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Bottoms up: Delivering sustainable value in the base of the pyramid

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Abstract

Despite a wealth of expertise involving leading institutions over at least 15 years, a base of the pyramid (BoP) model resulting in scalability has yet to emerge. We posit that institutional gaps between BoP goals of developing human and social capital on one hand and a short-term profit focus of business on the other contribute to the lack of scalability. We address this gap by proposing a social intermediary to link the BoP with firms involved in the BoP. The social intermediary will coordinate and interpret the informal market requirements of the BoP to the firm in a “bottoms up” approach. We illustrate the bottoms up approach through a case involving Deutsche Gesellschaft für Internationale Zusammenarbeit, a German government agency, with the garment manufacturing industry in Pakistan. The case study involves implementation of labor standards and productivity in the Pakistan garment industry, resulting in improved productivity and labor standards enabling garment manufacturers to access global supply chains.

KEYWORDS

base of the pyramid, global governance, informal markets, social intermediary, sustainable supply chain

1 | INTRODUCTION

Although the consumer-centered logic of base of the pyramid (BoP) approaches has been developed for at least 15 years, it has received severe criticism. In particular, Karnani (2007) has pointed to the fact that the perspective of the BoP population has been neglected. This is in line with the call for integrating actors from outside the conventional supply chain, thereby conceptualizing “who-is-who” in the supply chain (Pagell & Wu, 2009). The integration of “outside” actors was found to be a highly relevant construct in a BoP-related literature review (Khalid & Seuring, 2019). As such, this construct moves well beyond the taking up of stakeholder demands in sustainable supply chains (SSCs) and rather moves toward the integration of BoP actors in productive settings (Sodhi & Tang, 2014).

The initiation and coordination of supply chains involving non-traditional actors, such as educational institutions, governmental departments, and nongovernmental organizations (NGOs; Rodriguez, Gimenez, & Arenas, 2016), present the potential for nontraditional stakeholders to act as social intermediaries in bringing together different actors and thereby enabling transaction capabilities in BoP communities (Kistruck, Qureshi, & Sutter, 2013). This is of particular relevance in informal or subsistence markets, such as the BoP, characterized by institutional voids (Parmigiana & Rivera-Santos, 2015). These nontraditional entities, while acting as third party actors, can play a significant role as social intermediaries in developing BoP communities. In the extant paper, we develop the perspective of these nontraditional actors as mediators between foreign firms and local BoP communities (Kistruck et al., 2013). To illustrate the interaction among the triad of the social intermediary, firm, and BoP entity, we

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present the case of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), a German government agency, acting as a social intermediary helping Pakistani garment manufacturers in the BoP meet international labor and social standards.

The paper elaborates upon how social intermediaries address the institutional gaps between informal and formal markets and create mutual value by addressing unique economic, social, and environmental needs in a local area (Alvarez & Barney, 2008). We posit that the social intermediaries can provide an effective linkage between formal and informal markets and thereby help integrate indigenous entrepreneurs of BoP into global supply chains through a “bottoms up” inverted supply chain model. The bottoms up approach to SSCs proposed in this paper involves inverting (or reversing the expected ordering of supply chain interactions so that the BoP is on top and not on the bottom and not last in line as is commonly the case) the direction of the BoP process for mutual value creation (London, Anupindi, & Sheth, 2010) from the BoP (and informal markets in general) through an intermediary to firms, instead of to the BoP directly from the firm. The social intermediary relates the needs of BoP entrepreneurs to foreign firms instead of the paradigmatic “top down” approach, thereby bringing into question the notion in BoP literature of multinational corporations (MNCs) as the first and foremost actors in developing BoP communities (Chelekis & Mudambi, 2010).

Institutional theory supports the need for social intermediation in the BoP given the lack of regulative and legal processes (Scott, 2001; Vurro, Dacin, & Perrini, 2010) relied upon in formal markets as governance procedures to manage risk. For firms operating in developed economies, capabilities such as infrastructure, an educated labor force, the rule of law, and established property rights are institutionalized expectations. Thus, where there are institutional voids, filling the gap is expensive, cumbersome, and generally not well suited to traditional, market-based models. Hence, specialized intermediaries have been useful in smaller scale contexts (Khanna & Palepu, 2002). However, creating supply chains for each opportunity imposes high transactional costs and limits scalability (London et al., 2010). To create scalable BoP efforts, the institutional role of addressing cultural–cognitive differences between formal and informal markets (Vurro et al., 2010), as well as developing scale, can be met through a social intermediary. In combining the challenges of managing supply chains to encompass the social, labor, and environmental standards in the global market, while also integrating informal and formal markets to address the needs of the BoP community and foreign firms alike, the following research questions arise:

1. How can supply chains be managed to be more inclusive of BoP actors?
2. How can social intermediaries help make an inverted supply chain design create scale and integrate formal and informal markets in the BoP?

The outline of this paper is as follows: starting with the BoP debate, an assessment of the BoP and the relationship with formal and informal markets is provided. Second, a theoretical analysis based on

institutional theory and social intermediation is developed to conceptualize the model. Third, a case study involving GIZ as a social intermediary in Pakistan's garment manufacturing industry is provided to contextualize the inverted SSC by providing specific, illustrative examples.

2 | ASSESSING THE BOP: THE CHALLENGE OF INTEGRATING FORMAL AND INFORMAL MARKETS IN SSCS

Although large business firms, especially MNCs, are involved increasingly in global activities traditionally performed by government, the rules of the game in terms of global governance remain vague and incomplete (Scherer & Palazzo, 2011), resulting in firms operating in a legal vacuum because of enforcement difficulties beyond national boundaries (Vermeulen, 2015). In informal subsistence markets including the BoP, microcultures are formed to support trading and other support mechanisms necessary for surviving daily life (Mair & Marti, 2009). By definition, informal markets, including the BoP, lack the governance structures of formal markets (Heuer & Landrum, 2016).

The requirements of managing business in the BoP challenges internal management structures of large firms unaccustomed to working with informal networks (London et al., 2010). Cultural differences enter into the equation as well, as MNCs and other large firms new to the BoP environment are motivated typically by short-term financial returns instead of the long-term development of social and environmental infrastructure favored by NGOs in informal markets (Alvarez & Barney, 2008; London et al., 2010). Developing a new business model to address both economic performance and poverty alleviation in informal markets requires “organizational ambidexterity” (Reficco & Gutierrez, 2016), defined as the ability to execute competing strategies within the same firm. In essence, the institutional isomorphism pervasive in formal markets (DiMaggio & Powell, 1983) acts as a deterrent in terms of developing the organizational ambidexterity (Reficco & Gutierrez, 2016) necessary for the development of long-term strategies consistent with the business and social culture of BoP communities. In the context of firm risk, where a new model must be implemented even though the firm lacks the ambidexterity to manage it, a social intermediary can reduce this risk by mediating between the firm and the BoP community to the point where the risk/return logic of a firm allows the use of the core competences of the firm (Alvarez & Barney, 2008; Cole & Aitken, 2019).

Although previous BoP efforts have many strong points and have focused attention on reducing poverty, the business models selected generally have involved transferring transactional approaches from formal markets and adapting them to informal markets (Heuer & Landrum, 2016). In essence, many extant BoP strategies have involved one-directional efforts from formal markets to informal markets in the context of a global governance system where enforcement mechanisms are largely absent. As a result, pressing problems, such as

environmental degradation, are left largely unaddressed by the current BoP approaches toward mutual value creation (Heuer & Landrum, 2016). Formal markets tend to fall short when it comes to pollution prevention and abatement (Wijen, 2008), making it necessary for NGOs and other mediators to organize collective action and decision making at the local level (Dasgupta and Beard, 2007) in order to provide access to public goods (Ostrom, 1990).

In subsistence markets, informal mechanisms and networks often are used to manage business transactions due to an absence of support industries such as finance or distribution (Schrader, Freimann, & Seuring, 2012). Value creation in formal markets assumes that externalities, such as infrastructure, a skilled workforce, and natural resources, are in place or at least commitments to do so exist, so that value creation can focus on competitive advantage vis-à-vis other firms (Brandenburger & Stuart, 1996; Singh, Bakshi, & Mishra, 2016). Thus, from the formal market perspective, there is often a lack of strategic support to implement firm efforts that can achieve the economic performance capable of addressing impoverished conditions in BoP communities (London, Sheth, & Hart, 2014; Schrader et al., 2012).

Schuster and Holtbrugge (2014) contend that only a few companies have all the resources required to operate effectively in diverse environments. Thus, for foreign firms entering the BoP, the choice is to either work with a larger partner to fill all or most of the voids, or select smaller partners to handle smaller, individual voids. Both approaches require time and effort on partnership development and processes (Manning & Roessler, 2014). The BoP and subsistence market literature is replete with examples of cultural and strategic conflict involving large firms entering these markets only to find, disappointingly to the firm, that NGOs or other local partners lack a single-minded focus on economic value creation and instead favor non-economic objectives such as social and environmental development (Khalid & Seuring, 2019; Parmigiana & Rivera-Santos, 2015). The lack of governance in the BoP discourages conformance with regulative and legal processes that, in turn, increase risks for businesses from formal markets (Scott, 2001). Thus, beyond the different expectations and values attached to business initiatives in BoP communities by actors in formal and informal markets, the overall success rate of BoP efforts has failed to materialize. As Paton and Halme (2007) reflect: “our theories about how business can help address the needs of the poor have to date been presented largely as stories about what the businesses have done.”

London (2016) notes:

many of these new BoP impact enterprises are not as good as we want them to be—or as good as they have been represented to the world—and few of them have yet achieved the necessary scale to which we aspire. We need more BoP impact enterprises that are sustainable at scale. p. 5.

Although achieving scale may be an important metric given the enormity of poverty in BoP communities, the necessity of involving large

firms in order to achieve scale presents challenges internally to large firms beyond the lack of return on investment. In this regard, the intermediary-related debate has precedent in BoP literature. Specifically, the contribution of an intermediary in efficiently managing BoP transactions has been addressed by the following researchers. Seelos and Mair (2005), for example, identified in their cases certain BoP enterprises acting as an intermediary in linking MNCs with BoP markets. Rosca and Bendul (2019) elaborated on how intermediaries play an important role in linking supply chain actors within BoP communities, thereby helping local micro-, small-, and medium-enterprises in BoP communities reach a dispersed consumer base. In sum, if long-term value creation, including social and environmental performance, is to succeed in the BoP, a larger role for government, nonprofit, and community sectors in the BoP is needed (Hahn & Gold, 2014; Manning & Roessler, 2014).

3 | THEORY DEVELOPMENT: SOCIAL INTERMEDIARIES IN BOP COMMUNITIES

Intermediation theory recognizes an intermediary as a “go-between” who assists buyers and sellers transact. More broadly, intermediation theory posits that “it is the role of the firm to act as an intermediary and to create innovative business models that reduce transaction costs” (Spulber, 2003). With the added complexity of integrating formal and informal markets, social intermediation (Kistruck et al., 2013) is necessary to deal with externalities, for example, public goods, as an informal market in the BoP context likely lacks the mechanisms to address the costs of externalities. Although intermediation theory implies an analysis of transaction costs (Williamson, 1979), to determine whether a particular good or service should be produced internally or sourced externally, social intermediation seeks to address the transactional impediments that limit the sources and extent of trading options for the BoP population with formal markets (Kistruck et al., 2013).

Although social intermediation addresses the lack of access to credit, capital, contracts, and sources of information that impede growth, a social intermediary may also address the problem of firms externalizing costs in a social environment, such as the BoP, where regulations are enforced in a lax manner. The relevant literature recognizes the criticality of intermediaries in informal markets that serve to fill institutional voids and facilitate linking BoP businesses with global supply chains (Gold, Hahn, & Seuring, 2013). Unlike formal markets where MNCs remain principal actors in a traditional supply chain arrangement, Hahn and Gold (2014) identify the central position of local actors in BoP markets, which act as an intermediary for linking MNCs with BoP consumers. By considering foreign entities such as NGOs with a sizeable foothold in BoP communities as a social intermediary, we intend to expand the notion of Hahn and Gold (2014) and do not tend to confine the idea of intermediaries solely to the local BoP actors. We consider such a social intermediary more resourceful and well placed to bridge the economic, cultural, and social divide between formal and informal markets through long-term

management of a SSC in a bottoms up effort. Furthermore, we consider this focal position of the social intermediary to be a distinguishing characteristic between BoP and top of the pyramid markets (Bendul, Rosca, & Pivovarova, 2016).

Coase (1960), in his seminal article entitled *The Problem of Social Cost*, identified four solutions for addressing externalities: (a) market transactions, (b) firm-based administrative decisions, (c) government regulation, and (d) doing nothing. In the informal markets that typify BoP communities, the “doing nothing” solution has been dominant, especially in terms of environmental and social factors. The doing nothing approach is the default solution in the BoP, with the costs shifted to the BoP population and the natural environment, whereas the benefits accrue to consumers and shareholders in developed economies. The doing nothing approach can be interpreted as accepting the status quo that, in the BoP communities, can be interpreted to mean that a *laissez faire* situation exists in which business can externalize social costs imposed by business efforts. In a formal market environment, it is indeed possible that property rights could lead to the guiding of incentives to achieve a greater internalization of externalities (Demsetz, 1967). However, because of the doing nothing approach extant in many informal economies due to the gap in global governance and the lack of property rights, firms may externalize the costs for using or impacting public goods.

Thus, property rights in the BoP environment imply the right for firms to benefit or harm others (Demsetz, 1967) by virtue of their factors of production, as the lack of governance in informal markets can result in a regulatory vacuum. This has recently triggered the debate on how this affects BoP environments (Hahn, 2009) and on corporate social responsibility activities in such contexts (Singh et al., 2016). For these reasons, social intermediaries with legitimacy among the local population may also leverage the capabilities of SSCs to bridge the economic, cultural, and social divide between formal and informal markets (Hahn & Gold, 2014) through institutional theory involving rational myths and isomorphism (normative, coercive, and mimetic; Scott, 2001). Not only does the bottoms up approach with the social intermediary facilitate the SSC, it also may allow the intermediary to control the tendency for firms to appropriate and internalize economic returns at the expense of addressing the long-term needs of BoP communities.

The social intermediary structure in this paper seeks to benefit disadvantaged parties lacking access to credit, capital, and other capabilities and resources available in formal markets. It seeks to curb value appropriation by elites and others who provide little benefit to BoP stakeholders. Conceptually, the role of the social intermediary involves a “deliberate, democratic approach to stakeholder engagement to allow more equitable exchanges among firms and their stakeholders in subsistence markets” (Corus & Ozanne, 2012). Kistruck et al. (2013) offer that the objective of the social intermediary is to engage in BoP activities “to reduce moral hazards that currently plague transaction arrangements in the BoP and to redistribute the resulting economic rents in a more equitable manner.”

4 | BOTTOMS UP: EXPLAINING THE INVERTED SUPPLY CHAIN

The unique business environment of the BoP demands unconventional supply chain solutions to meet the exclusive needs of BoP consumers (Ahrens, Dobrzykowski, & Sawaya, 2019; Sodhi & Tang, 2014). Earlier research has highlighted the links between BoP and supply chain research streams at the theoretical level (Khalid & Seuring, 2019). By considering the social intermediary to be a stakeholder, Khalid and Seuring (2019) in their model (Figure 1) identify the link of stakeholder engagement with such constructs as supply network structures and long-term relationships.

Building their case on the prevailing argumentation of the BoP-related literature, Khalid and Seuring (2019) comment on how stakeholder engagement (the social intermediary in this case) helps in building long-term relationships and, consequently, supply chain networks in the BoP. This paper, by applying the case of the social intermediary, further elaborates the construct of stakeholder engagement. By particularizing the role of the social intermediary, we illustrate how non-traditional stakeholders can help lower transaction costs and create inclusive business opportunities in BoP (Figure 2).

The bottoms up approach to SSCs proposed in this paper involves inverting the direction of the BoP process for mutual value creation (London et al., 2010) from the BoP (and informal markets in general) through an intermediary to firms, instead of to the BoP directly from the firm. The inverted supply chain differs from previous BoP efforts in that the top down, firm-initiated models to this point have not addressed externalities in a long-term, substantive manner. For example, there has been very little systematic evaluation of the environmental impacts of BoP initiatives (Kandachar & Halme, 2008; Schrader et al., 2012). In fact, in a relatively recent review of the previous decade of BoP literature, it was noted that only 16% of the publications in the review discussed the BoP with regard to environmental impacts, and those publications focused almost exclusively on recycling and waste reduction (Kolk, Rivera-Santos, & Rufin, 2014; see also Brix-Asala, Hahn, & Seuring, 2016; Khalid & Seuring, 2019).

With the bottoms up approach, intermediary organizations can translate informal transactions from the BoP community and channel them to the firm for implementation. To this end, global SSCs can provide systemic processes to formulate and implement partnering (Vermeulen & Seuring, 2009) and stakeholder integration (Pagell & Wu, 2009) to sync up efficiently with intermediaries throughout the supply chain. In this manner, global SSCs can facilitate transactions from intermediaries to preselected organizations (NGOs, firms, and others) operating in a formal institutional environment (Seuring, 2011). Directionality—bottoms up instead of top down—in the inverted supply chain supports the theoretical focus on reducing opportunism and the lopsided appropriation of value by focal firms prevalent in top down, firm-initiated efforts. Vermeulen (2015) notes that “the governance of sustainability in global supply chains “rests strongly on voluntary codes of conduct and certification,” which leads to weaknesses in the resource base that must be reevaluated in light of resource scarcity particularly in underdeveloped economies.

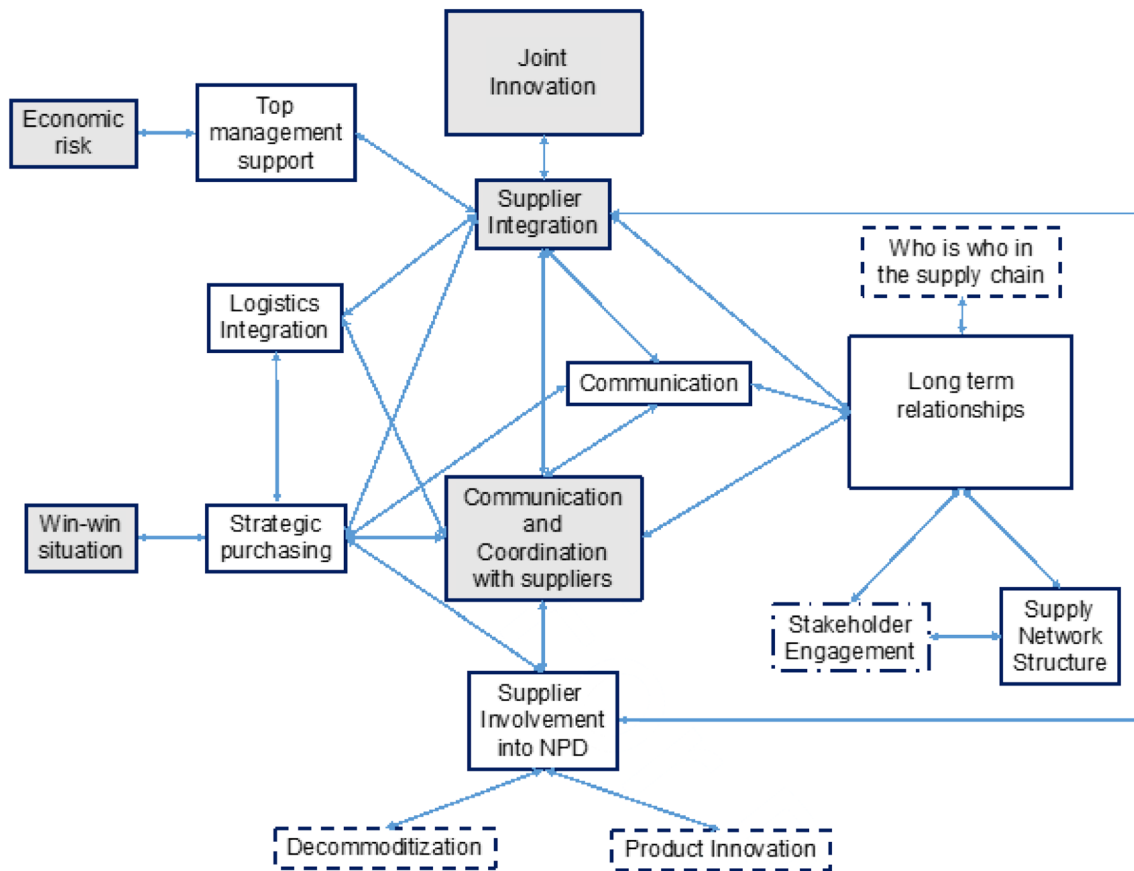
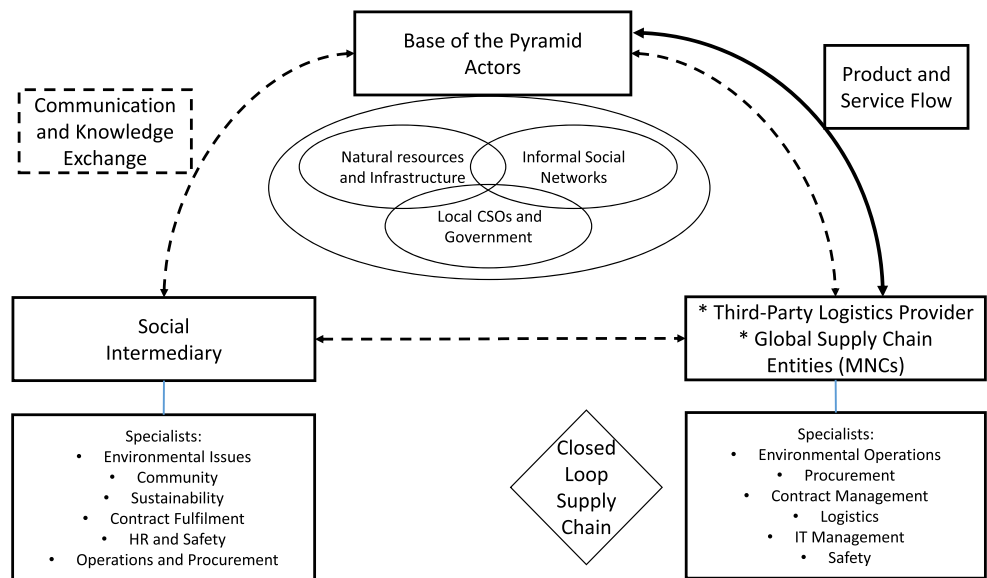


FIGURE 1 (Sustainable) supply chain model (Adapted from Khalid and Seuring [2019]). NPD, new product development [Colour figure can be viewed at wileyonlinelibrary.com]

FIGURE 2 Inverted base of the pyramid supply chain. CSO, civil service organization; IT, information technology; HR, human resources; MNC, multinational corporation [Colour figure can be viewed at wileyonlinelibrary.com]



Environmental degradation and social problems in BoP communities must be addressed if long-term sustainability of BoP efforts are to succeed (Schrader et al., 2012). As such, responsibility for environmental and social performance in globally expanded supply chains demand collective action (Pagell & Wu, 2009; Yawar & Seuring, 2017)

involving multistakeholder collaboration (London et al., 2010; Singh et al., 2016). In a recent study, Varga and Rosca (2019) also highlight that the “efforts undertaken by intermediaries towards knowledge sharing and capacity building among partners can enable the adoption of strategies to address poverty across the supply chain.” As indicated

in Figure 2, multistakeholder collaboration can involve civil society organizations, natural resource and infrastructure entities, and informal social networks. Putting the bottom (i.e., the BoP stakeholders) on top in the inverted supply chain intentionally prioritizes the needs of BoP stakeholders. Hence, bottoms up symbolizes the start of a BoP project in the informal market, with the integration of a social intermediary contracting with a SSC to provide the scale and scope necessary to support the BoP community (Figure 2).

As indicated in Figure 2, a social intermediary (Kistruck et al., 2013), which can involve a consortium of local, national, and international NGOs, foundations, and governments, would manage contracting with the firm based on the needs of the BoP community. In a departure from other BoP models, the firm would not negotiate directly with the BoP community. The social intermediary will manage contracting by identifying developmental needs in the BoP community and then contract for those needs with the firm(s) by consulting with contracting specialists in information technology, human resources, and other areas as required. Additionally, the closed loop would be achieved by the SSC managing postconsumption recycling, reuse, and repurposing.

5 | CONTRACTING IN THE INVERTED SUPPLY CHAIN: A NEW BUSINESS MODEL IN THE BOP

As indicated in Figure 2, the social intermediary interacts with the BoP stakeholders, as well as the firms, in order to achieve the scale and scope envisioned by the conceptual model we develop in this section. In order to illustrate our model, we will use the case of GIZ, a German governmental development agency, working as a social intermediary in Pakistan, later in the extant paper. In order to integrate social and environmental assets into the process, the social intermediary in the business model must build a broad platform of economic, social, and environmental assets in a multistep, multiyear progression. This likely involves a bottoms up orientation in the BoP to integrate life circumstances into developing knowledge and implementing business plans. In many cases, the NGOs are in a better position than firms to provide guidance in this process. In fact, Rodriguez et al. (2016) found that "by treating the NGO as the focal actor in the network, rather than as a 'non-traditional' supply chain member, the research shows that traditional supply chain management practices are successfully used by not-for-profit organizations to improve the social sustainability of both the community and firms."

In essence, the social intermediary is the link between sustainable development of public goods and private value creation. The social intermediary helps moderate the restrictive practices of firms in value creation and establishes legitimacy through nurturing the welfare of the BoP community and the natural environment.

In developing this model, we argue that the social intermediary model can manage multiple sources in a supply chain more effectively than the firm-centric approach of firms utilizing their own

strategies and resources. A social intermediary can provide the governance through legally binding contractual requirements; however, in the firm-centric model, corporate social responsibility efforts are voluntary, which entails the limitations of self-regulation and the possibilities of opportunistic behavior and increased risk (Scherer, Palazzo, & Baumann, 2006). Even when a unique business model is developed by a large firm in the BoP community, Reficco and Gutierrez (2016) found that middle management often pushes back due to the difficulty of managing an additional business model; hence, the ambidexterity problem arises.

6 | METHODOLOGY: A COMPREHENSIVE SOCIAL INTERMEDIARY CASE ANALYSIS

Case studies are considered an important method of "generating hypotheses for quantitative studies, but (also) for generating and testing theory" (Patton & Appelbaum, 2003). Case studies also remain a core method employed by researchers to investigate the BoP business environment (Kolk et al., 2014). In order to elaborate our model (Figure 2) and explain how a social intermediary can contribute toward the economic uplift of the BoP entrepreneurs in particular and society in general, we are presenting the case of GIZ (GIZ GmbH). GIZ is a German government development agency working in Pakistan.

One of the ongoing projects of GIZ deals with the capacity building of garment manufacturers in Punjab (one of the provinces of Pakistan). In this particular project, GIZ was engaged by the Government of Punjab to fulfill the labor-related requirements of the European Union's Generalized System of Preferences. The objective of this public-private collaboration is the improvement of garment exports to European markets. Consistent with the previous discussion regarding social intermediaries, GIZ plays a bridging role between foreign firms and BoP entrepreneurs (garment manufacturers of Punjab, Pakistan). The case, therefore, discusses compliance with labor standards in Punjab's garment manufacturing industry and analyzes the causes of management and human resource deficiencies that make compliance and, consequently, access to global supply chains difficult.

Data for this particular case study have been collected through an open-ended questionnaire. The questionnaire was administered by conducting face-to-face interviews with the project director, as well as consultants of GIZ who were directly involved in the capacity building of garment manufacturers. The qualitative data for the study were collected from November 2018 to January 2019.

Open-ended questions helped in engaging respondents in a detailed discussions related to subject matter that, consequently, yielded useful insights. Open-ended questions also helped gather spontaneous responses from the interviewees and avoided "bias that may result from suggesting responses to individuals" (Reja, Manfreda, Hlebec, & Vehovar, 2003). The interviews were conducted by one of the coauthors of this paper, native to the area. Furthermore, the interviews were administered in the local language (Urdu) and were voice recorded. This helped to ensure the validity of data collected for the

extant study. Moreover, field notes were also taken to fill the gaps and further enrich the findings of the study.

In order to analyze the data, audio recordings and field notes were transcribed. During transcription, the interviews were translated into English. Two categories were developed next, based on the nature of data. One category contained the data related to capability development activities carried out by GIZ, whereas the other involved information related to the functioning of GIZ as a bridge between garment manufacturers and foreign markets. In the next step, a comprehensive content analysis of each category was carried out to better comprehend the two prime activities GIZ involved itself: capability development and linking BoP firms with foreign customers. The data were analyzed by a team of two researchers to further add to the validity and reliability of the findings of the study and avoid any issues related to researcher bias.

7 | GIZ: SOCIAL INTERMEDIATION IN THE PAKISTANI GARMENT MANUFACTURING INDUSTRY

GIZ has worked with more than 1,500 companies over the past 20 years and specializes in contracting, implementing, and managing complex projects around the world. GIZ is owned by the German government and funds projects through grants. For international clients, GIZ focuses on vocational training, energy and climate, health, infrastructure/construction, water, and governance (GIZ, 2017). An example of GIZ in an intermediary role is its supporting of Pakistan's compliance with international labor standards in Punjab's textile and garment industry as required by the Generalized System of Preferences. The project involves setting up structures for cooperation between governmental actors, business associations, and worker's unions, as well as supporting joint pilot activities to promote the implementation of labor standards by tailoring learning, exchange, and networking solutions to foster the sharing of knowledge. This remains valuable for the capacity building of local entrepreneurs working in the BoP context, generally lacking in resources and ability to fulfill international standards and thereby become part of global supply chains. Capability development activities remain well documented in the BoP literature, where respective researchers consider active collaboration with third party actors, for example, NGOs, as a preliminary requirement for entering into BoP markets (Perez-Aleman & Sandilands, 2008; Varga & Rosca, 2019).

Most indigenous BoP firms lack resources to contribute toward achieving superior operational efficiencies (Hart, Sharma, & Halme, 2016). These shortages encompass such resources as financial capital, technology, skilled labor, and managerial capabilities. Although a strong human resource capability is recognized as a prime contributor toward achieving a firm's business objectives and firms must strive continuously to develop the capabilities of managerial staff and workforce alike, indigenous BoP firms face challenges on both fronts (Ramaswamy & Schiphorst, 2000). On one hand, BoP firms largely lack management knowledge about the changed dynamics of a globalized

business world, whereas on the other hand, availability of skilled labor remains a constant challenge (Reficco & Márquez, 2012).

As the fourth largest producer of cotton in the world, the textile and garments industry remain the largest contributor to the manufacturing sector of Pakistan. The industry employs 40% of the country's industrial labor force and, on average, accounts for 62% of Pakistan's exports (Pakistan Economic Survey, 2016–2017). However, operational inefficiencies and labor-related issues affecting the industry have been identified by various stakeholders (Lund-Thomsen, 2004; Memon & Tahir, 2012). Among these issues, illiteracy and the absence of a social security mechanism render garment manufacturing labor vulnerable to workplace exploitation (Mena, Humphries, & Choi, 2010). Long working hours, a deteriorated workplace environment, absence of job security, and below market average pay are some of the challenges faced by the workforce in the garment manufacturing industry. Consequently, a dissatisfied and exhausted workforce remains short of achieving global benchmarks in operational efficiency. The failure to achieve global performance benchmarks is used as a justification by senior management to justify their labor layoff decisions. Moreover, the failure to comply with labor standards demanded by international buyers has resulted in declining exports and a loss of foreign revenue for the country.

8 | LABOR STANDARDS AND PRODUCTIVITY ISSUES

With public sector institutes having fallen short of developing garment manufacturing industry capabilities to meet international labor standards, The Government of Punjab, Pakistan, sought the assistance of GIZ to develop the capacity of individual garment manufacturing firms to address the labor-related issues and meet international labor standards (Ansari, Munir, & Gregg, 2012; Shivarajan, & Srinivasan, 2013).

Acting as a social intermediary in this case, GIZ followed a bottoms up approach by engaging with indigenous garment manufacturing firms to develop the deficient labor standards affecting working conditions deleteriously (Huq, Chowdhury, & Klassen, 2016). GIZ thereby contributes in two domains: first, in developing capabilities of individual garment manufacturers to make their manufacturing operations compatible with demands of international labor standards and, second, in linking the garment manufacturers (BoP entrepreneurs) with global supply chains (MNCs) by fulfilling the standards set by the latter.

9 | CAPABILITY DEVELOPMENT OF GARMENT MANUFACTURERS

GIZ's analysis of working conditions revealed a deep-rooted hierarchical organizational culture resulting in a loss of trust between labor and senior management of garment manufacturing firms. In this hierarchical structure, the chain of "intermediaries" between senior

management and the labor force hindered flow of transparent information. Not only did the intermediaries keep both labor and management ignorant of challenges faced by each, the intermediaries also appeared to reinforce the hierarchical structure for the sake of vested interests. As a result, by and large, senior management of garment manufacturing firms remained unaware of job-floor related challenges faced by labor. Given this lack of awareness, senior management paid little heed to safeguarding interests of their workforce while making policy decisions and setting goals for the future development of their business. Moreover, it was observed that senior and middle management of garment manufacturing firms were unable to comprehend the link between labor satisfaction and productivity. This lack of comprehension and appreciation of the relationship between job satisfaction and efficiency reflected the need to develop a greater strategic capability among respective managers.

In this regard, GIZ targeted two objectives: first, establishing a direct link between senior management and the labor force and, second, developing the strategic capabilities of firm management to comprehend the correlation between job satisfaction and production efficiency. GIZ refers this methodology as the "dialogue approach." The dialogue approach primarily focuses on breaking down hierarchical boundaries and promoting a culture of open communication among the job-floor workers and top management. This dialogue among the workers and management is targeted toward increasing production efficiency by providing a comfortable workplace environment and is supported by the data characterizing workplace (e.g., work hours, temperature of job floor, worker's pay, rate of production, cycle time, number of defective products, etc.).

The participants are selected and trained in batches with each batch consisting of 5–10 garment manufacturing firms. The training lasts for a time span of 2 years. Chambers of commerce and other representative bodies of the garment manufacturing industry are engaged for the purpose of identifying the firms willing to participate in the program. Consent of the owner/CEO of garment manufacturing firms is sought in the first place by explaining the dialogue approach and potential benefits for firms. This remains one of the most crucial steps of the entire process, as one of the GIZ's consultants (hereinafter referred to as consultants) comments:

... we cannot do anything without the full support of the very top management of the firm. Our role is just of a facilitator and advisor. The firm has to commit its resources and invest for the success of this collaboration. This is certainly not possible unless the firm owners are fully cognizant of our narrative and stand with us in all the ups and downs of this lengthy exercise.

Next, the consultants collect detailed workplace environment and productivity-related data. The primary data assist in the fact-based analysis of the situation, as well as in designing the future course of action and for giving recommendations. With detailed information in hand, the consultants act as an intermediary to organize

dialogue/discussion sessions at the factory premises. The dialogue between the representatives of top management and labor facilitated by the consultants aid in removing obstacles posed by the strict hierarchy and, consequently, help each party better understand the situation of the other. The first priority of consultants remains on gradual improvement of the workplace environment, including such aspects as job security, decent wages, and pension benefits. The incremental improvements in working conditions and job security eventually help develop a sense of security and job satisfaction among factory workers.

The caring attitude of senior management toward labor prove instrumental in rebuilding trust between the two parties. Nurturing trust through providing a decent workplace environment ultimately motivates factory workers to improve their efficiency, which is reflected in high productivity. The consultants reported a considerable decrease in defective products contributing to an increase of 150% in the productivity of some of garment manufacturers they are working with. With the improvement in quality of products, coupled with increase in output and fulfilling requirements of international labor standards, garment manufacturers become better positioned to serve international markets and become part of global supply chains.

10 | INCLUSION OF BOP FIRMS IN GLOBAL SUPPLY CHAINS

Inclusion of BoP firms in global supply chain operations has been seen as one of the prime strategies for the economic uplift of the respective societies (Ansari et al., 2012; Rosca & Bendul, 2019). However, a myriad of factors like nonfamiliarity of BoP firms with modern production techniques, poor product quality, and marketing-related challenges have kept BoP entrepreneurs from becoming part of global supply chains and effectively exploiting the export markets. BoP literature (particularly producer/supplier-centered literature [BoP 2.0]) has emphasized the capability development of BoP firms with the goal of enabling respective firms to tap the export market potential (Ansari et al., 2012). Inability of BoP firms to get various certifications, considered today as a prerequisite to enter into global markets, has raised the bar for BoP firms, making the inclusion problematic specifically for small BoP firms in global supply chains (Koster, Vos, & van der Valk, 2019).

In our case, tapping into the extensive business networks GIZ maintains globally, the social intermediary helps the garment manufacturers (with whom it has collaborated to develop their capabilities) in securing international buyers. By linking suppliers (garment manufacturers) with the buyers (retail chains/MNCs), GIZ facilitates creation of inclusive business opportunities for BoP firms. By acting as a social intermediary, GIZ tends to reduce the transactional costs incurred for search of international buyers, otherwise borne by garment manufacturers. The interaction with garment manufacturers coordinating with GIZ revealed that the high transaction costs involved in relationship building remain one among the prime obstacles hindering inclusion of BoP firms in global markets. These costs are manifested in terms of

the inability of garment manufacturers to search and engage with international buyers and the costs incurred in maintaining and developing these relationships on a long-term basis.

Herein, the social intermediary also nurtures the relationship-building capacity of garment manufacturers. Not only does GIZ link the international buyers with BoP suppliers, over time, it also mentors garment manufacturers to develop their communication and relationship-building abilities. The result is that by the end of the 2-year training, the participants (garment manufacturers) are empowered to search, engage, build, and develop relationships with international buyers on their own without assistance of GIZ.

The social intermediary, through capability development and by externalizing the relationship-building related costs otherwise borne by garment manufacturers, helps in providing a level playing field to garment manufacturers and, consequently, support the inclusion of BoP firms in global supply chains. These findings are in line with contemporary debate in BoP literature, which considers third party actors (e.g., NGOs) imperative for capacity development and for developing linkages for BoP suppliers with global markets (Perez-Aleman & Sandilands, 2008; Varga & Rosca, 2019).

11 | RESULTS

The trust in top management motivated labor to put forth their best effort in their job. Within 3 months, some productivity improvements were identified. Production efficiency, measured by production rate and decrease in number of defective products, showed more than a 200% increase due to improved working conditions. Additionally, the improved labor conditions enabled respective firms to win additional export orders as a result of fulfilling international labor standards. These results further strengthened the case for consultants influencing senior management to comprehend the link between the job satisfaction and efficiency.

The social intermediary (consultants) in this case, through active collaboration and acting as a mediator, succeeded in creating win-win scenarios both for senior management and labor in the garment manufacturing industry. Assistance from the social intermediary helped not only in improvement of the workplace environment for the benefit of labor, but also in the capability development of respective managers. In a broader context, the social intermediary, by helping indigenous entrepreneurs meet the requirements of social standards, enabled these garment manufacturing entrepreneurs to integrate successfully with global supply chains.

As proposed in the model presented in the paper, the social intermediary (consultants) in this case serves as a link between the formal and informal markets. By using its resources and competencies, the social intermediary helped nurture the capabilities of the BoP entrepreneurs and linked them with global supply chain entities. The SSC entities in this case remain the formal market brands sourcing their supplies from the BoP. Furthermore, during the process, the social intermediary, by addressing labor-related issues, helped address a pressing social issue in the BoP.

12 | DISCUSSION

Despite the wealth of research and case studies on the BoP, respective researchers have yet to develop a business model capable of creating win-win scenarios both for firms (MNCs in many cases) and the BoP community in informal markets. The garment-making industry in Pakistan illustrates the consequences of a lack of governance in terms of environmental, social, and economic performance. This industry is simultaneously one of the largest contributors to world gross domestic product as well as to environmental sustainability problems due to “massive consumption of energy, the projection of pollutants into the environment and the creation of landfill waste” (Weber, Lynes, & Young, 2016).

The lack of a formal regulatory system and the dependence on informal networks to fulfill the needs of daily existence in BoP communities pose challenges for the implementation of business models by large firms (Reficco & Gutierrez, 2016). In this paper, we argue that in order for scalable, long-term BoP efforts to succeed, current practices in both formal and informal markets can be retained, but the directionality and linkages in both markets must be adjusted and managed intensively. Our reasoning is that the cultural and institutional practices extant in the formal and informal markets do not align well (Meyer & Rowan, 1977; Santos, Rufin, & Kolk, 2012). This means that even though the gap in global governance provides an entry path to firms in pursuit of low-cost production and lax environmental and social regulation, these advantages are not adequate to develop scalable, long-term efforts in BoP communities.

According to London (2016), what would appear to be untapped markets for delivering specially adapted products through global supply chains have not materialized in scalable results. Given the millions living in the BoP, an alternative is a scalable model utilizing a social intermediary so that existing practices in the private sector can be utilized, thereby removing the major barrier of firms possessing ambidexterity. The inverted supply chain with social intermediaries recognizes that scalable results in BoP communities must involve developing livable communities if sustainable efforts to address abject poverty are to succeed. Although short-term relief efforts and “one-off” marketing efforts to promote products do not necessarily lack legitimacy, they alone are less likely to result in scalable, long-term results that can be replicated.

In order to address the need to create livable communities as part of a BoP effort, the tendency of business to externalize the costs of public goods must be addressed. This is a particularly thorny problem in the BoP because of institutional voids and lack of global governance. Hence, our integration of private, nonprofit, and public sector efforts involves social intermediary governance to manage contracts that address the needs of the BoP (Manning & Roessler, 2014). The governance structure of the social intermediary, through enforceable contracts, must be able to manage efforts to co-opt power and opportunistically gain control of profits at the expense of developing the BoP community.

To manage opportunistic tendencies, the inverted supply chain, as illustrated in Figure 2, combines formal market competition along

with collective action in informal markets through the leadership of the social intermediary. We argue that the social intermediary model can manage multiple sources in a supply chain more effectively than the firm-centric approach of firms utilizing their own strategies and resources, which heretofore has failed to provide scalable success.

The individual segments of the inverted supply chain already exist at a global scale and scope. We would expect the starting point of our model to be an NGO or nonprofit organization developing a proposal in cooperation with local stakeholders in a BoP community (Rodriguez et al., 2016). These stakeholders would involve development experts, local residents possessing the local knowledge to avoid coopting by elites, and technical personnel capable of developing the contractual scope and terms and conditions of an enforceable contract.

13 | LIMITATIONS

Although the GIZ case results represent a compilation of results from many garment manufacturing firms in Pakistan over a period of years, the bottoms up model developed in this paper has only been manifested in one country, Pakistan, and in one industry, garment manufacturing. Therefore, the generalizability of the model is limited. Further research in different countries with different industries and involving a broader range of issues is needed to determine the applicability of the bottoms up approach.

In order to progress toward the goal of scalability, addressed as a research question, intermediaries other than GIZ should be considered. For example, networks of NGOs, governments, and other committed parties could be assembled to offer the expertise needed for each BoP community. These efforts should be viewed as long-term efforts in which skill development of BoP entities and personnel evolve into sustainable efforts. Figure 2 identifies possible skillsets that could be useful over the lifecycle of these efforts. However, discussion of such efforts is beyond the scope of this paper.

14 | CONCLUSION

The chasms created by divergent public-private interests, formal-informal markets, and developed-developing country differences have become much more familiar with globalization, technology, and communication; however, familiarity has not led to standardization of models and the necessary scaling up when it comes to business in the BoP and subsistence markets in general. The problem is not technical or a lack of business knowledge. If it was this, the many failed attempts of large firms and MNCs would likely have led to institutional entrepreneurs breaking the mold for a workable approach, and others would have followed (Hardy & Maguire, 2008). The problem is dealing with the conflicting goals of formal and informal markets and the institutional inertia in large firms and MNCs blocking the possibilities for sustained efforts in BoP communities.

A major point in this paper is that BoP impoverishment will not be solved through firm-centric efforts focused directly toward BoP communities, as institutions in informal markets generally lack the governance capabilities to regulate externalities of production (Scherer & Palazzo, 2011; Vermeulen, 2015). Instead, the purpose of the social intermediary is to create a collaborative community involving "discovery and creation opportunities with the greatest potential for significant impact. These involve human capital such as education, training, and organizational skills" (Alvarez & Barney, 2008). The goal of the social intermediary is to create a "community of organizations that partakes of a common meaning system" (Scott, 1995). It may include constituents such as the government, critical exchange partners, sources of funding, professional and trade associations, or other entities (DiMaggio & Powell, 1983).

We should not expect these deeply institutionalized manifestations of large firms and MNCs to shift for the benefit of BoP communities despite the corporate social responsibility value these may offer. The primary tool for executing scalable growth in the BoP are the global supply chains that have been the engine driving the spectacular growth of globalization. SSCs can be viewed as global supply chains with a conscience as they emphasize triple bottom line performance. SSCs recognize the attention that must be paid to the role of all suppliers—contractors, subcontractors, buyers, distributors, and other entities—in pursuit of balanced triple bottom line performance. Carrying forward the role of SSCs to the social intermediaries implies a capability and commitment to work on a cross-sector approach to include government and NGOs in achieving economic, social, and environmental performance. The inverted global SSC offers a theoretical and practical approach to addressing the challenges of global governance as it pertains to the BoP. The inverted directionality serves as a practical approach for integrating informal and formal market initiatives. In this approach, a social intermediary translates economic, social, and environmental needs of the BoP into contractual opportunities to be fulfilled in part by global supply chains. The contractual requirements set the terms and conditions under which the sustainability of the supply chain will be measured. For these reasons, we believe a new business model is a necessary next step in the evolution of BoP efforts.

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