain* comprised of four overlapping tasks that are guided by a common vision:

Mutual Value Chain – Building the Ecosystem



Building the Ecosystem: Process Summary

It is important to note that, to do the Building the Ecosystem process properly, the MNC must already possess a deep understanding of local capabilities, values, needs, actors, and socio-economic systems, as well as have formed a working trust with the local BoP community. In addition, it is expected that the idea or proposed business venture has already passed through a number of “filters”, including having received broad endorsement from the local community and having been assessed against locally-created metrics for well-being and value creation. Internally, the MNC must possess team members with experience in a number of methodologies, including participatory learning, asset-based community development, and baseline needs analysis. Therefore, it is assumed that firms have gone through an “Opening Up”-type process in arriving at the current stage. This process is not intended for companies with little to no history of working in the local community and/or for incubating “externally-conceived” ideas (i.e., ones not arrived at in collaboration with the local community through participatory means).

In addition, the Building the Ecosystem process assumes that three structures are already in place: a “Core Team”, a local “base camp”, and an organizational or “knowledge” link between the MNC Team and the corporation. The Core Team should be comprised of a multi-functional MNC Team with extensive exposure to the local ways of life, as well as a core set of partners that are representative of the community. In beginning the Building the Ecosystem phase, the Core Team will likely have taken on additional local partners based on the idea selected (e.g., the originator and or key local proponents of the idea). The base camp serves as an interface point between the Core Team and the greater community, while the organizational link to the corporation allows the MNC Team to share and leverage its learning and knowledge throughout the corporation and to deploy firm knowledge to the BoP effort.

As with “Opening Up”, the model above suggests a sequential process. However, the four sub-processes that comprise the “Building the Ecosystem” phase are highly interdependent and overlapping. Indeed, the partner ecosystem should be viewed as a fluid entity, one that adapts and evolves as local needs and actors change. Bearing this in mind, it is important that both the organizational structure of the network and the mechanism by which partners are linked together be flexible.

Following are summaries of each of the four sub-processes:

1. Resource & Capability Assessment

The objective of this step is to develop an understanding of the resources needed to launch the proposed enterprise and those that are currently available, either locally or within the MNC. Through this process, the Core Team begins to develop a map of potential partners. This is a highly iterative process, for resource forecasts will undoubtedly change as the venture begins to take shape and become more concrete. The process and the findings should be documented and made available to the community through the base camp. There are four key tasks that comprise this step:

- a. Identifying Objectives & Resource Needs – The purpose of this task is for the Core Team to articulate the specific objectives of the proposed venture for the various constituencies and to then forecast the venture's resource requirements at each stage of the value chain. The stated objectives will likely influence the shape of the value chain and the type of resources needed by the venture. As stated above, this process will be highly iterative, with forecasted resource needs varying as the venture develops.
- b. Co-assessing Local Capabilities and Hidden Assets – Employing participatory techniques (see *Appendix 1*); the Core Team should begin to develop a map of the locally-based resources and capabilities that can be brought to bear in launching the proposed venture. This step requires that the Core Team suspend assumptions of how things should be done, recognizing that the local BoP community may possess very different, yet effective, socio-economic institutions and norms to facilitate commerce. As an example, some banks serving BoP communities have successfully utilized trust-based “solidarity” groups instead of formal credit checks and collateral requirements in encouraging loan repayment. These “hidden assets”– forms of local knowledge hidden by virtue of Western or Top of the Pyramid norms of development – may support any number of aspects of the venture's value chain: from the way financing is offered, to how distribution is conducted, to the manner in which customers are educated about the product. *Appendix 2* provides a list of various dimensions along which the local community can be segmented in order to better understand the diverse social structures and hidden assets in place.
- c. Mapping MNC Capabilities – At this stage, the MNC Team should begin to document and map the resources located within the MNC that could support the venture. As during the Opening Up phase, this is an opportunity for the MNC to challenge its assumptions, as the local BoP context simultaneously makes obsolete some of the MNC's competencies while opening up new possibilities. The Core partners can play an important role in this critical assessment, using the insights and perspectives of the local community to rethink the MNC's resources and to identify its own “hidden” resources.
- d. Staking Out Disruptive Competencies – The context of the BoP venture presents the MNC Team with a unique opportunity to develop and incubate new competencies and capabilities potentially disruptive of its Top of the Pyramid markets. Therefore, at this stage, the MNC Team should identify the specific capabilities and competencies that it wishes to develop through its involvement in the chosen BoP enterprise, as this decision will influence the selection of partners and the business model.

2. Partner Selection & Network Formation

Having outlined the resource requirements and surveyed the local capabilities and MNC resources that might be deployed, the focus shifts to formalizing the network of partners that will support the enterprise. The process of growing the ecosystem should be documented and the “findings” kept in the local community. Four primary tasks comprise this process: identifying and selecting network

partners, formalizing and localizing the network, bridging the MNC's resources, and expanding the MNC's absorptive capacity.

- a. Identifying and Selecting Partners – Using participatory methodologies, the Core Team should engage in a process of mapping potential partners against the various tasks and activities that comprise the enterprise's entire value chain. *Appendix 3* contains various categories of actors that should be explored as potential providers of needed resources and capabilities. *Appendix 4* provides a matrix useful for analyzing these different ecosystem actors and the roles they may play in the enterprise.

There will likely be multiple actors and solutions for the various tasks identified in the enterprise's value chain. Two criteria would be helpful in choosing partners. First, one of the central goals guiding the venture is to build community capacity by leveraging and expanding local capabilities to fulfill needed functions. Therefore, as much as possible, local partners should be emphasized over "foreign" organizations¹. Second, choice of partners should also be based on the mutually agreed-upon metrics (e.g., retaining and expanding wealth in local community, empowerment and capacity building, equitable distribution of benefits throughout the community, benign or positive impact on ecological systems) against which the initiative was originally screened (see "Opening Up", Needs and Asset Identification). Thus, if gender equity was identified as an important performance dimension, then one possible selection rule might be women-run organizations.

Indeed, as the ecosystem evolves and the venture takes shape, new activities and actors will suggest themselves and roles may shift. For this reason, the evolution of the network should be constantly monitored in order to maintain its diversity and the richness of its ties. In addition, the Core Team should periodically review the list of actors in *Appendix 2*, being sure that changes in the stakeholder environment are reflected in the network's composition.

- b. Formalizing & Localizing the Network – As the partners are identified and selected, it is important to establish a locally-based "office" which provides a common contact point among the partners, as well as between the network and the greater community. This local enterprise office helps to increase transparency and accountability and can also serve to make available the data and documentation relating to the venture – knowledge that might be of value to other community members wishing to launch new enterprises. In addition, the members of the network need to be linked together in some fashion (perhaps using information communication technologies) to foster dialogue and communication. Finally, the Core Team should be expanded to reflect the ecosystem partners, with thought given to an organizational design that fosters transparency.
- c. Establishing the MNC's Role – In collaboration with the Core Partners, the MNC Team should determine the MNC's role in the new venture and the specific capabilities and resources that it will provide. This decision should

¹ The local community should make the decision of whether an organization is deemed local or foreign.

take into consideration not only what the MNC is currently capable of doing, but also the competencies the MNC wants to acquire and the implications for the greater community. Indeed, there may be situations when it is better for a local partner to provide a skill that the MNC also possesses, in order to build local capacity or provide local employment opportunities. As a rule of thumb, the enterprise should use and build off of locally-based resources and systems as much as possible, being mindful of the need to establish a sustainable business enterprise. At this point, the MNC team might be expanded to include additional key resource holders in the MNC.

- d. Expanding the MNC's Absorptive Capacity – To facilitate the acquisition of new competencies, the MNC Team needs to build a baseline of knowledge and skills that act as a scaffolding for higher-order, more tacit skills and competencies. Therefore, it is important that the MNC Team recruit into the partner network individuals and organizations that possess such knowledge and experience. In addition, the MNC Team should make sure that the network structure presents opportunities for significant engagement and collaboration with these “competency-carrying” partners.

3. Business Plan Development

With the partner network in place, the Team's efforts shift to outlining a business plan for the proposed venture. Five key tasks are involved in this process: co-creating a set of metrics for assessing community value creation, co-developing a business plan, retaining alternative business models, clarifying the MNC's strategic intent, and creating internal alignment. Participatory methodologies play a critical role throughout this process. Both the process and the results should be documented and made available to the broader community through the local enterprise office.

- a. Establishing Metrics for Community Value Creation – Though general criteria for local well-being have already been generated through the Opening Up process, the expanded Core Team's task is to create specific metrics that link the operation of the proposed venture with these criteria. In collaboration with the greater community, the Core Team should create a “scorecard” that identifies these various dimensions of performance, along with a set of indicators by which to track the venture's effects. Target levels to be achieved by specified dates will help chart the venture's progress and alert the Team to unintended consequences. Care should be taken that the scorecard is meaningfully employed even during the early stages of the venture's formation and that people be trained to take and to interpret the measurements. This entire cycle of collecting and analyzing meaningful performance data will help ensure that the MNC and the new venture adhere to the implicit social contract entered into by virtue of engaging with the BoP community.
- b. Co-developing the Business Plan – Unlike a “traditional” business plan, the business model for the venture needs to be jointly developed with the ecosystem partners. Indeed, all of the partners should have “ownership” of

the business plan and feel that they will meaningfully benefit from the partnership. To that end, it is important to explicitly discuss how the venture will generate value along the various dimensions – economic, social and environmental - identified by the Core Team and the greater community. It is important that everyone involved in the venture should share in the benefits. In addition, the Team should consider the potential negative impacts of the venture on the local community and plan accordingly. This process is fundamentally about creating a shared vision among the various partners.

- c. Retaining Alternatives and Creating Options – During the co-development of the business model, alternative models may be suggested by which the same or other products or services can be produced and delivered. The Core Team should document all of these models, as they may become viable or attractive opportunities in the future. In addition, the Team should make some provision for those ideas that it chooses not to pursue but for which there are supporters within the community. Support may take a variety of forms, from providing access to the partnership network to in-kind or financial assistance.
- d. Clarifying the MNC's Strategic Intent – In developing the business plan, the MNC Team needs to clearly articulate its strategic intent with the enterprise and how the enterprise will advance corporate-level strategic objectives. This process entails creating an architecture that maps out the specific outcomes desired – financial, competency-based and otherwise – and the interim steps that need to be taken in accomplishing each objective. Metrics play an important role in this process, as they provide the means by which progress against the various goals can be assessed and by which to communicate the contribution of the BoP venture to the corporation's strategic position. Care needs to be taken in the choice of metrics, as those traditionally utilized in Top of the Pyramid markets may be ineffective in capturing the contribution of BoP enterprises. In particular, due to the high uncertainty yet high potential upside at the BoP, a real-options based evaluation framework is advised. In addition, given the potential size of the BoP market, financial metrics ought to focus on the net marginal impacts of the venture (e.g. Return on Capital Employed) in place of gross product margins.
- e. Creating Internal Alignment – It is important that the MNC Team establish an incentive structure for its own team members that reflects the uncertainty of the new venture and can be utilized internally to communicate the Team's performance. Though short-term profits are possible, it is important that financial targets be balanced with longer term, non-financial criteria in order to provide the Team with the necessary flexibility in adapting to contingencies.

4. Community Engagement

Having jointly created a business plan, the Core Team needs to re-engage with the broader community in an effort to gain broad support and trust for the venture. There are four primary tasks involved in this process: presenting the business plan to the community, establishing mechanisms for ongoing

community input, building the MNC brand, and reassessing opportunities for value creation.

- a. Presenting to the Greater Community – The Core Team should vet the business plan with a broader constituency of community members, other stakeholders, and possibly even competitors. The fundamental objective of this task is to listen attentively for overlooked concerns and possible alternatives, adopting a stance of humility and respect for different perspectives. Changes should be made to the business model as appropriate, and additional partners added to the Core Team as necessary. The idea is not to get unanimous agreement – since that may not be possible, even though it is desirable – but to engage in an open, respectful and transparent dialogue with the community that results in broad support of the path forward.
- b. Establishing Mechanism for Ongoing Community Input – In the spirit of transparency and in recognition of the venture’s responsibility to the local community, the Core Team should institute a mechanism that allows for the broader community to periodically report-back on the venture’s performance and to raise possible concerns. One option might be to include community members in the collecting, analyzing and reporting of scorecard metrics. The data and the reports would be made public and accessible to the community through the local enterprise office. Additionally, the Core Team could institute regular “town-hall” sessions that provide a forum for raising concerns.
- c. Building the MNC Brand – Engagements with the community present an opportunity for the MNC Team to raise awareness of the MNC’s brand. Establishing the MNC brand as reliable, trustworthy, and of high quality increases access to valuable resources and capabilities within the community, enhances legitimacy, and may generate additional business opportunities. To effectively manage this process and to leverage the MNC Team’s interactions with the greater community, the MNC Team should establish a clear brand strategy. This strategy should make explicit the relationship of the local BoP venture to the MNC’s corporate brand.
- d. Reassessing Opportunities for Value Creation – The MNC Team should also use the feedback from the community in assessing the MNC Team’s own strategic plan. In addition to ensuring alignment between the community and the MNC’s objectives, the feedback may bring to light parallel opportunities to leverage the MNC’s current suite of products and services. Additionally, the MNC Team may identify new competencies or capabilities that it can develop and deploy locally or in its Top of the Pyramid markets.

Building the Ecosystem: Content Summary

The key content dimensions of the “Growing the Ecosystem” process can be summarized in the following 4 P’s model:

The 4Ps – Building the Ecosystem

<u>People & Preparation</u> <ul style="list-style-type: none">• Cross-functional Team• Additional corporate resource holders relevant to venture• Training in participatory techniques• Training in uncertainty management (e.g., real options)	<u>Performance</u> <ul style="list-style-type: none">• Shared vision among partners• Number of business models identified• Number of “spin-offs” supported• Network diversity• Number of “local” partners• Hidden local assets identified• Hidden MNC assets identified• Clear & compelling strategic intent• Local embeddedness• Brand recognition
<u>Partners</u> <ul style="list-style-type: none">• Core Team of local partners• Additional local partners related to proposed venture• Ecosystem partners	<u>Places & Structures</u> <ul style="list-style-type: none">• Local enterprise office• Knowledge link to MNC• Ecosystem communication network• Ecosystem organizational structure• Incentive structure within MNC Team that aligns efforts• Enterprise scorecard• Community input mechanism

MUTUAL VALUE CHAIN 3

Enterprise Creation

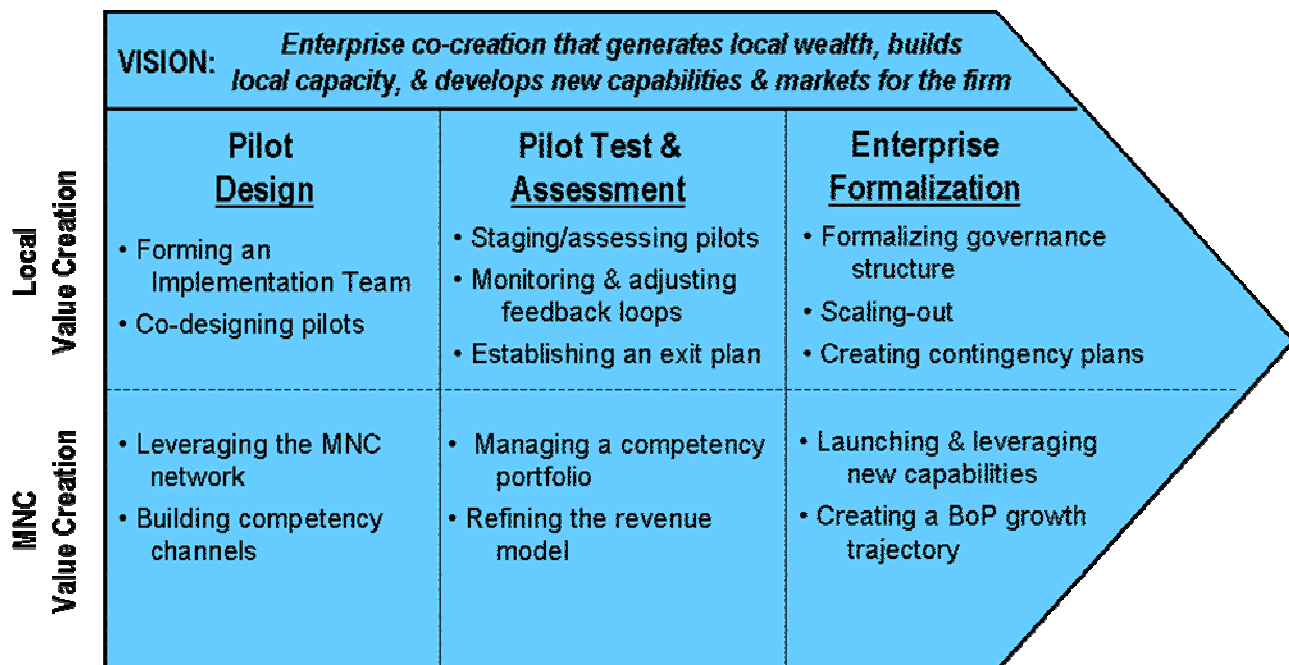


Enterprise Creation: Overview

The objective of the “Enterprise Creation” process is to transition a proposed venture from concept stage to going concern by pilot-testing, evaluating, and formalizing the enterprise in a collaborative and equitable manner. The end result of this process is a sustainable business model that generates value for the MNC and expands wealth and capacity in the BoP community by producing goods and services that meet locally-defined needs. Key principles that guide this process are co-creation, mutual gain, transparency, and long-term commitment and responsibility. By engaging in this process, the MNC signals an increased level of commitment to the BoP community.

The “Enterprise Creation” process can be conceptualized as a *mutual value chain* comprised of three overlapping processes that are guided by a common vision:

Mutual Value Chain – Enterprise Creation



Enterprise Creation: Process Summary

The “Enterprise Creation” process is intended for a firm that is materially involved in launching a BoP venture designed in collaboration with the local BoP community¹. The process assumes that the plan has received broad community endorsement and that a set of metrics has been co-created for monitoring and evaluating the venture’s performance. Organizationally, this phase requires the prior establishment of a number of structures, including:

- a Core Team comprised of a multi-disciplinary MNC Team, local partners representative of the community’s diversity, and other key resource-holders
- a formalized network of partners whose resources and capabilities will be called upon in supporting the venture
- a local “enterprise office” that is open and accessible to the local community
- a mechanism that cultivates ongoing community input into the venture’s performance
- an organizational link from the MNC Team to the corporate structure that captures and shares learning and knowledge

Due to the complexity and uncertainty of the local environment, the transition from start-up to going concern is best understood as a learning process that incrementally expands and formalizes structures through a series of small-scale, iterative interventions. As such, the sub-processes that comprise the “Enterprise Creation” phase should be viewed as highly interdependent and non-linear in nature. Organizational controls should be configured in a manner that recognizes this environmental uncertainty and encourages an iterative learning approach.

Following are summaries of each of the three sub-processes:

1. Pilot Design

Small-scale, co-designed pilot projects are a critical mechanism for testing the proposed business model and for generating real-time learning in a low-risk manner. Co-design and co-management of the pilot projects helps build local business capacity, aligns the effort with diverse needs, and marshals local resources and commitment to the effort. Four primary tasks comprise this

¹ An alternative to a firm’s material involvement in the creation of a BOP venture is for the firm to use a venture capital (VC) approach. To do so, the firm would establish a multi-expertise “VC team” in charge of investing in BOP projects. The task of the team would be to provide seed money to individuals (e.g., sustainable social entrepreneurs, employees within the MNC wanting to establish their own businesses) and/or existing ventures (e.g., small and medium enterprises operating at the BoP, BoP-based non-governmental organizations, incubators at local universities).

process: forming an Implementation Team, co-designing pilot tests, leveraging the MNC's network, and establishing competency-building channels.

- a. Forming an Implementation Team – The Implementation Team should be drawn primarily from the Core Team members involved in the co-development of the business plan. That said, it is important that the Implementation Team include people with the necessary skills and mindset for advancing a venture beyond the concept stage. Therefore, depending on the talents and experience of the team members, it may be necessary to bring onboard additional MNC people and/or NGO personnel with experience in new-venture development (particularly within the geographical area in question), as well as community members with entrepreneurial talents.

The possibility of successful implementation is enhanced if the team members can coalesce and function as one cohesive partnership. Mutual respect should be the key element of the team's culture.

- b. Co-designing Pilots – Relative to top-of-the-pyramid efforts, the pilots should be smaller in scale and greater in number in order to manage uncertainty and respond to contingencies. Furthermore, the timeline for implementation must be flexible and embrace a pace of change that is appropriate for the community. Indeed, the timeline must be tied to 'local' time as compared to 'corporate' time. The Implementation Team should be prepared to manage and negotiate among the different time horizons and expectations of the various constituencies.

To maximize learning, the pilot sites should be representative of the diverse conditions within the BoP community (e.g., ecological, ethnic, gender). As with the business plan, the pilot's design should leverage and build off of existing socio-economic structures and local capabilities and resources, paying particular attention to mechanisms that help expand local business capacity. Community "competitions" organized around specific challenges or obstacles confronted by the Implementation Team offer one potential mechanism for tapping into the local knowledge.

The process and the resulting pilot designs should be documented and made available to the community through the local enterprise office.

- c. Leveraging the MNC's Network – In the design of the pilots, the MNC Team should explore arrangements with the MNC's existing businesses and operations that could support the pilot's objectives and expand local capacity while generating additional value for the corporation. For example, it may be possible to arrange for another of the MNC's businesses to procure its raw materials from local producers or directly from the pilot itself at a lower cost. Other possible arrangements which could increase the probability of the new venture's success by bolstering the community's capacity include:

- Spinning-off one of the MNC's activities (e.g., transportation) as an independent business to a local entrepreneur
- Franchising a business to a local entrepreneur

- Employing local community members to produce and provide services
- d. Building Competency Channels – The pilot projects present the MNC Team with a low-risk opportunity to actively learn and experiment with the new skills and capabilities needed in building desired competencies. Therefore, the MNC Team should structure the pilots so that its Team is best positioned to interact with and acquire the skills and tacit knowledge that other partners may possess. In addition, the Team should design the pilots so that the MNC has the opportunity to test-out and further refine new capabilities and competencies.

2. Pilot Test & Assessment

Maintaining a modest and low profile in the community, the pilot projects should be executed in stages in order that interim learnings are captured and the pilots reconfigured accordingly. Five primary tasks comprise the “Pilot Test and Assessment” process: staging & assessing the pilots, monitoring feedback mechanisms, establishing an exit plan, managing a competency portfolio, and refining the strategic plan.

- a. Staging and Assessing the Pilots – The pilot projects should be structured and executed as a series of milestones or stage-gates in order to build-in opportunities for periodically assessing the venture’s impacts and for responding to contingencies. At the completion of each stage and with the help of local community partners, the Implementation Team would evaluate each pilot using a scorecard of metrics and indicators that were designed in collaboration with the broader community (see “*Growing the Ecosystem*”, Business Plan Development). The results of the assessment should be documented, reported back to the community, and then made available through the local enterprise office. At this point, the Implementation Team would reassess the pilot’s operations and make the necessary adjustments to the product or service offering and/or the enterprise’s business model. Transparency and honesty are key principles that would guide the Team’s actions and decisions throughout this process.
- b. Monitoring & Adjusting Feedback Mechanisms – It is important that the Team monitor the parallel feedback loops that allow individuals within the community to express concerns that would otherwise escape the Team’s attention (see “*Growing the Ecosystem*”, Community Consultation). In addition, the Team should proactively seek out “marginalized” voices (e.g., the poorest members of the community) to ensure that they are, at a minimum, not made worse off through the intervention. Doing so allows the Team to respond in a timely manner to potentially negative (as well as positive) unintended consequences and to adjust the pilots accordingly. The scorecard and its set of metrics and indicators should also be adjusted to reflect this feedback.

- c. Establishing an Exit Plan – The possibility exists that the Implementation Team may decide to terminate some or all of the pilots based on the pilots’ performance or other unforeseen circumstances. In preparing for this eventuality, the Team should put into place an exit plan that strives to leave the community better off than before the venture was initiated. One possibility might be to pledge all of the pilots’ assets (e.g., equipment, technology) to the community. The Team should pay particular attention to ensuring continuity in the lives of those directly involved in the establishment and operation of the pilots.
- d. Managing a Competency Portfolio – As stated earlier, simultaneously staging several small-scale pilots allows the Implementation Team to experiment with various derivations of a business model, incrementally adapting those that appear promising while closing down ones that fail to generate the desired results. The MNC Team should approach its development of new capabilities and competencies in the same fashion, using the pilots as a way to explore in parallel the development of several new capabilities and competencies. By maintaining an “options portfolio” of new capability development efforts, the MNC Team lowers the risk associated with any one effort while expanding the possibility of developing new, disruptive capabilities.
- e. Refining the Revenue Model – As the BoP business model begins to take shape, the MNC Team should assess the financial and strategic viability of its revenue model. This task requires that the MNC Team forecast financial flows, identifying the key factors that will shape the profitability of the venture. In addition, the MNC Team should identify and gauge potential challenges to its ability to deliver customer value and to capture part of this value in the form of profits. The revenue model should be refined and metrics adjusted to optimize the MNC’s profit potential and to enhance the competitive sustainability of its position.

3. Enterprise Formalization

Once a viable business model has evolved and the incremental learning from the pilots is nominal, the Implementation Team should formalize the business. At this point, the focus turns to establishing the enterprise’s governance structure and building onto the insights and achievements of the pilot projects. All decisions should be documented and made available to the community through the local enterprise office.

The “Enterprise Formalization” process is comprised of five primary tasks: formalizing the governance structure, scaling out from local systems, establishing contingency plans, launching and leveraging new capabilities, and creating a growth trajectory.

- a. Formalizing the Governance Structure – The Implementation Team needs to address two key issues when establishing the enterprise’s ownership and control structure. First, it must ensure that an equitable portion of the

venture's profits is retained within the local community. One option would be to establish a Community-Based Organization that receives a dedicated percentage of the venture's annual profits. Second, the governance structure should provide some degree of oversight and decision-making authority to the local community. Given that the Implementation Team itself is comprised of representatives from the local community, one option would be to create a Board of Directors that includes each of these team members. The same performance assessment and feedback mechanisms utilized during the pilot stage (e.g., the scorecard) should be continued once the business has been formalized. The principles of transparency and equity should guide this process.

- b. Scaling-out from Local Systems – To expand the scale of the pilot projects, the Implementation Team should continue to build off of local systems and capabilities as much as possible. There should be special sensitivity to the uniqueness of each site, and every effort must be made to learn from the local situation when broadening the effort to other areas. Thus, this task is about transferring *the learning processes* developed throughout the enterprise's formation, while allowing the local context to guide the specific content of the business model.
- c. Establishing Contingency Plans & Structures – The Implementation Team should put into place plans and structures for dealing with the possibility that the MNC may decide to pull-out of the venture. The Team, guided by the principle of long-term responsibility and commitment, should create an exit plan that ensures a “soft landing” for the business, as well as the community. Again, the intention is to leave the community better off than before the venture was started. Options may include establishing a “venture transition” fund or pledging to the community any assets that the firm contributed to the business.
- d. Launching and Leveraging New Competencies – The BoP enterprise should serve as a launching site for the capabilities and competencies developed by the MNC over the course of the pilot phase. Indeed, the MNC team should strive to integrate these competencies into the core of the new enterprise's value proposition, thereby strengthening its own competitive position and expanding the MNC's opportunities to further develop and refine them. In addition, the MNC Team should actively seek out other businesses within the MNC that may be able to deploy these new competencies in their particular markets. One of the central objectives of this process is to fundamentally redefine or disrupt the mature markets currently served by the MNC by using the newly-developed competencies to provide new functionality or existing functionality at a far-lower cost.
- e. Creating a BoP Growth Trajectory – The MNC Team's experience in co-creating the BoP enterprise should serve as a platform for communicating a BoP growth strategy within the corporation and for ultimately expanding the MNC's presence to other BoP markets and communities. Central to this

process is the creation of an organizational network that brings the MNC's country and product managers into conversation with the MNC Team and other Implementation Team members. The focus should be on identifying those aspects of the BoP enterprise's business model and the enterprise creation process that can be creatively combined with other resources and capabilities in meeting the needs of other BoP markets. The new BoP Enterprise could serve as a BoP Center of Excellence for the MNC, providing a site for training and hands-on learning.

Enterprise Creation: Content Summary

The key content dimensions of the “Enterprise Creation” process can be summarized in the following 4 P’s model:

The 4Ps – Enterprise Creation

<u>People & Preparation</u> <ul style="list-style-type: none">• Cross-functional Team• Additional MNC members with expertise in new business development• Training in uncertainty management and participatory techniques• Key MNC country and product managers	<u>Performance</u> <ul style="list-style-type: none">• New opportunities identified• Responsiveness to community concerns• New community stakeholders engaged• Alignment of project with MNC Team incentives• Shared vision among Implementation Team members• Diversity of pilot sites• Number of pilots• Equitable sharing of profits• Community presence on Board of Directors• Enterprise profitability• New MNC competencies developed• Number of disruptive possibilities identified
<u>Partners</u> <ul style="list-style-type: none">• Core Team of local partners that reflect community’s diversity• Key venture network partners• Local entrepreneur/s• Community Based Organization	<u>Places & Structures</u> <ul style="list-style-type: none">• Community “capacity-building links” to other MNC operations• Multiple, small-scale pilots• Local enterprise office• Enterprise Board of Directors• Community feedback mechanism/s• Contingency structure• MNC-BoP Corporate Team• MNC-BoP Center of Excellence

APPENDIX 1

References on Participatory & Rapid Assessment Methodologies

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APPENDIX 2

Understanding Social Structures & Hidden Assets

Below are various dimensions along which a BoP community can be segmented in order to better understand the diverse social structures and hidden assets already in place:

- Gender – In many communities, men and women perform different functions and may have different goals, needs, and values.
- Rural/Urban - The needs and social structures of urban dwellers may differ significantly from those in rural areas.
- Income Level - The BoP itself can be further subdivided along income level. Indeed, the BoP contains an economic pyramid of its own. There may be significant differences between the poorer and the wealthier members of the BoP community.
- Asset or Land Ownership – Various forms of land tenure may exist at the BoP and exert an impact on people's needs and concerns. For example, some BoP farmers may own their land while others may rent (tenant farmers). In addition, in some cases farmers are neither land-owners nor renters, but simply own their labor (share croppers). Lastly, some are bonded or indentured workers, having no form of land title, nor recognized ownership of their labor.
- Age – There may be significant differences between younger groups and older members of a community. For example, education may figure quite differently in terms of a person's needs depending on his or her age.
- Ethnicity or Culture – Within a single community, there might be several very distinct tribes or religions, each with distinct values.

APPENDIX 3

Identifying Potential Ecosystem Partners

Below are categories that may be useful for identifying and selecting providers of needed resources and capabilities:

- ◆ Non-Governmental Organizations (NGOs)
 - Community Action Groups
 - Social Activist (local groups and/or global organizations such as Fair Trade)
 - Environmental (local groups and/or global organizations such as Greenpeace and Conservation International)
 - Aid Organizations (e.g., CARE)
 - Foundations
 - Health-Based Entities (hospitals, clinics, international health organizations)
 - “Think Tanks”
 - International Academic Institutions

- ◆ Governmental Entities & Authorities
 - Local, Regional or National Governmental Agencies (regulatory, agricultural-extension, developmental, etc)
 - US-based Governmental Agencies
 - Embassies
 - Local police force
 - Public Schools and Academic Institutions
 - Traditional Leaders (tribal chiefs, religious leaders, “caciques” or their equivalent)

- ◆ Private Entities & Individuals
 - Moneylenders & financial institutions (banks, micro-credit organizations, local lenders, local co-ops, etc.)
 - Bilateral and multilateral donors
 - Small business owners
 - Local customers

APPENDIX 4

Matching Ecosystem Partners with Project Roles

	Scale	Efficiency	Quality	:	Experimentation	Training	Shared risk	Technical Infrastructure	Legal structure
Your company								✓	
Small medium enterprises		✓							
Micro-enterprises	✓	✓							
NGOs							✓		
Academic									✓
Government			✓					✓	
Community									
Informal Economy									

This matrix offers a structured way to review how special project criteria might be met by different groups of actors within the ecology. The column headings are criteria that are important for the venture to succeed. In this hypothetical example they include various *criteria* for success (scale, efficient operations, and product quality), certain types of *activities* that will require special consideration (experimentation and training), and certain special concerns about the project (the need to spread its risk, technical infrastructure challenges, and legal issues). Column headings will vary from one engagement to another, since each is characterized by different requirements. Row headings list a variety of types of actors that may participate in the ecology.