

INCLUSIVE BUSINESS AND POVERTY ALLEVIATION:

UNDERSTANDING THE FACTORS THAT CONSTRAIN AND ENABLE FIRM

INTERACTIONS WITH THE POOR

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University

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STATEMENT OF ORIGINALITY

This is to certify that to the best of my knowledge, the content of this thesis is my own work. This thesis has not been submitted for any degree or other purposes.

I certify that the intellectual content of this thesis is the product of my own work and that all assistance received in the preparation of this thesis and sources have been acknowledged.

The thesis is a thesis-by-compilation and as such some thesis papers are co-authored. I have included a statement before each paper in this thesis declaring my contribution to each paper, which has been approved by the co-author.

A handwritten signature in dark ink, appearing to read 'Sally Anne Curtis', with a stylized, flowing script.

Sally Anne Curtis

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ABSTRACT

There are more than a billion people living in poverty throughout the world, with some considering the total number to be as high as four billion, or about half the world's population. On the face of it, poor people with limited funds would appear to be of little interest to the private sector, yet there has been increasing interest in the topic in recent years. This interest is particularly concerned with achieving a win-win scenario where both business and the poor benefit. Research involving the business-poverty interface at the micro level has only really started to emerge in the past decade and is disparate, and theoretical development is lacking. Furthermore, there has been limited empirical research that examines this phenomenon from the perspective of the firm and the poor. This thesis includes three papers that address these issues.

Paper 1 presents a detailed review of relevant literature and proposes a definition of inclusive business that involves the private sector expanding access to livelihood opportunities and products and services in commercially viable ways. I argue that inclusive business is both normative and instrumental, meaning that integrative management is critical to achieve benefits for both the firm and the poor. The paper presents a conceptual framework of inclusive business that explains why and how firms adopt inclusive business. The framework incorporates the role of formal and informal institutions, which play a critical role in both enabling and constraining inclusive business efforts.

Paper 2 presents the results of an empirical study that examines the firm's experience of inclusive business using Scott's (2008) pillars of institutions. I conducted an in-depth study of five firms involved with inclusive business in Vanuatu, an island country in the

Pacific with a complex institutional environment. An analysis of interviews with managers demonstrates that formal institutions (regulative) act as a catalyst to encourage firms to interact with the poor, however weak formal institutions and informal institutions (cultural characteristics and social norms) inhibit a firm's inclusive business efforts.

Paper 3, also an empirical study, examines the relationship between inclusive business and poverty alleviation using Amartya Sen's capability approach. Through an analysis of interviews with poor stakeholders of the five case study firms and multidimensional poverty data for each stakeholder, the results show the importance of an institutional environment that supports inclusive business. Furthermore the results suggest an association between capacity building and poverty alleviation.

Taken as a whole, this research program contributes to the theoretical development of the business-poverty interface by developing the concept of inclusive business and presenting a framework supported by empirical evidence for understanding the constraints, mechanisms and outcomes of inclusive business. The research also contributes to institutional theory by examining interactions between institutions and providing evidence that informal institutions are prominent in the study context. The results also contribute to research on institutional change and points to the potential for firms to influence the institutional environment, in contrast to other institutional research that tends to examine how institutions shape firm behaviour.

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CHAPTER 1
THESIS INTRODUCTION

OVERVIEW AND OBJECTIVES

There are more than a billion people living in poverty throughout the world (Chen and Ravallion, 2010) with some considering the total number to be as high as four billion, or more than half the world's population (Prahalad and Hart, 2002). On the face of it, poor people with limited funds would appear to be of little interest to the private sector, yet there has been increasing interest in recent years and not just as a source of cheap labour. The reasons for this are twofold and can be seen from two perspectives. The first, from the firm's perspective, is that firms are seeking business opportunities outside of saturated wealthier market segments and looking to these markets for unique resources (Prahalad, 2010; Prahalad and Hammond, 2002; Prahalad and Hart, 2002; Tashman and Marano, 2009). The second reason for the increased interest in the topic is from the perspective of the poor and those who represent them. Although it is contested whether private-sector firms have responsibilities beyond maximising profit (Friedman, 1962) there is increasing pressure on the private sector to contribute to broader social goals, including poverty alleviation. Organisations such as the United Nations and aid donors are encouraging the private sector to contribute to poverty reduction by providing jobs and products and services that meet the needs of the poor. From this perspective some have even gone as far as claiming that the private sector can eradicate poverty through profits (Prahalad, 2010).

Research in this area has only really started to emerge in the past decade and is disparate. Sometimes scholars refer explicitly to the base of the pyramid (BOP) concept (Prahalad, 2010; Prahalad and Hammond, 2002; Prahalad and Hart, 2002), other times to inclusive business/markets/growth (George, McGahan, and Prabhu, 2012; Halme, Lindeman, and Linna, 2012; Mair, Martí, and Ventresca, 2012) and sometimes research

on the topic is not labelled explicitly but never-the-less focuses on firm interactions with the poor (Daye, 2010; Kolk and van Tulder, 2006; Radin and Calkins, 2006; Singer, 2006). One of the objectives of this research is to draw the disparate research together into a conceptual framework that explains how and why firms interact with the poor in a way that brings benefits to both the poor and the firm. I¹ do this under the banner of inclusive business, which is a term that attempts to capture the full range of firm interactions with the poor. Inclusive business is related to, but distinct from the base of the pyramid (BOP) concept. The BOP concept emphasises ‘selling to the poor’ (Simanis and Hart, 2008) and has a chequered past. There have been many failed attempts involving products designed with the poor in mind (Khavul and Bruton, 2013) in addition to ethical concerns about the approach (Karnani, 2007). In developing conceptual clarity about inclusive business I attempt to address some of these concerns involving private-sector interactions with the poor by focusing on the poor in a broader range of stakeholder groups. The other objectives of this study are to empirically examine inclusive business from the perspective of the poor and the firm.

Existing research that considers the topic from the perspective of the poor provides critical perspectives and tends to focus on ethical issues. Critical perspectives argue that the profit motives of business can lead to firm interactions with the poor that are not in their best interests (Blowfield and Dolan, 2010; Karnani, 2007). Many argue the importance of ethics-based frameworks such as applying principles of distributive

¹ As this is a thesis by compilation with a combination of co-authored and sole authored papers I use both ‘I’ and ‘we’ throughout the thesis. I use the pronoun ‘I’ in the thesis introduction and conclusion and the sole authored paper and ‘we’ in the co-authored papers.

justice in achieving fairer markets for the poor (Sud and VanSandt, 2011), identity rights (Sud and VanSandt, 2014) and socially responsible business (Chakrabarty and Erin Bass, 2015; Karnani, 2007). What is lacking in the literature that considers the topic from the perspective of the poor is an objective evaluation of the impact of firm activities on poverty alleviation (Kolk et al., 2014). While some research suggests that the poor can be powerless in their interactions with business and this can lead to proposed benefits not being realised by the poor (Blowfield and Dolan, 2010; VanderHoff Boersma, 2009), research that applies an objective poverty measure to evaluate firm interactions with the poor is limited. Given the growing momentum for the private sector to play a role in poverty reduction efforts this evaluation is worthy of research attention to understand the conditions under which business alleviates poverty.

Until recently, research from the perspective of the firm tended to provide case study success story rhetoric (Prahalad, 2010, 2012). However, studies have started to emerge that provide theoretical management perspectives on inclusive business with a particular focus on how firms can achieve success in low-income markets. These studies suggest that a firm's social performance is important in low-income markets (London and Hart, 2004), that social intermediaries play an important role in filling institutional voids (Kistruck, Beamish, Qureshi, and Sutter, 2012) and products and services for low-income markets are most likely to achieve success if they are designed with local customers, networks and business ecosystems in mind (Khavul and Bruton, 2013). These studies help to understand the factors that are important for product success in low-income markets but they do not consider firm interactions with the poor in other roles such as employee or producer.

Furthermore, they point to the importance of the institutional environment in understanding firm success but the institutional setting is rarely analysed and understood in detail from the perspective of the firm. For example, in their empirical study, London and Hart (2004) emphasise the importance of social institutions in low-income markets but provide limited empirical data and evidence that explains the full extent of these institutions and the firm's experience of these institutions. An exception is Mair et al's (2012) study of formal and informal institutions in Bangladesh and the role they play in excluding women from the marketplace. This study demonstrates the importance of understanding the full extent of institutions from the formal (for example, state regulations) through to informal (for example, cultural norms and traditions) and their role as it relates to inclusive business. However, Mair et al.'s (2012) study is particularly focused on gender and examines how a social intermediary experiences relevant institutions, so the question of how private sector firms experience and respond to the institutional setting is less understood.

This study is concerned with understanding inclusive business from these two perspectives, firstly from the perspective of the firm and secondly from the perspective of the poor. Thus, I was guided by the central research question:

How do firms and the poor experience inclusive business?

To answer this question I needed to begin by developing the concept of inclusive business. This involved a comprehensive literature survey of research related to private sector interactions with the poor to understand the full range of issues to define and conceptualise the concept. To answer the remainder of the question, I applied theoretical perspectives from two fields. First, to understand the experience of the firm I

drew on sociology literature about institutions with a particular focus on Scott's (2008) four pillars of institutions. Second, to understand the experience of the poor, I drew on Sen's (1984, 1987a, 1987b, 1999) capability approach to evaluate inclusive business activities and understand the conditions where inclusive business alleviates poverty. Accordingly, the three sub-questions guiding the study are:

1. With respect to conceptualising inclusive business, how does existing research about private sector interactions with the poor assist in defining and conceptualising the concept?
2. With respect to the firm's experience of inclusive business, how do institutions affect firm interactions with the poor?
3. With respect to the poor's experience of inclusive business and applying Sen's (1984, 1987, 1999) notion of poverty, under what conditions does inclusive business alleviate poverty?

I answer these questions by conducting a systematic review of the literature related to private sector interactions with the poor. Then, utilising Scott's (2008) institutional pillars and Sen's (1984, 1987, 1999) capability approach I analyse interviews and poverty data for five case study firms, which practice inclusive business in Vanuatu, a small island country in the Pacific. The aim of this approach is to examine inclusive business at multiple levels and provide a rich account of how managers and poor stakeholders experience the phenomenon.

In this introduction, I provide a brief overview of inclusive business (which is explained in detail in Chapter 2, Paper 1) followed by an overview of the theoretical perspectives applied to the study. I then provide an overview of the research program. As this is a

‘thesis by compilation’ consisting of three papers, in the final section of this introduction I present an overview of the thesis where I briefly provide a summary of the three papers.

CONCEPTUALISING INCLUSIVE BUSINESS

One of the contributions of the research presented in this thesis is that it provides conceptual clarity for the term inclusive business. This term, or variants of it, has recently started to appear in scholarly literature (George et al., 2012; Halme et al., 2012; Mair et al., 2012; Reficco and Márquez, 2012) yet no conceptual clarity exists. I respond to calls to incorporate views from different disciplines on the business-poverty interface (Kolk et al., 2014) to develop an inclusive business conceptual framework. I define inclusive business as,

Inclusive business involves MNCs and SMEs adopting an integrative management approach to expand access to products and services to the poor and provide them with sustainable livelihood opportunities while being mindful of local impoverished communities. Inclusive business recognises that the institutional environment plays an important role and while MNCs and SMEs are involved in the design and implementation of inclusive business, social enterprises, NGOs, government or aid donors can also initiate and enable inclusive business.

This definition recognises that inclusive business is underpinned by both normative and instrumental motives. The global political agenda encourages business to contribute to poverty alleviation efforts by including the poor in the value chain and there is a

business case for doing business with the poor that involves access to resources and growth opportunities. These driving forces suggest the need for business to adopt integrative management where firms make decisions that take into account the needs of the poor as well as the needs of the firm. The definition also recognises the importance of the institutional environment, which can both enable and constrain inclusive business (Ault and Spicer, 2014; Jütting, Drechsler, Sebastian, and de Soysa, 2007; Mair et al., 2012). For instance, weak formal institutions in developing countries mean that basic infrastructure might not exist or that education is difficult to access leading to a lack of human capital. At the same time, institutions such as pro-poor economic policy can enable firms to interact with the poor and achieve the objectives of inclusive business. Chapter 2 (Paper 1) expands these ideas further and provides a conceptual framework that explains why and how firms are able to achieve inclusive business success.

THEORETICAL PERSPECTIVES

In this section I provide an overview of the two main theoretical perspectives used for the empirical studies. As institutions are presented as a critical aspect of inclusive business, I rely on institutional theory to assist with the examination of the firm's experience of inclusive business. I also use Sen's (1984, 1987a, 1987b, 1999) capability approach to examine the relationship between inclusive business and poverty alleviation.

Institutional Theory

Metaphorically speaking, institutions refer to the rules of the game, which are socially constructed and guide behaviour in society (North, 1990). When applied to the study of

management and organisations, institutional theory suggests that organisations are the product of social rather than economic pressures. It has become a popular theory in management to explain why organisations defy economic rationality. For instance, Campbell (2007) provides an institutional theory of corporate social responsibility to explain why corporations behave in socially responsible ways. In this section, I provide a brief overview of institutional theory as it relates to the study of organisations, summarise the core concepts of institutional theory and discuss the relevance of institutional theory to the study of inclusive business.

Institutional theory originated in the late 19th century in varying forms in the fields of economics, political science and sociology (Scott, 2008). Scholars sometimes differentiate between old and new institutionalism. Old institutionalism refers to early studies of institutions and organisations from the 1940s that attempted to explain the structure and behaviour of organisations focused on internal organisational processes and activities. This line of enquiry continued until the emergence of neo-institutionalism in the 1970s when external institutional influences started to be used to explain organisational behaviour and structure. The so-called Stanford School, which includes John W. Meyer, W. Richard Scott and Walter Powell have been instrumental in advancing neo-institutionalism. Both old institutionalism and neo-institutionalism research has led to an understanding of the core concepts that form the basis of institutional theory as it relates to organisations.

According to Suddaby (2013) there are six concepts underpinning institutional theory. The first concept is ‘infusion of value’, which refers to abstract social structures that evolve to take on new meaning beyond their original purpose. This concept arises from Selznick’s (1949) early study of institutions and organisations where he observed that in

order to survive; organisations can deviate from the original purpose by taking on new meaning and values through a process of institutionalism. Thus, organisational activity occurs in a rational sense (purposive) and in an institutional sense focusing on meaning and value. The second concept is 'diffusion' which suggests that new practices will be adopted because they are aligned to social and community values rather than the technical outcomes of the new practice. The third concept is 'rational myths' offered by Meyer and Rowan (1977) who argue that much activity in organisations is unrelated to economic productivity. They argue that organisations are guided by what is considered to be a successful organisation rather than economic rationality. In other words, organisations conform to their institutional environment.

The fourth concept in institutional theory is 'loose coupling' where organisations signal that they are conforming to institutional pressure by acting rationally, however, the organisation's activities are inconsistent with rationality. The fifth concept is 'legitimacy' where organisations adopt practices out of a desire to appear to be a legitimate organisation. This is based on the premise that organisations that appear to be legitimate are more likely to access resources. Organisations obtain legitimacy by behaving in ways that are consistent with the expectations of the social environment. The final concept that underpins institutional theory is 'isomorphism' which is when organisations adopt practices, behaviours and structures similar to leading organisations. This is based on DiMaggio and Powell's (1983) seminal paper that revisits Max Weber's idea of the iron cage to explain why organisations are similar. They argue that institutional isomorphism occurs due to coercive, normative and mimetic processes that lead organisations to become similar where coercive factors involve the state.

Normative factors arise from the influence of professions and education and mimetic

factors draw on taken for granted responses to uncertainty (DiMaggio and Powell, 1983).

These six concepts form the basis of institutional theory and the study of organisations (Suddaby, 2013). Common across all of these concepts is the idea that organisations are embedded in a broader social system, referred to as the institutional environment, where this institutional environment influences the behaviour of organisations. Early neo-institutionalism research focused on how institutional forces lead to organisations becoming similar and how the institutional environment shapes organisations. This line of research began to be criticised in the 1990s, however, as it failed to recognise that not all organisations in the same institutional environment are similar and that some organisations are able to resist institutional pressures (Suddaby, 2013). This criticism gave rise to the idea that actors have agency and have the power to resist institutional pressures. Di Maggio (1988) accounted for this and argued that in some instances “institutional entrepreneurs” would resist social norms. This idea was developed further by Battilana, Leca and Boxenbaum (2009, p. 95) who presented institutional entrepreneurs as ‘actors who introduce changes that diverge from existing institutions in a given environment’. Thus, agency has become an important focus of institutional theory research, which still recognises that the institutional environment shapes organisations but that organisations can also play an active role in shaping the institutional environment.

One way of understanding the institutional environment is provided by Scott ‘s (2008) institutional pillars. Scott (2008) presents three institutional ‘pillars’ that loosely correspond to DiMaggio and Powell’s (1983) coercive, normative and mimetic factors. In his review of institutions, Scott (2008) presents a perspective that attempts to capture

the landscape of institutions. Scott (2008) argues that there are three pillars of institutions that provide a complete picture of an institutional setting – regulative, normative and cultural-cognitive. These pillars represent a continuum of institutions from formal (regulative) to the more informal (normative and cultural-cognitive) providing a full perspective of institutions. I revisit these institutional pillars below as they provide the analytical framework for examining the firm's perspective of inclusive business. Before doing so, I discuss the relevance of institutional theory to the study of inclusive business.

In organisation studies, institutional theory has been applied in a range of fields including organisational behaviour (Wicks, 2001); international business (Peng, Wang, and Jiang, 2008) and business and society (Brammer, Jackson, and Matten, 2012). It is one of the dominant theories for examining business in developing countries and has provided useful insights particularly for the study of international business and business strategy in emerging economies (Hoskisson, Eden, Lau, and Wright, 2000; Peng et al., 2008). So why then is institutional theory relevant to understanding inclusive business?

There are several reasons why institutional theory is a helpful lens to analyse and understand the firm's experience of inclusive business. Firstly, prior research highlights the importance of the institutional setting for understanding inclusive business and suggests further research along these lines would be helpful for providing further insights. A key characteristic of developing countries is the presence of weak formal institutions and the absence of an institutional framework provided by the state that enables market development (North, 1990). Prior research has demonstrated that this weak institutional environment is partly responsible for the exclusion of the poor from the formal marketplace (Mair et al., 2012). The lack of strong formal institutions can

also encourage destructive entrepreneurial outcomes (Hall, Matos, Sheehan, and Silvestre, 2012), and can also be detrimental to the performance of firms that engage with the poor. Ault and Spicer's (2014) study provides evidence of the effects of weak institutions on firms providing microfinance to the BOP. The results of their study demonstrate that, while the extent of state fragility provides opportunities for microfinance institutions (MFIs) by way of higher rates of poverty, MFI performance is lower in more fragile state settings (Ault and Spicer, 2014). Given the prevalence of weak institutions and their importance to functioning markets, BOP scholars have devoted effort to understanding how firms can successfully interact with the poor within this context. This line of study emphasises the importance of cross-sector partnerships (Brugmann and Prahalad, 2007; Calton, Werhane, Hartman, and Bevan, 2013; London and Hart, 2004; Reficco and Márquez, 2012; Rein and Stott, 2009) and social intermediaries (Kistruck et al., 2012; Mair et al., 2012) to assist in filling institutional voids that arise from weak formal institutions.

Despite weak formal institutions, BOP settings are rarely void of institutions (London and Hart, 2004; Mair et al., 2012). Although there is some evidence to suggest that informal institutions such as norms and cultural traditions are especially important (London and Hart, 2004; Mair et al., 2012), the nature of these institutions as they relate to inclusive business is an understudied area. Inclusive business research has tended to focus on particular institutions such as the state (Ault and Spicer, 2014; Hall et al., 2012) or social institutions (London and Hart, 2004; Mair et al., 2012), rather than multiple institutions and how they interact to influence firm behaviour.

An advantage of institutional theory, and a second reason that it is helpful in understanding the firm's experience of inclusive business, is that it allows analysis at

multiple levels. Bourdieu's (1971, 1973) idea of a social arena or the concept of field has been applied by organisational scholars to examine the multiple institutional processes shaping organisations. Originally the concept was applied by DiMaggio and Powell (1983) to the study of organisations to examine the processes that lead to isomorphism where organisations take on similar characteristics. Since then other organisational scholars have demonstrated the utility of applying institutional theory to examine phenomena at multiple levels (Scott, 2008). By examining multiple institutional forces Scott (2008) notes that,

we can better fathom an organisation's behaviour by seeing it in the context of the larger action and meaning system in which it participates (Scott, 2008, p. 209).

To understand the firm's experience of inclusive business this seems particularly important, given the nature of weak formal institutions and some evidence to suggest that informal institutions are highly relevant. For instance Mair et al. (2012) found that, although formal legislation exists regarding the equal treatment of men and women in Bangladesh, the on-the-ground reality tells a different story where women's access to property rights and autonomy is limited by local community, political and religious norms. This suggests a broad understanding of the institutional landscape is important for understanding inclusive business.

This study aims to extend this line of research by conducting a broader analysis of multiple institutions as they relate to inclusive business from the perspective of firms with a profit motive (in contrast to Mair et al.'s (2012) research that examined the work of a social intermediary). By viewing multiple institutions together I can more fully

examine the ways in which institutions work together, or against each other, to enable and constrain firm interactions with the poor (Scott, 2008). This integrated perspective provides a more complete picture of the relevant institutional forces affecting firm interactions with the poor (Sen, 1999).

To examine and understand the layers of institutional forces that influence firms, which interact with the poor, I apply Scott's (2008) pillars of institutions. This approach has been adopted to study other phenomena such as organisational crises (Wicks, 2001) and knowledge sharing (Currie and Suhomlinova, 2006) and has provided a useful way of analysing multiple institutional forces. Scott (2008) argues that there are three pillars of institutions that provide a complete picture of an institutional setting – regulative, normative and cultural-cognitive. These pillars represent a continuum of institutions from formal (regulative) to the more informal (normative and cultural-cognitive) and provide a full perspective of institutions, hence providing an ideal analytical framework for this study.

The regulative pillar involves the formal system of rules and enforcement sanctioned by the state (Scott, 2008). This pillar represents the rational actor model based on the logic of instrumentality where social order is achieved through rules, laws and sanctions. In this line of thinking, agents make rational decisions based on self-interest in the context of rules, laws and sanctions (Scott, 2008).

The normative pillar of institutions emphasises the values and norms that guide obligatory dimensions of social interactions (Scott, 2008). Values are conceptions of desirable standards that are used to make assessments about behaviours in social situations. Norms refer to the ways in which people should behave in order to comply

with societal values. Scott (2008) suggests that an example of a value is 'winning a game' (goal or objective) and the norm is 'rules specifying how the game is to be played'. Roles are also important in this view of institutions where some values and norms apply to all members of society and others might only apply to people who hold certain positions in society (Scott, 2008). Whereas the effect of the regulative pillar is guilt or innocence, the effect of the normative pillar is a feeling of shame or disgrace for those who do not comply with the norm or pride and honour for those who comply.

The cultural-cognitive pillar refers to the embedded beliefs that guide individual feelings, thoughts and actions (Scott, 2008). In this view of institutions, cognitive processes mediate an individual's reaction to an external stimulus (Scott, 2008). In other words, individuals attribute their own subjective conception of meaning to activities and objects. Scott (2008) has labelled the pillar as cultural-cognitive to show that internal processing (cognitive) is shaped by external frameworks (cultural). In this perspective compliance occurs because other ways of behaving are inconceivable and individuals behave in ways that are taken for granted as 'the way we do things' (Scott, 2008, p. 58). The effect of compliance with respect to this institutional pillar is one of positive emotions such as confidence whereas non-compliance results in negative emotions such as confusion and disorientation (Scott, 2008).

Although Scott (2008) considers that the three pillars have different ontological assumptions and provide different ways that organisations gain legitimacy there can be situations where institutions interact and exert different pressures on organisations (Martin and Scott, 1998) and I am interested in these interactions. Scott (2008) also emphasises that institutions constrain and enable behaviour. Institutions constrain behaviour by imposing 'legal, moral and cultural boundaries' that determine what is

legitimate and illegitimate behaviour (Scott, 2008, p. 50). While institutional theorists often emphasise constraints posed by institutions, Scott (2008) stresses the importance of the enabling role that institutions play to empower actors and shape behaviour. This involves examining the complex institutional environment at multiple levels to understand the range of institutional forces and how they interact to shape behaviour. I apply this perspective of institutions to examine how institutional forces constrain and enable firms that interact with the poor.

The Capability Approach

Traditionally poverty has been conceptualised and measured in economic terms, typically based on income. In more recent times, however, a broader perspective has emerged that suggests that while income is an important means of achieving what an individual values, wellbeing should be conceptualised in terms of an individual's capability set (Sen, 1999). The central characteristic of the capability approach is its focus on what people are effectively able to do and be – their capabilities. Economist and philosopher, Amartya Sen (Sen, 1979, 1984, 1987a, 1999) played a pioneering role in developing the approach and it has since been developed by others, most notably by the philosopher, Martha Nussbaum (Nussbaum, 1988, 1995, 2000, 2003, 2004).

The capability approach is a framework for the evaluation and assessment of individual wellbeing and social arrangements and can be used to evaluate aspects of wellbeing including although not limited to, poverty. Sen (1999) argues that evaluations and assessments of people's lives should focus on what they are able to do and be, rather than on happiness or economic measures. When applied to poverty, he argues that, 'poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes' (Sen, 1999, p. 87). In viewing poverty as capability deprivation,

Sen (1999) acknowledges that income can be an important factor in causing capability deprivation but it is not considered as intrinsically important. According to the capability approach wellbeing should be conceptualised in terms of an individual's capabilities that give them the freedom to live the life that they value.

The issue of how to operationalise the capability approach and identify which capabilities matter has generated much discussion and debate. Sen (1999) is deliberately vague about which precise capabilities are important, arguing instead that capabilities should be selected through a democratic process and be appropriate in the context for which they will be used. So far the approach has been largely absent in the inclusive business literature with some exceptions such as Ansari, Munir, and Gregg (2012) who apply the approach in a theoretical way and call for future inclusive business research to operationalise the approach.

One attempt to operationalise the approach is provided by Nussbaum (2003, pp. 41-42) who provides a list of 'central human capabilities' across ten categories such as bodily integrity, emotions and affiliation. These capabilities, however, were developed as principles that could underpin each constitution rather than with poverty in mind (Robeyns, 2005). As Sen's early work was about poverty in developing countries he refers to 'basic capabilities' as a subset of capabilities. Basic capabilities refer to real opportunities to avoid poverty and can be useful 'in deciding on a cut-off point for the purpose of assessing poverty and deprivation' (Sen, 1987b, p. 109). This thinking influenced the United Nations' human development index to measure poverty in non-income terms, which has now been replaced with Alkire and Foster's (2011) multidimensional poverty index (MPI). While this index was developed for the purpose of making cross-country poverty comparisons, it provides one of the few universally

endorsed ways of operationalising the capability approach for the purpose of poverty analysis and therefore I use the MPI for the purpose of this study.

Alkire and Foster's (2009; 2011) MPI provides a coherent framework for measuring poverty using a counting method to identify the poor and measure the intensity of poverty. The MPI is a measure of household poverty that has three dimensions: education, health and standard of living. The dimensions were selected through a series of participatory exercises, enduring consensus, philosophical or psychological accounts of basic needs, universal values and human rights and the practicalities of data access (Alkire and Santos, 2010). The index is weighted so that each dimension is worth one third of the overall index. Table 1 provides the indicators across the three dimensions.

TABLE 1
MULTIDIMENSIONAL POVERTY INDEX

Dimension	Indicator	Deprived if...	Relative weight
Education	Years of schooling	No. household member has completed five years of schooling	16.7%
	Child enrolment	Any school-aged child is not attending school in years 1 to 8	16.7%
Health	Mortality	Any child has died in the family	16.7%
	Nutrition	Any adult or child for whom there is nutritional information is malnourished	16.7%
Standard of Living	Electricity	The household has no electricity	5.6%
	Sanitation	The household's sanitation facility is not improved e.g. flushable toilet	5.6%
	Water	The household does not have access to clean drinking water or clean drinking water is more than 30 minutes' walk from home	5.6%
	Floor	The household has dirt, sand, dung floor or coral floor*	5.6%
	Cooking fuel	The household cooks with dung, wood or charcoal	5.6%
	Assets	The household does not own more than one of: radio, TV, telephone, bike, or motorbike, and do not own a car or tractor	5.6%

Source: Alkire and Santos (2010, p. 15)

*Coral floor was added for the purpose of this study, which is consistent with reporting against this measure for Vanuatu.

The index allows poverty intensity to be measured where a person is considered poor if he or she is deprived in at least one third of the indicators, vulnerable to poverty if deprived in 20 to 33 per cent of the indicators and any score below 20 per cent is deprived. A person is considered to be in severe poverty if they are deprived in 50 per cent or more of the indicators (Alkire, Conconi, and Roche, 2013). For the purpose of this study I refer to ‘the poor’ as individuals who are deprived in some way on the MPI. I use the MPI as an evaluation tool to evaluate various inclusive business activities and examine the processes involved in poverty alleviation applying the capability approach. This begins to address concerns about the scarcity of objective assessments of the social impact of inclusive business (Kolk et al., 2014) and also responds to a call for operationalising the capability approach in the field of inclusive business (Ansari et al., 2012). The capability approach is not an explanatory theory. I use it as a framework for assessing inclusive business activities and draw on Sen’s (1999) ideas to inform data collection and analysis and provide additional insight into the field of inclusive business.

RESEARCH PROGRAM OVERVIEW

Inclusive business aims to expand access to livelihood opportunities and products and services to the poor in commercially viable ways. Theoretically, I argue that inclusive business will bring benefits to both firms and the poor. In line with this perspective, this study examines the reality of how firms and the poor experience inclusive business in order to test the validity of the concept. The research makes several important contributions to the business-poverty literature and institutional theory and below I discuss the contributions of the research program.

It advances our understanding of the business-poverty interface in several ways. First, I propose a theory of inclusive business. While research interest involving business

interactions with the poor has received increasing attention in recent years, no integrating framework exists to conceptualise the topic and guide research efforts. Given the increased focus on firms entering low-income markets and utilising resources in these markets, along with global efforts to mobilise the private sector to contribute to poverty alleviation efforts, understanding the business-poverty interface is increasingly important. I present an inclusive business conceptual framework that is both normative and instrumental to address this gap and draw attention to this important topic. The conceptual framework explains why firms adopt inclusive business and how firms can be successful in their inclusive business efforts. The framework synthesises existing research and draws on literature from economics to assist with framing the concept, answering a call in the management literature to incorporate views from other disciplines (Kolk et al., 2014). The resulting framework provides conceptual clarity for a concept that has started to appear in management literature (George et al., 2012; Halme et al., 2012; Mair et al., 2012; Reficco and Márquez, 2012) but is neither clearly defined nor conceptualised.

Second, I demonstrate that institutions are highly relevant in explaining why firms interact with the poor and how the institutional setting influences firm behaviour. This perspective sheds light on the reality of the firm's experience of interacting with the poor in contrast to the idealistic picture sometimes presented in the literature (Prahalad, 2010; Prahalad and Hammond, 2002; Prahalad and Hart, 2002). The firm's experience presented in this thesis reveals the role of institutions in enabling and constraining inclusive business. While formal institutions in the form of government regulation and international aid initiatives play an important enabling role, more informal institutions can inhibit inclusive business efforts. I argue that these misaligned institutions lead firms to adopt a range of strategies in order to cope with the institutional setting. These

include lobbying, building social capital, displaying compassion with boundaries, building capacity and capability, and customising practices while maintaining a sense of otherness. The insights from this study provide a unique perspective on inclusive business from the perspective of the firm and reveal the importance of firms responding to the institutional setting.

Third, this research contributes to understanding of the relationship between inclusive business and poverty alleviation. Business scholars have recently noted the importance of paying attention to social welfare with *The Academy of Management Review* presenting a special topic forum in 2016 and calling for future research to focus on social issues and not just economic issues (Jones et al., 2016). My research does this by examining poverty alleviation. The promise of inclusive business is that business can be profitable in doing business with the poor and at the same time alleviate poverty, however, this claim has been largely untested using an objective measure of poverty. Using an objective measure of poverty allows an evaluation of inclusive business that assists to determine firm activities that are helpful in alleviating poverty and those that make little or no difference. Furthermore, using a widely used measure of poverty assists to make claims about the relationship between inclusive business and poverty alleviation more robust. Using the multidimensional poverty index as an objective measure, the findings of this empirical study begin to shed light on the necessary conditions associated with poverty alleviation. In doing so, the research provides a perspective that is largely absent in the management literature – a perspective from the poor. This study suggests that poverty alleviation is associated with a supportive institutional environment and firms that build the capacity of the poor. A further contribution of this aspect of the research is that it demonstrates the utility of using Sen's (1984, 1987a, 1987b, 1999) capability approach to evaluate social welfare. While

I use ‘basic capabilities’ to evaluate inclusive business and poverty alleviation, as the poor are lacking in basic capabilities such as education and health (Sen, 1999) this approach has broader applicability for evaluating human development in developed countries. Hence, I contribute to the broader literature on social welfare.

Furthermore the research contributes to institutional theory. While there has been an increased focus on studying institutional change in the past two decades (Scott, 2008), the role of organisations in contributing to institutional change is an understudied area. The management research concerning institutional change tends to focus on change *within* an organisation or industry, for example, Scott, Martin, Mendel and Caronna’s (2000) study of institutional change in the healthcare industry or Fligstein’s (1991) study of the structural changes over time in U.S corporations. In other words, previous research of this nature has been concerned with the influence of institutions on the organisation, not how the organisation influences the institutional environment (Barley, 2007). The findings of this study suggest that there are instances when organisations exert pressure on formal and informal institutions where there is potential to bring about institutional change over time. Viewing organisations and institutions in this way opens up many avenues for promising research that advances institutional theory.

RESEARCH SETTING

Given the importance of formal and informal institutions to the study of inclusive business, I selected a research setting that was institutionally complex that allowed for an examination of inclusive business. Vanuatu, an island country in the Pacific, provides an opportunity to examine the on-the-ground reality of inclusive business in a multifaceted institutional setting, an approach that has yielded important insights in

previous research (Mair et al., 2012). Many ni-Vanuatu², particularly in rural areas, are subsistence workers defined as,

A person that did ‘work to support the household by producing goods mainly for own consumption’, performed a variety of tasks such as farming, gardening, fishing or producing handicrafts for their own consumption (Vanuatu National Statistics Office, 2009, p.102).

This highlights the importance of land ownership in Vanuatu where the majority of households reside on customary land (Vanuatu National Statistics Office, 2009). In addition to formal institutions established after independence in the 1980s, there is a strong loyalty to *kastom* – the beliefs, practices and social structures perceived as traditional (Cox et al., 2007) and various religions, mostly Christian, where religious leaders often have broader decision-making roles in the village. These institutional arrangements provide an ideal setting to examine how formal and informal institutions interact in relation to inclusive business.

Approximately 30 per cent of the population live in poverty (Oxford Poverty and Human Development Initiative, 2016). Vanuatu is ranked 134 out of 188 countries on the Human Development Index (UNDP, 2015). Central to the Government of Vanuatu’s poverty alleviation strategy, along with aid donors in the region, is private-sector development and inclusive growth leading to policies and programs that aim to include

² Ni-Vanuatu refers to citizens of Vanuatu.

individuals in the formal economy that were previously excluded (Australian Department of Foreign Affairs and Trade, 2015; Government of the Republic of Vanuatu, 2006). For example, in 2008 Vanuatu ended a monopoly in the telecommunications sector and provided a licence to another company on the condition that the company install infrastructure and provide affordable mobile phone access to the majority of people in the country, including many of the country's poorest. This resulted in a significant increase in mobile phone users throughout the country, particularly in rural areas where poverty is greatest. The relatively recent inclusive growth strategy provides an ideal setting to examine the relationship between inclusive business and poverty alleviation.

Furthermore, the literature concerning inclusive business acknowledges that the nature of poverty differs around the world and the poor cannot be viewed as a homogenous group (Prahalad, 2010; Prahalad and Hammond, 2002; Prahalad and Hart, 2002). Research that provides perspectives from all corners of the globe is therefore critical to advance understanding of inclusive business so that we understand inclusive business in different developing country contexts. The inclusive business research to date has focused on Africa, the Americas and Asia (see for example George, Kotha, Parikh, Alnuaimi, and Bahaj, 2015; London and Hart, 2004; Mair et al., 2012) whereas this research provides a perspective from a Pacific island country. By doing so, the research expands understanding of inclusive business in a context largely unexplored in the literature. Some reports suggest that poverty in the Pacific is increasing with an estimated 25 per cent of people on average living below the basic needs poverty line and higher when considering non-income measures of poverty (UNDP, 2014). Poverty alleviation strategies in the Pacific increasingly emphasise private-sector development and the need to build more inclusive markets by providing economic opportunities. To

provide a perspective of inclusive business from the Pacific the empirical studies presented in this thesis examine inclusive business in five cases (firms) located in Vanuatu.

The selection of cases was guided by the following criteria. The firm should: (1) provide livelihood opportunities or expand access to products and/or services to the poor; and (2) offer the potential for a study of multiple institutions at play; (3) offer the potential to study changes in individual poverty status as a result of firm activities where changes are still fresh in people's minds; and (4) have been operating for several years to allow for changes to occur in the lives of the poor. In addition, the aggregate group of cases should: (1) include a minimum of two cases to allow for theoretical replication (Yin, 2009); and (2) should include instances of firms providing livelihood opportunities and expanding products and services to the poor so that both aspects of inclusive business can be examined. I identified five firms that met these criteria. The study used a multiple case design and followed replication logic where each case was considered an experiment that serves to prove or disprove inferences drawn from the cases (Eisenhardt, 1989; Yin, 2009). A description of the five firms is provided below, paying particular attention to the firms' interaction with poor and deprived stakeholders.

Telecommunications Firm. The multi-national telecommunications firm, which requested not to be named, has operations in 31 markets across the Caribbean, Central America and Asia Pacific. The firm established operations in Vanuatu in 2009 following a licence being made available by the Government of Vanuatu. Prior to this, Vanuatu only had one telecommunications provider. A condition of the agreement between the firm and the government was that the firm aim to provide universal access to telecommunication services throughout Vanuatu. To meet this commitment the firm

invested heavily in infrastructure throughout the country and increased mobile phone subscriptions from 10 per cent of the population to 50 per cent within the first year of operations, with many new users in poorer locations (O'Connor, Naemon, and Sijapati-Basnett, 2012). The firm has a large percentage of the low-income market in Vanuatu and offers special mobile phone rates to low-income earners determined by the customer's purchasing habits over time.

Eratap Resort. This is a small luxury tourist resort with located near the village of Eratap, which leases the land from customary owners in the village. A good relationship with the village is critical for the firm to avoid disputes and to allow access to the village and surrounding areas for tourist activities. The village is located in a rural area and prior to the establishment of the resort in 2008 the majority of village members were subsistence workers. Eratap Resort is a small firm with 10 villas and 48 employees, some of whom are from the local village, and the firm also provides funding for community development projects.

Tanna Coffee. This firm processes and manufactures Arabica coffee using coffee cherries grown on the Vanuatu island of Tanna. The coffee industry on Tanna was first established in 1982 through development funds to provide economic opportunities in the newly independent Vanuatu. Eventually it was privatised and the current firm has been operating since 2007. At the time of the study the firm was the only coffee manufacturer in Vanuatu and purchased coffee cherries from more than 500 coffee growers on the remote island of Tanna. The handpicked cherries are processed at 45 pulping units located close the farmers on Tanna island. The cherries are pulped, naturally fermented, washed, screened and sun-dried prior to transportation to the dry processing factory on Tanna island. Following processing at the factory on Tanna island

the coffee beans are shipped to the Vanuatu capital, Port Vila for roasting and packing. Tanna Coffee sells all of its coffee in roasted and packaged form with 60% for the local market and the balance exported overseas. The firm employs people from Tanna island to assist with processing the coffee cherries and administrative activities.

Volcanic Earth. This firm manufactures health and beauty products using, as much as feasible, raw materials from Vanuatu such as coconut and tamanu oil. In 2009 the firm received aid funding directly from the Australian Government as part of a poverty alleviation initiative involving the private sector. The funding allowed the firm to expand operations and provide income-earning opportunities to ni-Vanuatu. The firm manufactures organic skincare products for local and overseas markets. The focus of this study was the factory manager who is engaged by the firm to supply coconut oil. Prior to this opportunity the factory manager was unemployed.

Evergreen. This firm is owned and operated by an indigenous ni-Vanuatu family and offers tourist tours to local sites of interest. The firm was officially established in 1999, although it is only in more recent years that the firm has grown and provided employment opportunities to ni-Vanuatu people, many of whom are poor or deprived. The firm typically employs people from the firm owner's village and the neighbouring village.

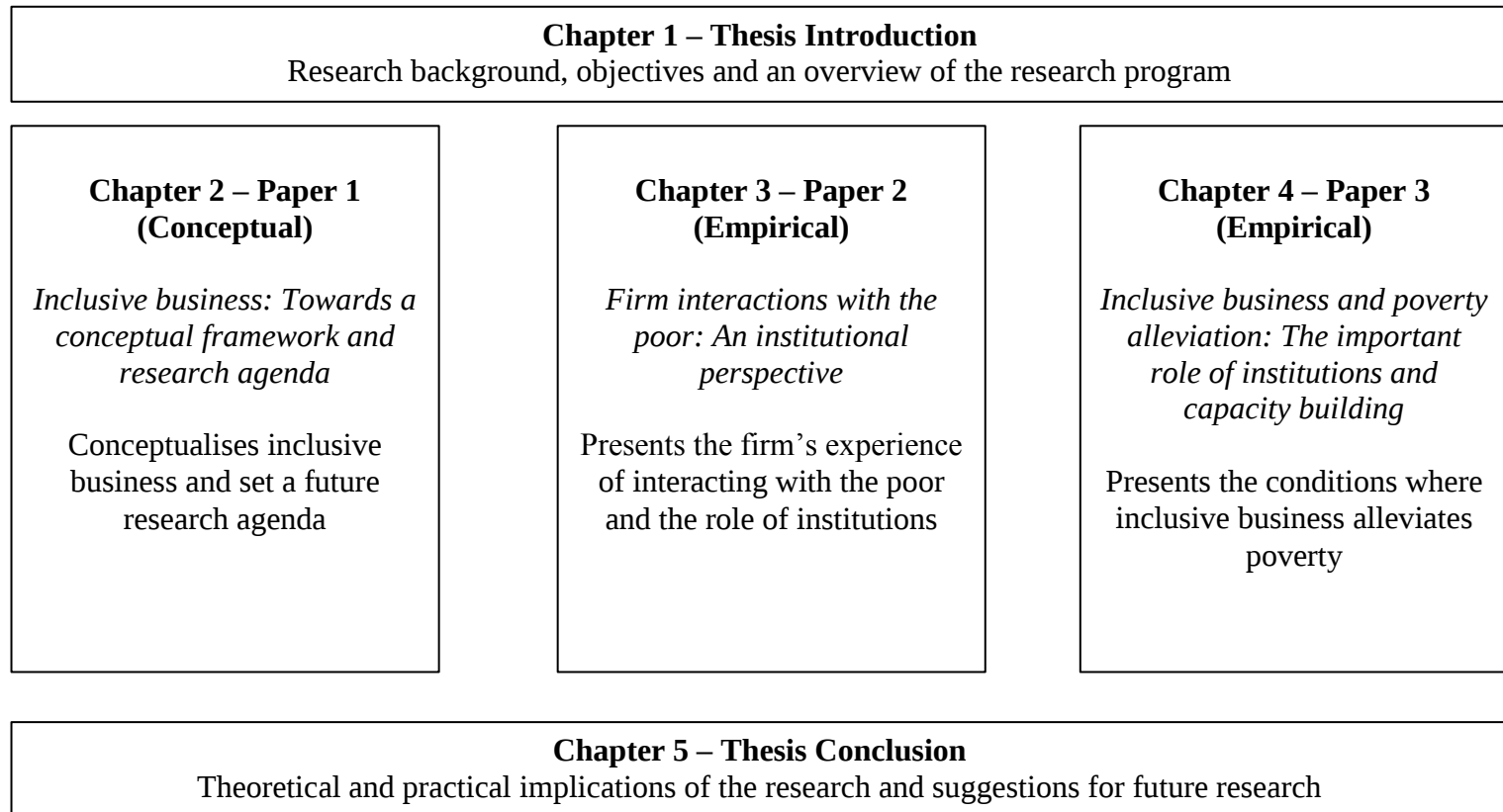
I conducted interviews with managers and stakeholders of these firms who were currently or previously poor. These interviews, along with publicly data on websites and in reports, provided the empirical data for the study. I now provide an overview of the thesis that provides a brief summary of each chapter.

THESIS OVERVIEW

In this section I describe the approach taken to writing this thesis and the organisation of subsequent chapters. The PhD thesis consists of five chapters, which includes three research papers and a thesis introduction and conclusion. A summary is presented in Figure 1. Given the nature of the thesis-by-compilation, this chapter (Chapter 1) has provided the research background and objectives, a broad theoretical overview, and overviews of the research program and the empirical research setting. Chapter 2 is the first paper and presents a conceptual framework for inclusive business. Chapter 3 is an empirical paper that presents the firm's perspective of inclusive business drawing on institutional theory. Chapter 4 is also an empirical paper that examines the relationship between inclusive business and poverty alleviation. Each of the empirical research papers presents a background to the study, details of the relevant theoretical perspective, the research methodology including the data analysis process, findings and a discussion about the research findings. Page constraints exist for each paper, as the papers have been prepared with journal publication in mind. To facilitate a more comprehensive and deeper understanding of the research for the purpose of this thesis additional sections are provided with more detailed supporting data. The papers are presented in manuscript format.

Chapter 2 titled, '*Inclusive business: Towards a conceptual framework and research agenda*', is a conceptual paper that presents an inclusive business framework. In this paper I attempt to address the problem that, despite increasing interest in the term inclusive business, both in the business community and the international development community, no precise definition or conceptual clarity exists. Although the base of the

FIGURE 1
STRUCTURE OF THESIS



pyramid (BOP) concept has become popular, research of this nature tends to focus on selling to the poor and not the full range of interactions that firms have with the poor (Kolk et al., 2014). The BOP approach has also been criticised for failing to acknowledge the ethical dimension of selling to the poor (Karnani, 2007). In contrast, I propose inclusive business as both a normative and instrumental concept that involves expanding access to livelihood opportunities to the poor as well as to products and services. I present a conceptual framework that explains why firms are increasingly adopting an inclusive business approach and how firms can adopt inclusive business practices that deliver benefits to both the firm and the poor. Seeking to clarify the concept and guide future research to assess validity, I synthesise relevant theoretical research on the business-poverty interface and develop a conceptual framework that incorporates the role of institutions and applies Amartya Sen's view of poverty as capability deprivation.

Chapter 3 titled, *'Firm interactions with the poor: An institutional perspective'*, presents an empirical study of the firms' experience of interacting with the poor. I apply Scott's (2008) pillars of institutions as the lens to examine the firms' experience and through this analysis identify multiple institutions that both enable and constrain firm behaviour. Drawing on empirical data from the five case study firms located in Vanuatu, I show that while some regulative institutions enable firms to adopt a BOP approach, other weak formal institutions along with normative and cultural-cognitive institutional elements undermine the firms' inclusive business efforts. Firms respond to the risk and uncertainty caused by the institutional environment by lobbying, building social capital, displaying compassion with boundaries, building capacity and capability, and customising practices while maintaining a sense of otherness. Overall, the firms'

responses to the misaligned institutional environment suggests that firms adopting an inclusive business approach play a role as agents in bringing about institutional change.

Chapter 4 titled, *'Inclusive business and poverty alleviation: The important role of institutions and capacity building'* presents an empirical study that examines the relationship between inclusive business and poverty alleviation. The promise of inclusive business is that firms can be profitable by including the poor in the value chain and at the same time alleviate poverty; some even go as far as suggesting poverty can be eradicated (Prahalad, 2010). However, existing research has tended to focus on the first part of this promise while the second aspect related to poverty alleviation has received scant attention. To begin to redress this balance, this empirical study explores the relationship between inclusive business and poverty alleviation. I apply the capability approach and operationalise it by using Alkire and Foster's (2011) multidimensional poverty index to evaluate inclusive business activities of five firms in Vanuatu. This evaluation reveals that at least two conditions are important for poverty alleviation to occur. The first condition that strengthens the relationship between inclusive business and poverty alleviation is the presence of formal institutions that support the private sector in their interactions with the poor. The second involves a commitment to capacity building on the part of the firm. The findings suggest that where these conditions exist inclusive business is more likely to alleviate poverty, however, it can only go so far to assist with efforts to eradicate global poverty.

Finally, the thesis conclusion in Chapter 5 provides an overall general discussion of the papers and summarises the main findings of the research. I discuss theoretical and

practical implications of the research and provide suggestions for future research on inclusive business.

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CHAPTER 2

PAPER 1:

INCLUSIVE BUSINESS: TOWARDS A CONCEPTUAL FRAMEWORK AND RESEARCH AGENDA

PAPER 1

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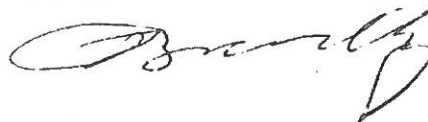
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INCLUSIVE BUSINESS: TOWARDS A CONCEPTUAL FRAMEWORK AND RESEARCH AGENDA

ABSTRACT

Despite increasing interest in inclusive business, where firms expand access to livelihood opportunities to the poor as well as to products and services, no conceptual clarity exists to define the idea and guide future research on the topic. We attempt to address this issue by defining the term and providing a conceptual framework that explains why an increasing number of firms have adopted an inclusive business approach and how firms can approach inclusive business that delivers benefits to both the firm and the poor. Seeking to clarify the concept and guide future research to assess validity, we synthesise relevant theoretical research on the business-poverty interface and develop a conceptual framework that incorporates the role of institutions and applies Amartya Sen's view of poverty as capability deprivation.

INTRODUCTION

Inclusive business involves expanding livelihood opportunities and access to products and services to the poor in a way that is both beneficial to the poor and to firms. The concept is receiving increased attention both in practitioner and scholarly work, yet the field lacks conceptual clarity. For instance, the World Business Council for Sustainable Development (WBCSD), an organisation led by Chief Executives from prominent multinational companies such as Unilever and Bayer, uses the term and member companies are actively involved in inclusive business activities (World Business Council for Sustainable Development, 2014). It is also used by the United Nations,

which actively encourages private-sector involvement in poverty alleviation efforts through inclusive business models (UNDP, 2010a, 2010b). One of the key issues in the debate about private-sector interactions with the poor is how to achieve mutually beneficial outcomes for both the poor and the firm.

A related concept, the base of the pyramid (BOP), has received a great deal of criticism and there have been many failed attempts involving products designed with the poor in mind (Khavul and Bruton, 2013) in addition to ethical concerns about the approach (Karnani, 2007). Early proponents of the BOP have even conceded that the original idea has been interpreted as simply ‘selling to the poor’ (Simanis and Hart, 2008). While proponents have attempted to re-brand the idea and address criticisms by emphasising co-creation business models, the idea suffers from a chequered past. In addition to ethical concerns, the idea is predominantly focused on providing products and services to the poor. In developing conceptual clarity about inclusive business we attempt to address some of these concerns involving private-sector interactions with the poor by focusing more widely to include other stakeholder groups.

Some critics of the BOP concept argue that corporate social responsibility (CSR) (Karnani, 2007) or sustainability (Haugh and Talwar, 2010) is the answer to addressing concerns with the BOP approach. While we agree that CSR is a mechanism that can increase the likelihood of mutually beneficial interactions between the poor and firms, the reality is that CSR and sustainability discourse is concerned with benefitting the firm, rather than society. Research on CSR has been heavily focused on examining the relationship between CSR and firm financial performance and we know very little about the societal impact of CSR (Banerjee, 2011; Blowfield, 2007; Wood, 2010). CSR, as it

currently stands, with its focus on the business case is problematic from the perspective of achieving benefits for the poor.

Inclusive business is concerned with a broad range of interactions that business has with the poor and, while it includes the poor in a consumer role, it also includes the poor in other parts of the value chain such as employee, producer and entrepreneur. We argue that inclusive business is both normative and instrumental and it recognises the importance of institutions. While references are made to the concept or related ideas in the management literature such as: ‘innovation for inclusive business’ (Halme, Lindeman, and Linna, 2012), ‘innovation for inclusive growth’ (George, McGahan, and Prabhu, 2012) and ‘building inclusive markets’ (Mair, Martí, and Ventresca, 2012), no conceptual clarity exists about the concept. Our aim is make the most of the growing momentum by defining inclusive business and presenting a conceptual framework that prepares the way for the next phase of its development – the validity challenge. We begin by defining the concept and articulating the driving forces and what constitutes inclusive business. This then paves the way for our conceptual framework that explains the constraints, mechanisms and outcomes of inclusive business. The definition and conceptual framework are the result of an extensive literature review. It is beyond the scope of this paper to report the details of the literature review, however, a summary is provided in Appendix 1. As this is a concept in its embryonic phase, in the final section, we make detailed suggestions for future research to expand understanding of the concept.

DEFINING INCLUSIVE BUSINESS

Inclusive business surfaced in practitioner literature a little over a decade ago. The WBCSD claims to have coined the term ‘inclusive business’ in 2005 and defines it as,

sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways (World Business Council for Sustainable Development, 2014).

The term started to appear in the United Nations literature a few years later with the report ‘Brokering inclusive business models’ where inclusive business is defined as business models that include the poor into a company’s supply chains as employees, producers and business owners or develop affordable goods and services needed by the poor (UNDP, 2010b, p. 9). Inclusive business, or variants of the term such as inclusive growth and inclusive markets, began to appear in scholarly business literature around 2010 (see for example Bird, 2014; George et al., 2012; Hall, Matos, Sheehan, and Silvestre, 2012; Halme et al., 2012; Mair et al., 2012; Mària and Lozano, 2010; Sud and VanSandt, 2014). This literature does not go to great efforts to explicitly define the concept but typically refers to activities directed at *including* marginalised groups in economic activities located in developing countries. For instance, Halme et al. (2012, p. 745) suggest that innovative products from Nokia and ABB that target low-income markets are examples of inclusive business, whereas, Mair et al. (2012) examine the work of an NGO that builds ‘inclusive markets’ in rural Bangladesh where women are typically excluded from the marketplace.

In conceptualising inclusive business we draw on the practitioner definitions above and the scholarly work that refers specifically to inclusive business, inclusive growth and inclusive markets. We also draw on a broader literature concerned with the business-poverty interface. Through this process several issues emerge as being important to providing conceptual clarity. These include the driving forces behind inclusive business, integrative management and what constitutes inclusive business. As the BOP approach is a related concept we also explain the differences between the BOP concept and inclusive business.

Driving Forces Behind Inclusive Business

Inclusive business emphasises mutually beneficial interactions between firms and the poor. The WBCSD definition involves benefits to the poor provided by livelihood opportunities and access to products through commercially viable solutions. While the WBCSD definition tends to emphasise commercial viability, not surprisingly the United Nations emphasises inclusive business models ‘that will help to create new opportunities and better lives for many of the world’s poor’ (UNDP, 2010a). These two definitions, one from the business community and the other from the international development community, suggest that the concept is underpinned by both normative and instrumental elements. The normative emphasis stems largely from the global political agenda to involve the private sector in poverty alleviation efforts and the instrumental emphasis stems from arguments about the business case for inclusive business. We now discuss each of these factors and how they lead to the importance of integrative management.

Global Political Agenda. The normative aspect of inclusive business is being pushed by a global political agenda that argues strongly that the private sector *should* be actively involved in poverty reduction efforts from a moral standpoint. This view has received increasing attention in recent years with the emphasis shifting from reactive to proactive attempts to engage the private sector in poverty reduction efforts. For instance, while NGOs were focused for many years on exposing companies that exploit the poor, they are increasingly working in partnership with the private sector to facilitate firm interactions with the poor and provide mutually beneficial outcomes (Reficco and Márquez, 2012). Furthermore, to achieve the 2015 Sustainable Development Goals (SDGs), many of which relate directly or indirectly to poverty reduction, the private sector is seen as a critical implementation partner (United Nations General Assembly, 2015).

We incorporate this normative element into the conceptual development of inclusive business to address criticism of the BOP concept which some have argued prioritises profits over the interests of the poor (Karnani, 2007). Inclusive business recognises that the poor are marginalised and lack basic information to make good decisions about their lives (Banerjee and Duflo, 2011). Of particular importance is that the poor can be powerless in their interactions with the private sector. For example, Blowfield and Dolan (2010) and VanderHoff Boersma (2009) provide a critical perspective of Fairtrade and conclude that the power rests with MNCs in the West. In addition, the nature of being poor can mean that the poor often have difficulty with job performance as a result of factors beyond their control such as low self-efficacy, negative affectivity and a lack of social capital (Leana, Mittal, and Stiehl, 2012). This situation means that ethical considerations are an important element of inclusive business, in other words,

there is a moral imperative for business to be involved in improving the lives of the poor and initiatives should be developed and implemented that take the poor's situation into consideration.

The Business Case. The business case for inclusive business is that firms can access resources and profit from doing business with the poor. This has been central to the BOP concept with claims that business can make a 'fortune' by serving low-income markets (Prahalad, 2010; Prahalad and Hart, 2002). While there is potential for firms to profit by providing products and services to the poor, inclusive business also recognises that in addition to the potential for growth in low-income markets there are other instrumental reasons that firms interact with the poor. The resource-based view suggests that the poor can provide business with access to unique capabilities, particularly for firms wishing to serve low-income markets (Tashman and Marano, 2009). Firms operating in developing countries may also gain legitimacy by adopting an inclusive business approach. For instance, London and Hart (2004) argue that societal performance is especially important in low-income markets and initiatives such as training local entrepreneurs and building the capacity of institutions are critical for business success in these markets.

Integrative Management

The normative and instrumental nature of inclusive business means that those who design and implement it need to strike a balance between meeting the interests of the poor and the needs of business. We refer to this as integrative management. Scholars have been quick to point out the risks associated with interactions between business and

the poor. For example, Karnani (2007) has been a strong critic of the BOP approach, arguing that when selling to the poor, profits receive priority over the interests of the poor. Others have noted the unequal power relations between business and the poor that can lead to business, either deliberately or unwittingly, exploiting the poor. For instance, there is evidence to suggest that Fairtrade is not achieving its postulated benefits because the power rests with distant MNCs (Blowfield and Dolan, 2010; VanderHoff Boersma, 2009). This situation means that the interests of the poor need to be incorporated into the design and delivery of inclusive business initiatives along with commercially viable solutions. Hence, decisions about inclusive business initiatives integrate both economic viability for the firm and whether it serves the interests of the poor. To determine whether it is in the best interests of the poor we propose that intended beneficiaries and/or their representatives be involved in the decision making process (Sen, 1999).

What Constitutes Inclusive Business?

To answer the question of what constitutes inclusive business we build on the definitions provided by the WBCSD and the United Nations. The WBCSD definition refers to expanding access to products and services to the poor as well as expanding livelihood opportunities. We use this element of the WBCSD definition and also incorporate the UN's reference to stakeholder roles to provide greater clarity about what constitutes inclusive business. The UN definition suggests that the target group for inclusive business is the poor in the roles of employee, producer, entrepreneur (business owner) and consumer. In addition to these roles we also propose that community members be included in the definition of inclusive business to fully capture the range of

interactions the poor have with business and provide a rationale for this below.

However, we have referred to the poor without explicitly defining who they are and this is important before proceeding further.

Traditionally economists measure poverty using poverty lines such as \$1 per day, however, a measure such as this focuses attention on poverty as merely a lack of income and fails to acknowledge that poverty has other dimensions. This is particularly important in the inclusive business context as it attempts to focus attention on benefiting the poor in a range of ways including but not limited to, income. We propose that Amartya Sen's (1984, 1987a, 1987b, 1999) definition of poverty be used for our purpose. Sen (1999) considers poverty as a multifaceted concept involving capability deprivation where capabilities provide individuals with the ability to live the life they want to live. While Sen does not provide a list of capabilities he discusses the importance of basic capabilities such as education and health and the inequality that exists in various forms including gender and race. We deliberately avoid a more precise definition, as doing so risks treating the poor as a homogenous group that may not apply in all situations. However, applying Sen's (1999) concept of poverty suggests that the poor includes those people who have limited or no access to basic services such as education and health in addition to basic infrastructure such as electricity and transport. Furthermore it includes people who are marginalised in mainstream society due to factors beyond their control such as gender or race.

Expanding access to products and services for the poor. The poor are often disadvantaged as a consumer group and more vulnerable compared to higher income earners. The poor often pay more for products and services (Hill, 2008; Prahalad and

Hammond, 2002). For example, urban slum dwellers in India pay between four and 100 times as much for drinking water as middle and upper class families (Prahalad and Hammond, 2002). They often receive lower quality products and services, possibly due to being in a marketplace with fewer competitors and only being able to afford lower priced goods (Hill, 2008), and the rural poor have difficulty accessing markets (Prahalad, 2012). Inclusive business aims to make marketplaces more inclusive so that the poor have access to affordable products and services that meet their needs.

Expanding sustainable livelihood opportunities. While the UN definition of inclusive business refers to expanding income-earning opportunities to the poor, evidence suggests that merely providing more money to the poor is not enough to alleviate poverty (Bradley, McMullen, Artz, and Simiyu, 2012). We argue that it is not simply about providing opportunities to earn an income but to provide sustainable livelihood opportunities. Sustainability is also referred to in the WBCSD definition. This nuance is an attempt to ensure that the focus is not merely on poverty as income deprivation but on expanding the capabilities of the poor more generally (Sen, 1999). We draw on the following commonly used definition of sustainable livelihood from the development literature:

A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, while not undermining the natural resource base (Scoones, 1998, p. 5).

This means that inclusive business provides income-earning opportunities but does so in a way that allows individuals to build capabilities and assets for the future. For example, firms could provide training and development opportunities to the poor as employees to assist with building their skills and making them more employable. For microfinance institutions, this might involve providing loans to establish small businesses along with support to develop business management skills.

Being mindful of local communities. We propose that the inclusive business definition include the poor in a community role as it provides a more complete picture of interactions between business and the poor. Firms operating in developing countries are often co-located with impoverished communities and incorporating firm-community member interactions is an important aspect of the business-poverty interface. In particular, incorporating this stakeholder group into the definition encapsulates two important issues relevant to the business-poverty interface. Firstly, it recognises that firms can and do have a *social* impact in the communities in which they operate and here it is important to recognise this broader impact. Much of what is reported about firm activities tends to be about negative social impacts such as exacerbating existing social inequities or blurring the lines of state accountability where corporate social responsibility is concerned (Campbell, 2012). By including communities in the definition of inclusive business we aim to focus research on this aspect of the business-poverty interface.

Secondly, incorporating communities into the definition of inclusive business also recognises the *environmental* impact of firm activities operating in poor communities. We propose that environmental sustainability needs to be taken into account in the

discourse on the business-poverty interface. This aspect has received scant attention in the current literature despite its obvious importance (Kolk, Rivera-Santos, and Rufín, 2014). Environmental sustainability is also relevant in firm interactions with poor consumers (developing environmentally friendly products and services) but our concern here involves firm activities that affect poor communities. Some relevant issues are waste management, agricultural practices, deforestation, and pollution, all of which can have a negative impact on poor communities where firms operate. For instance, the mining industry has been criticised for oil spillage in the Niger Delta that has adversely affected nearby poor communities, for example, through a loss of food sources due to the destruction of fish and crustacean habitats (Idemudia, 2009). As firms are often criticised for their social and environmental impacts on poor communities our aim is to draw attention to these issues by incorporating the poor in a community member role in the definition of inclusive business.

In summary, the target audience for inclusive business is the poor in the role of employee, consumer, entrepreneur, producer and/or community members.

Initiators of Inclusive Business

One of the distinguishing features of inclusive business compared to the BOP concept is who initiates interactions between the firm and the poor. The BOP idea put forward by Prahalad and Hart (2002) was squarely focused on multinational corporations (MNCs) initiating initiatives involving the poor. Specifically they proposed that ‘low-income markets present a prodigious opportunity for the *world’s wealthiest Companies* – to seek their fortunes and bring prosperity to the aspiring poor’ (Prahalad and Hart, 2002,

p. 3) (*emphasis added*). While the BOP concept emphasises the role of MNCs in initiating interactions with the poor a broader range of actors initiate inclusive business. Firstly, small and medium enterprises (SMEs), defined by the International Finance Corporation (2011) as registered businesses with fewer than 250 employees, are most likely to provide employment opportunities to the poor. In developing countries most formal jobs are with SMEs and they also create 80 per cent of jobs in these countries (The World Bank, 2015). Given the prevalence of SMEs in developing countries it is therefore important to acknowledge that they are probably more likely than MNCs to initiate interactions with the poor.

Secondly, inclusive business recognises that the institutional environment plays an important role in efforts to include the poor in the formal economy. While MNCs and SMEs might initiate inclusive business initiatives there are a range of other actors who might initiate inclusive business initiatives. These include social intermediaries such as NGOs or social enterprises; for example Mair et al. (2012) examine the efforts of BRAC, an NGO in Bangladesh that facilitates opportunities for women to participate in the marketplace. Aid donors are increasingly involving business in poverty alleviation efforts either through public-private partnerships or providing direct funding to firms as a way of stimulating economic activity in developing countries. For example, a range of aid donors including the United Kingdom, Canadian, Swiss and Australian governments, fund a poverty reduction initiative called the Africa Enterprise Challenge Fund. This initiative awards grants to the private sector to support business in Africa in areas such as agriculture, financial services and renewable energies (Africa Enterprise Challenge Fund, 2016). In summary a range of actors can initiate inclusive business including MNCs, SMEs, social enterprises, NGOs, government and other aid donors.

DEFINITION AND CONCEPTUAL FRAMEWORK

Summarising the discussion to this point our definition provides the premise of what constitutes inclusive business and what are the initiators of inclusive business, specifically:

Inclusive business involves MNCs and SMEs adopting an integrative management approach to expand access to products and services to the poor and provide them with sustainable livelihood opportunities while being mindful of local impoverished communities. Inclusive business recognises that the institutional environment plays an important role and while MNCs and SMEs are involved in the design and implementation of inclusive business, social enterprises, NGOs, government or aid donors can also initiate and enable inclusive business initiatives.

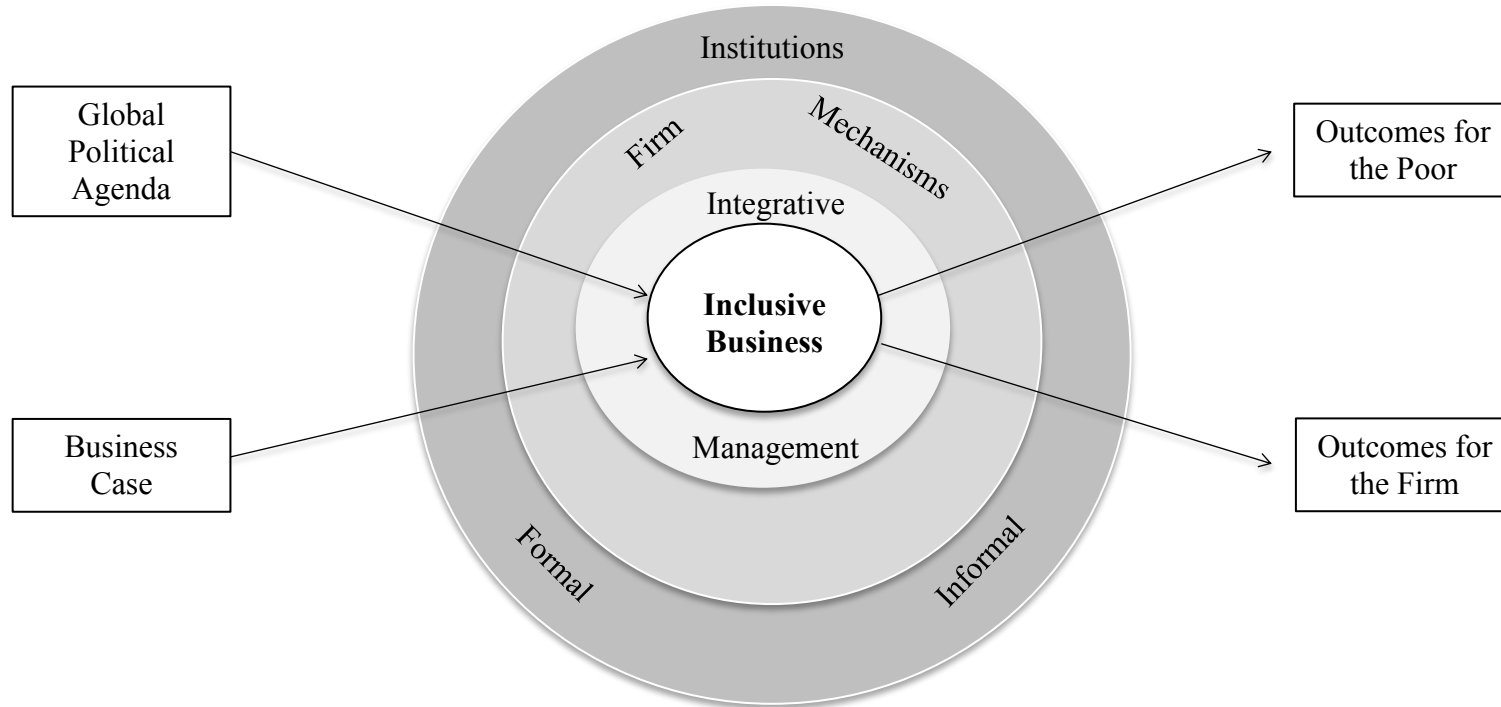
Our discussion now focuses on the factors that constrain and enable inclusive business and the outcomes of inclusive business. Figure 1 summarises the overall conceptual framework.

INCLUSIVE BUSINESS: CONSTRAINTS, ENABLERS AND OUTCOMES

While inclusive business has potential to benefit both business and the poor, it would be naive to overlook the challenges presented by the institutional environment and the firm-level constraints to adopting and implementing an inclusive business approach. In this section, we discuss these constraints and acknowledge that there are factors that inhibit inclusive business. We then provide details about the institutional and firm

FIGURE 1

A CONCEPTUAL FRAMEWORK OF INCLUSIVE BUSINESS



mechanisms that enable inclusive business within the context of these constraints.

Finally we discuss the outcomes of inclusive business for the poor and the firm.

Institutional Constraints

At the institutional level, both formal and informal institutions create an environment that inhibits inclusive business. Formal institutions refer to organisations and instruments that are legally enforceable and are usually supported with written documentation (Scott, 2008). These institutions are typically weak in developing countries where regulations might exist but are not enforced and where state institutions lack capacity to provide basic infrastructure and services to the poor (Ault and Spicer, 2014; Azmat and Samaratunge, 2009; de Soto, 2000; Mair et al., 2012). The weak institutional environment poses risks for business and can negatively impact on firm performance. For instance, Ault and Spicer (2014) found that commercial microfinance lenders experience greater difficulty in growing their client base in fragile state settings.

Corrupt state institutions can also inhibit inclusive business and are more prevalent in poorer countries (Beets, 2005). Corruption reduces investment and discourages foreign aid (Nwabuzor, 2005) and can lead to irresponsible entrepreneurship (Azmat and Samaratunge, 2009). Furthermore the quality of education is often low in developing countries or inaccessible by the poor. This situation means that the poor have low self-efficacy, negative affectivity and limited social capital in resourceful networks, which negatively impacts job performance (Leana et al., 2012). Furthermore, exposure to persistent poverty in childhood, often associated with low education levels, means the

poor are unlikely to assume leadership roles (Barling and Weatherhead, 2016). Overall this formal institutional setting presents challenges for inclusive business.

Informal institutions can also play a role in constraining inclusive business. Informal institutions refer to social norms, traditions, beliefs and cultural characteristics that influence behaviour and determine what is acceptable and unacceptable behaviour in society (Scott, 2008). In recent years there has been recognition in the international development community that informal institutions can hinder development. The poor can have traditional beliefs that influence attitudes and behaviours that work against development goals. This has been highlighted by Banerjee and Duflo (2011) who refer to the role that a lack of information and traditional beliefs can play in decision-making about health and agricultural practices,

The poor often lack critical pieces of information and believe things that are not true. They are unsure about the benefits of immunising children, they think there is little value in what is learned during the first few years of education, they don't know how much fertiliser to use... When their firmly held beliefs turn out to be incorrect, they end up making the wrong decision, sometimes with drastic consequences (Banerjee and Duflo, 2011, p. 268).

In other words, despite the best intentions of development actions that are guided by scientific evidence, informal institutions might work against development efforts. Another relevant informal institution are kinship groups that exist in some cultures where individuals are obliged to share and support others within the kinship group, including income. This can be a disincentive to earn an income and engage with the

formal economy (Jütting, Drechsler, Bartsch and de Soysa, 2006). Some informal institutions can lead to discrimination where women are often disadvantaged, which can mean they are excluded from economic transactions. A notable example of informal institutions at play in the inclusive business literature is Mair et al.'s (2012) empirical study in Bangladesh where women are excluded from the market due to their standing in a patriarchal social system that limits their control of property, income and labour participation. These examples demonstrate the role that informal institutions can play in limiting the effectiveness or reach of inclusive business where the aim is to involve the poor in economic transactions.

Firm Constraints

At the firm level, there are several internal factors that inhibit inclusive business. The first involves high levels of risk, partly due to the institutional environment discussed above, which means that when faced with investment choices firms choose options that are less risky than inclusive business. Second, firms might be constrained by capability gaps within the organisation. For instance, in their study of MNCs attempting to serve BOP markets, London and Hart (2004) found that those organisations without the capability of 'social embeddedness' failed in BOP markets. Third, operational issues such as short-term profit interests linked to incentives schemes and business-unit based incentive structures inhibit inclusive business (Halme et al., 2012).

Based on these institutional and firm constraints, applying western ways of doing business is unlikely to make inclusive business initiatives successful (Chliova and Ringov, 2016; Halme et al., 2012; London and Hart, 2004). Next we discuss what we

know about the mechanisms, again at the institutional and firm levels, that assist with overcoming these constraints. These are summarised in Table 1.

Institutional Mechanisms

Institutional mechanisms typically rely on government and the not-for-profit sector.

Government policy that encourages entrepreneurship (Hall et al., 2012; Sud and VanSandt, 2011), investment in technology and education (Grimalda, 2000; Sud and VanSandt, 2011) and diplomatic objectives that encourage business investment (Griesse, 2007) are cited as ways to encourage inclusive business. To address unethical business practices some authors discuss the importance of strengthening the regulatory environment (Lund-Thomsen, Lindgreen, and Vanhamme, 2014; Nwabuzor, 2005; Santos et al., 2015), although as noted above, this is symptomatic of a weak institutional environment common in developing countries.

Other contextual mechanisms that support inclusive business include United Nations (UN) schemes such as the Clean Energy Scheme, the Global Compact and the Global Reporting Initiative (Kilgour, 2012; Martinez and Bowen, 2013; Williams, 2004). A key focus of this literature is a critique about how to hold MNCs accountable and ensure that issues such as gender and sustainability in poor communities are addressed. Civil society pressure (Griesse, 2007; Lund-Thomsen et al., 2014) and industry associations (Santos et al., 2015) are mechanisms cited in the literature as ways to encourage business to act responsibly when operating in impoverished communities. Finally, social intermediaries are another contextual mechanism that enables inclusive business. Social intermediaries aim to provide BOP producers and consumers with fair and

TABLE 1
INCLUSIVE BUSINESS MECHANISMS

Institutional Mechanisms • Partnerships (Coutinho De Arruda, 1997; Griesse, 2007; Sud and VanSandt, 2011; VanSandt and Sud, 2012) • Strengthen regulatory environment (Lund-Thomsen, Lindgreen, and Vanhamme, 2014; Nwabuzor, 2005; Santos, Laczniak, and Facca-Miess, 2015) • State focus on identity rights (Sud and VanSandt, 2014) • Technology and education (Grimalda, 2000; Sud and VanSandt, 2011) • Entrepreneurship (Hall et al., 2012; Sud and VanSandt, 2011) • Diplomatic objectives that encourage inclusive business (Griesse, 2007) • Social intermediaries (Kistruck, Beamish, Qureshi, and Sutter, 2012; Mair et al., 2012) • UN Schemes (Kilgour, 2012; Martinez and Bowen, 2013; Williams, 2004) • Civil society (Griesse, 2007; Lund-Thomsen et al., 2014) • Industry associations (Santos et al., 2015)
Firm Mechanisms • Partnerships (Bardy, Drew, and Kennedy, 2012; Brugmann and Prahalad, 2007; Calton, Werhane, Hartman, and Bevan, 2013; Griesse, 2007; Idemudia, 2009; Khan, 2007; Leisinger, 2005; London and Hart, 2004; Mena et al., 2010; Pless and Maak, 2009; Prahalad and Hammond, 2002; Reficco and Márquez, 2012; Rein and Stott, 2009; Singer, 2006; VanSandt and Sud, 2012) • CSR (Arora and Ali Kazmi, 2012; Bardy et al., 2012; Chakrabarty and Erin Bass, 2015; D'Amore, 2009; Demuijnck and Ngnodjom, 2013; Karnani, 2007; Leisinger, 2005; Osuji and Obibuaku, 2014; Singh, Bakshi, and Mishra, 2014) • Innovation (Arora and Ali Kazmi, 2012; Bradley et al., 2012; Halme et al., 2012; Prahalad, 2012; Prahalad and Hammond, 2002; Prahalad and Mashelkar, 2010) • Social enterprise (Doherty, Haugh, and Lyon, 2014; Maak and Stoetter, 2012; Miles, Verreynne, and Luke, 2014; Smith, Gonin, and Besharov, 2013) • Ecosystem development (Khavul and Bruton, 2013; Prahalad, 2012) • Community-based asset development (Owen and Kemp, 2012; Peredo and Chrisman, 2006) • Identity-based mechanisms for salespeople (Kistruck, Sutter, Lount, and Smith, 2013) • Co-create product solutions with the poor (Khavul and Bruton, 2013; London and Hart, 2004; Prahalad, 2012; Prahalad and Hart, 2002; Prahalad and Lieberthal, 2003; Santos and Laczniak, 2009) • Capability and capacity building (Ansari, Munir, and Gregg, 2012; Arnould and Mohr, 2005; London and Hart, 2004; Tavanti, 2012) • Inclusive HR policies and practices (Berger, Choi, and Kim, 2011; Chakrabarty and Bass, 2014; Daye, 2010; de Arruda and Levrini, 2014; Pless and Appel, 2012; Prahalad and Lieberthal, 2003) • Social embeddedness (London and Hart, 2004) • Intrapreneurial bricolage (Halme et al., 2012) • Responsible leadership (Berger et al., 2011; Mària and Lozano, 2010; Pless and Maak, 2009)

equitable access to markets and, in turn, make markets more inclusive (Kistruck et al., 2012; Mair et al., 2012).

A further area of focus identified at the State level is human rights. Sud and VanSandt (2014) argue that the State should focus on identity rights of the poor in an effort to fill a ‘structural void in inclusive growth’. More broadly, Wettstein (2008) argues that economists need to focus less on economic growth and more on people’s rights to create a more inclusive economy.

Firm-Based Mechanisms

Although there are many firm-based mechanisms provided in the literature, we will focus here on the mechanisms that require further explanation (see Table 1 for a complete list). The first mechanism commonly examined in the literature is cross-sector partnerships involving business, perhaps as a result of the growing frequency of this type of interaction (Griesse, 2007). Some argue that cross-sector partnerships are essential to business involvement in poverty alleviation efforts and also to the success of firms in BOP markets (Bardy et al., 2012; London and Hart, 2004; Prahalad and Hammond, 2002; Singer, 2006). They are a way of filling institutional voids, stabilising turbulent environments and leveraging social capital (Reficco and Márquez, 2012). There are examples provided in the literature of NGOs partnering with MNCs to manage community development programs (Idemudia, 2009), to co-create and deliver products for the poor (Brugmann and Prahalad, 2007), to address child labour issues in the supply chain (Khan, 2007) and to assist with developing global leadership capability for MNCs by offering placements (Pless and Maak, 2009). Partnership success involves

co-creating learning between all partners within a shared problem domain or community of practice (Calton et al., 2013). This means not applying a one-size-fits-all approach but rather considering the local context (Rein and Stott, 2009). An empirical study of partnerships uncovered positive outcomes for firms that included diminished perceived risks, providing a competitive advantage, broader information exchange, joint learning and problem solving, and efficiencies achieved through time saving (Reficco and Márquez, 2012).

We argue that corporate social responsibility (CSR) is a mechanism with potential to bring about benefits to the poor as well as intangible benefits for business. We consider CSR as firm initiatives that attempt to address social issues, responsible behaviour in core business operations and corporate citizenship. Examples include ensuring employees are safe and secure, non-discriminatory recruitment practices, environmental sustainability, and resisting corruption and extortion (Demuijnck and Ngnodjom, 2013). In his critique of a Unilever product – Fair and Lovely skin whitening cream – Karnani (2007, p. 1357) argues that ‘CSR is the best hope’ to address the weak institutional environment common in developing countries. CSR is presented as a condition for inclusive business benefiting the poor, specifically alleviating poverty (Bardy et al., 2012; Osuji and Obibuaku, 2014) addressing human rights (Osuji and Obibuaku, 2014), improving social conditions (Bardy et al., 2012) and improving access to pharmaceutical products (Leisinger, 2005). CSR can also provide benefits to the firm in an inclusive business context by mitigating risk (Chakrabarty and Erin Bass, 2015) and assisting with BOP market development (Singh et al., 2014).

Innovation is a key component of the original BOP concept, particularly as it relates to MNCs (Prahalad and Hart, 2002) and there are some examples of business innovation in BOP markets. For instance Bharti Airtel revolutionised its business model to deliver low cost mobile phone services – one cent per minute of talk time – in India (Prahalad and Mashelkar, 2010) and ABB's rural electrification scheme based on dispersed and sustainable energy (Halme et al., 2012). Prahalad and Mashelkar (2010) examine how MNCs can innovate in BOP markets and argue that technology and disrupting or creating new organisational capability are important. In addition, Prahalad and Hammond (2002) suggest that MNCs have young managers spend time in a BOP market, seed entrepreneurial efforts in BOP markets and establish an internal business development taskforce to develop radical ideas (referred to as a 'skunk works team'). In an empirical study, Halme et al. (2012) introduce the term 'intrapreneurship bricolage' – acting like an entrepreneur inside the organisation – as a source of innovation to overcome resource constraints associated with inclusive business (shortage of time, lack of adequate finance, lack of access to expertise in the organisation). Innovation is also considered a condition of success for recipients of microfinance, particularly where recipients demonstrate innovation that differentiates them from competitors (Bradley et al., 2012).

To accommodate the unique needs of the poor many argue that firms should engage with the poor to co-create solutions in order to develop products and services that meet their unique needs (Bardy et al., 2012; Khavul and Bruton, 2013; London and Hart, 2004; Prahalad, 2012; Prahalad and Lieberthal, 2003; Santos and Laczniak, 2009). In fact in London and Hart's (2004) study of firm entry into low-income markets, firms that did not co-invent solutions either failed or performed poorly. To illustrate, Prahalad

(2012) presents a British Petroleum (BP) project to develop a biomass stove for the poor in rural India. Traditionally women in this part of rural India spent two to three hours a day collecting cooking fuel (e.g. cow dung, sticks, shrubs) and the resulting pollutants from these fuels were a human health hazard. The team used video-ethnography to understand the consumer and analyse their decision-making process from collecting fuel to serving the meal. This led to the design team identifying the criteria for the product design – modern, meets global safety standards, scalable and affordable – and developing a stove to meet these criteria that was more energy efficient with fewer adverse health effects. While this example appears to have been a success (in 2009, 400,000 stoves were sold), Ansari, Munir, and Gregg (2012) argue that some co-creation attempts have been problematic. For instance, they are critical of the ‘BOP Protocol’ established by the BOP Learning Laboratory at Cornell University, which they argue emphasises brand recognition over building relationships with the poor (Ansari et al., 2012, p. 826).

Building the business ecosystem is a mechanism argued by some as essential in BOP markets (Khavul and Bruton, 2013; Prahalad, 2012). Building the ecosystem refers to ‘investment in the social and economic relationships that constitute the local ecosystem’, and failure to do so may result in a lack of commitment and continuation of the product in the market (Khavul and Bruton, 2013, p. 294). One such example of product failure provided by Khavul and Bruton (2013) is the introduction of solar panels in parts of Africa. In this case there was little investment in training locals about how to maintain the panels and when technical problems arose people abandoned them.

The final mechanism that warrants further explanation is inclusive HR policies and practices. This refers to firms considering the institutional and social capital value of hiring local managers in BOP markets (Berger et al., 2011; Daye, 2010; Prahalad and Lieberthal, 2003), having anti-discrimination policies and practices, particularly given the prevalence of racial discrimination common in BOP markets (Daye, 2010), and providing opportunities to women as they are often disempowered and excluded from economic activity (Chakrabarty and Bass, 2014).

Inclusive Business Outcomes

The outcomes are what inclusive business is all about, yet this is an area where our understanding is limited. The premise behind inclusive business involves benefits for both firms and the poor and in this section we present an overview of these outcomes. We acknowledge that firm interactions with the poor can have perverse effects on the poor that further entrench discrimination, unequal power relations and marginalisation (Blowfield and Dolan, 2010; Chatterjee, 2016; Karnani, 2007). As our notion of inclusive business is partly normative we argue that when integrative management and the mechanisms outlined above are adopted, it is possible to address these issues and achieve positive outcomes for the poor. We begin our discussion about outcomes by focusing on the poor and then discuss firm outcomes.

Outcomes for the Poor. Theoretically, inclusive business as conceptualised here, will lead to the expansion of the poor's capabilities and over time these outcomes have potential to reduce the institutional constraints presented in Figure 1. Inclusive business involves providing livelihood opportunities to the poor that expand their capabilities

and assets. This might involve providing employment opportunities, which have effects other than income, including skill development and self-confidence, which has potential to expand choices for the poor (Sen, 1999). Similarly, providing the poor with access to products and services that address critical issues in their lives expands their capabilities. For example, providing access to mobile telephony has made it possible for the poor to access microfinance and healthcare (Anderson and Markides, 2007).

We also argue that over the long-term developing these capabilities will assist in reducing institutional constraints, illustrated in Figure 1 as a negative relationship between inclusive outcomes for the poor and institutional constraints. Institutional change is a complicated process and typically occurs in incremental steps (North, 1990), which is why we propose that institutional constraints will be reduced over the long term. Although we need to understand more about institutional change, it is generally thought that technological innovation and the acquisition of skills and knowledge are factors in changing institutions (North, 1990). As inclusive business will expand access to technology to the poor, for example mobile phones, or increase skills and knowledge through employment opportunities, or challenge existing social norms, we present a dynamic framework where inclusive business outcomes influence constraints. For instance, there is evidence to suggest that microfinance initiatives empower women (Bali Swain and Wallentin, 2009). This process of providing women with more power has potential to challenge social norms related to a patriarchal society.

Firm-Level Outcomes. Conceptually, the inclusive business outcomes for firms can be categorised as financial, access to resources and/or legitimacy. Although limited evidence exists on the financial outcomes of inclusive business, there is some evidence

to suggest that inclusive business ventures are profitable or reduce costs. For example, the *e-choupal* initiative developed and implemented by ITC in India has won numerous awards for its success. ITC's Agribusiness Division, one of India's largest exporters of agricultural commodities, developed e-choupal. E-choupal is an internet-based tool that provides farmers with access to information related to sustainable farming practices and risk management and helps facilitate the purchase of farming products and the sale of farm produce. E-choupal is available in Internet kiosks managed by farmers and reaches over 1.6 million farmers in rural India. ITC purchases produce direct from the farmers eliminating costs in the supply chain by removing the need for intermediaries and at the same time growing the business (ITC, 2012; Singh et al., 2014).

The resource-based view suggests that employing the poor provides firms with access to unique capabilities such as local knowledge and social capital (Berger et al., 2011; Tashman and Marano, 2009) and access to a larger and better supply of agricultural products (Tashman and Marano, 2009). Inclusive business can lead to reputational benefits where firms gain legitimacy, either in communities where the firm has operations or with distant consumers of products. For instance Gielissen, Dutilh, and Graafland (2008) found empirical evidence that consumers consider price increases fair when the poor benefit.

FUTURE RESEARCH

Our aim has been to define and develop a conceptual framework for inclusive business. The framework explains the how and why of inclusive business, acknowledging that significant constraints exist both at the institutional level and the firm level. We now turn our attention to making suggestions for future research. As this is an emerging

research area it is impossible to cover all avenues for future research and in this section we provide suggestions that seem pertinent given our conceptual framework. We begin with a discussion about suggestions for future research at three levels of analysis: institutional, firm, and the poor. Finally we discuss suggestions for future research related to mechanisms and outcomes.

Institutional Level

Our conceptual framework incorporates the role of institutions that have potential to both constrain and enable inclusive business. Research related to inclusive business at this level of analysis has yielded some interesting insights and explanations about why the poor are excluded from the formal economy and how these institutional voids can be filled to build more inclusive markets (see for example Hall et al., 2012; Mair et al., 2012; Sud and VanSandt, 2014). Future research that aims to examine the nature of institutional voids and how to fill them would be helpful. An aspect of weak institutions is corruption and bribery and this receives very little attention in the literature with a few exceptions (Azmat and Samaratunge, 2009; Beets, 2005; Nwabuzor, 2005). The role informal institutions play in inhibiting and enabling inclusive business seems particularly relevant and warrants further research. We know that cultural traditions and beliefs mean that poor women can be excluded from economic transactions in Bangladesh (Mair et al., 2012) but we need to know more about how traditions and beliefs interact with inclusive business in other contexts.

Firm Level

At the firm level of analysis our suggestions for future research focus on theoretical perspectives rather than on relationships between firm mechanisms and outcomes, which are discussed separately below. There is a real need for rigorous research that examines whether existing theories of the firm are adequate in understanding inclusive business or whether adaptations or even new theories are needed. Theoretical development is needed at both the firm and individual level of analysis (by which we mean managers and employees). At the firm level, existing research has been dominated by a focus on ethical theories, with fewer articles related to instrumental theories. Opportunities exist to examine and extend instrumental theories of the firm. For instance, given the importance of innovation in serving poor consumers (Khavul and Bruton, 2013), future research could focus on extending theories related to innovation. This line of research should build on the efforts of scholars such as Halme et al. (2012) who introduce a new concept – intrapreneurial bricolage – which they argue is an important aspect of innovation in BOP markets. Other instrumental theories of the firm that are relevant to the study of inclusive business and warrant further attention include the resource-based view (see for example Tashman and Marano, 2009), the natural resource-based view (Hart and Dowell, 2011), stakeholder theory, agency theory (see for example Kistruck et al., 2013) and institutional theory. How do these theories assist with understanding inclusive business? Are modifications required or are new theories needed?

At the individual level of analysis within the firm many research opportunities exist. This has been noted in the *Journal of Organisational Behaviour*, which published a

commentary article calling for the field of Organisational Psychology to contribute to global poverty reduction efforts (Carr et al., 2008). Some existing research shows the potential for future research focused on teams and managers. For example Galema, Lensink, and Mersland (2012) present an interesting study on the relationship between CEO power and the performance of microfinance institutions (MFI). This study compares Chief Executive decision-making in NGO MFIs and commercial MFIs and finds that Chief Executives in NGOs have more decision-making freedom, which leads to lower quality decisions and lower organisational performance. These results point to the importance of understanding governance mechanisms in MFIs and might also have broader implications for inclusive business such as examining corporate governance mechanisms in other inclusive business initiatives. In the *Journal of Business Ethics* responsible leadership is seen as being a critical factor for inclusive business success (Maak and Pless, 2009; Maak and Stoetter, 2012; Mària and Lozano, 2010).

Future research at this level of analysis could focus on the relationship between inclusive business and organisational behaviour (OB) concepts such as employee engagement, organisational citizenship behaviour, organisational identity and personal values. These concepts may be relevant given the moral argument for inclusive business; for example, the prospect of contributing to global poverty reduction efforts might be attractive to some employees, leading to greater employee engagement and employee performance. The focus on responsible leadership in the inclusive business literature also suggests that future research examining OB concepts related to supervisors would be valuable. For example, how do supervisors' values and commitment to ethics impact on inclusive business outcomes? Existing leadership theories seem relevant to the study of inclusive business, particularly theory with an

emphasis on values such as Authentic Leadership (Walumbwa, Avolio, Gardner, Wernsing, and Peterson, 2008) or Transformational Leadership with its emphasis on bringing about positive change. In summary, we call on OB researchers to focus on inclusive business to provide insights at the individual level of analysis.

The Poor

Our knowledge of the poor as they relate to inclusive business has significant gaps, particularly what we know about the poor in each of the stakeholder roles provided in the inclusive business definition. First, we need to better understand the poor in a consumer role if business is to develop products and services for them. Existing research about the consumer behaviour of the poor has provided some surprising results such as Jones Christensen, Siemsen and Balasubramanian's (2015) study of reactions to water purification tablets. They analysed reactions to this product at three price points (moderate discount, deep discount, and free) and found that those who purchased the product at the moderately discounted rate were more likely to re-use the product than those who obtained it at a higher rate or free of charge. This type of research provides important insights about the consumer behaviour of the poor and more research along these lines will assist with understanding how firms can successfully provide products to the poor. In particular, are the poor different to more affluent consumers in their purchasing decisions and if so, how? What are the factors that influence purchasing decisions?

Second, research focused on the poor in the role of employees is even more limited, and almost non-existent. Leana et al.'s. (2012) perspective about the working poor and the

field of organisational behaviour (OB) provides an excellent argument about how the working poor are different from the 'textbook' worker and calls for management scholars to pay attention to these differences in order to develop relevant OB insights about managing the poor.

Third, there are also many avenues for future research focused on the poor in a supplier's role. Fairtrade is a mechanism designed to ensure that impoverished suppliers are treated fairly and obtain fair prices for products, yet research regarding this mechanism suggests that it has limited poverty alleviation outcomes (Blowfield and Dolan, 2010). This is only one study, however, it raises questions about how Fairtrade can be more effective in alleviating poverty? Or are there other mechanisms in the firm-supplier relationship that are more effective in alleviating poverty? Power relations are a pertinent issue with respect to firm-producer interactions (VanderHoff Boersma, 2009) and future research could examine these interactions using relevant theories from political science or sociology to shed light on the dynamics and underlying processes involved in these interactions.

Finally, business scholars can devote more attention to the poor in an entrepreneurial role. Given the explosion of microfinance as a poverty alleviation tool in recent years more research focused on the poor in this role would help to understand the necessary conditions for making microfinance work for the poor. While much research on this topic has been conducted in other disciplines, management has a lot to contribute in this space. Bradley et al.'s (2012) study of microfinance recipients, innovation and poverty alleviation is a good example of how management scholars can contribute in this area to understand the conditions that assist with micro-enterprise success. Further research

along these lines is needed to understand the conditions that lead to successful micro-enterprises. Also, given suggestions in the literature that MFIs should focus on female entrepreneurs (Prahalad and Hammond, 2002; Prahalad and Hart, 2002), does the nature and performance of micro-enterprises owned by women differ from enterprises owned by men and if so, why? Research of this nature, in all stakeholder groups where the poor are represented, is needed so that firms which interact the poor are better able to accommodate their unique needs and avoid unintended negative impacts on both the firm and the poor.

To conclude our suggestions for future research related to this level of analysis we note that poverty, 'the poor' and the BOP are defined differently across articles, if at all in some cases. We acknowledge that the poor are not a homogenous group (Prahalad and Lieberthal, 2003) and so it would be counterproductive to be definitive about a poverty definition or measure. Instead, consistent with Kolk et al.'s (2014) review of the BOP literature we recommend that future research is clear about the definition of poverty and the context being discussed. It is evident from empirical studies that context is important; for instance Barboza and Trejos' (2009) study of microfinance found that the outcomes were different depending on whether the recipient lived in a rural or urban setting. Similarly, Rein and Stott's (2009) study of cross-sector partnerships concluded that there is no one-size-fits-all approach and that incorporating contextual factors is important. Future research might include the geographic location of the poor, whether the focus is on urban or rural poor and the nature of poverty. To explain the nature of poverty, management scholars could draw on work from other disciplines such as economics or anthropology to assist with poverty measurement and methodology, for example, multidimensional notions of poverty (Alkire and Foster, 2011; Sen, 1999) or

participatory poverty analysis (Chambers, 2007). Another approach might be to apply the poverty definition and measures used in the context of the research as with Bradley et al.'s (2012) study conducted in Kenya. This study incorporated poverty indicators used by the Government of Kenya on several dimensions – housing, nourishment, education, medical, resources and necessity/opportunity-based entrepreneurship.

Mechanisms

Although many mechanisms are provided that are thought to positively influence the outcomes of inclusive business, very little is known about the nature of these mechanisms and the processes that lead to certain outcomes. We suggest that future research focus on all mechanisms; however, we note that some have received more attention than others. For instance our understanding of partnerships as mechanisms of inclusive business is increasing and there is a large body of research on CSR, although very little that considers CSR and its outcomes for the poor. Although we suggest that future research focus on increasing understanding of all mechanisms we provide two mechanisms as examples of what future research might examine. One mechanism discussed in the literature is for firms to co-create product solutions with the poor, yet this is a contested issue. Previous attempts to co-create solutions with the poor have been criticised, particularly with respect to the implementation process, which can emphasise benefits to the firm (Ansari et al., 2012). While one case of co-creating solutions is provided in the literature by Prahalad (2012) and one conceptual article considers the issue from the perspective of the poor (Ansari et al., 2012), limited empirical attention has been given to *how* firms can successfully co-create solutions with the poor and how this mechanism links with certain outcomes. Similarly, building

the ecosystem is provided as a mechanism, yet we need to know more about how firms develop the business ecosystem and to what end? Previous research about this mechanism has focused on product innovation where the poor interact with the firm in a consumer's role. To what extent does this mechanism apply to firm interactions with the poor more broadly?

In addition to examining the mechanisms outlined in the conceptual framework, future research might seek to uncover other mechanisms. For instance, aid agencies such as the United Kingdom's Department for International Development and Australia's Department of Foreign Affairs provide aid funding to the private sector to deliver market-based poverty solutions. This funding is provided for expanding an industry or growing a business that provides income-earning opportunities for the poor. This private-sector led development strategy on the part of aid agencies is controversial. Proponents argue that foreign aid agencies and the private sector have shared interests and goals (Australian Government, 2015) while critics argue that currently business acting as a development agent emphasises profit-seeking motives and fails to consider outcomes for the poor (Blowfield and Dolan, 2014). Research on this topic could focus on understanding the nature of aid-funded private-sector development initiatives and how this mechanism links with certain outcomes for both the firm and the poor.

Outcomes

While the conceptual framework provides outcomes for the firm and the poor resulting from inclusive business, limited research exists that examines the outcomes of inclusive business. Although there are claims that inclusive business alleviates poverty and

provides positive financial and social performance for the firm, further research could examine the outcomes empirically. The limited number of empirical studies that examine outcomes for the poor show mixed results, with some questioning the effectiveness of current approaches with respect to poverty alleviation (Blowfield and Dolan, 2010; Idemudia, 2009). On the other hand, other empirical studies show poverty alleviation is possible. A notable example is Bradley et al.'s (2012) study of microfinance that finds certain types of innovation adopted by microfinance recipients are more likely to alleviate poverty. Given the mixed results, and the limited research on the outcomes of inclusive business, significant research is required to expand understanding of outcomes for the poor across all stakeholder roles.

The enticing proposition of the BOP concept is that MNCs can be profitable by serving low-income markets and alleviate poverty at the same time; apart from success story rhetoric this proposition has not been empirically tested. Studies of partnerships between MNCs, NGOs and governments have shown that impact assessments are generally not conducted (Levermore, 2010; Rein and Stott, 2009). Blowfield (2007) also draws our attention to impact by questioning the extent to which CSR can play a role in poverty alleviation efforts when little is known about CSR's impact on the poor. Ansari et al.'s. (2012) conceptual article provides a useful approach for examining impact that goes beyond traditional economic measures of poverty. In this article they apply Amartya Sen's capability approach to poverty alleviation and argue that the impact of BOP initiatives be assessed based on the extent to which they develop capability at the BOP. They suggest that firms are able to develop the capability of the poor through social capital. This suggests that capability development and social capital are important variables for future studies that examine the impact of firm activities on

the poor. Overall, for business to play a meaningful role in poverty alleviation efforts, a greater understanding of how firm activities affect the poor is essential.

CONCLUSION

Our inclusive business conceptual framework comes at a time when there is increasing emphasis on interactions between business and the poor. The framework draws together the fragmented literature on business and poverty and provides clarity about an emerging concept – inclusive business. In contrast to the BOP concept we present inclusive business as both normative and instrumental, involving business interactions with the poor in a range of roles including consumer, employee, producer, entrepreneur and community member. The framework acknowledges the institutional and firm-level factors that can inhibit inclusive business success and presents a range of mechanisms that assist with overcoming these constraints and delivering benefits to both the poor and firms. We hope that future research will continue to examine relationships between factors in the framework to obtain a better understanding of the factors that link inclusive business with certain outcomes. While we have provided a detailed summary of future research directions, one area we draw attention to in closing is the glaring gap in our current knowledge of the poor in different stakeholder roles and what this means for firm interactions with the poor as consumers, employees, producers, entrepreneurs and community members. Our hope is that scholars will incorporate perspectives of the poor into future research to ensure that the principle behind inclusive business – to benefit business AND the poor – is achieved.

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APPENDIX 1

BACKGROUND LITERATURE REVIEW

TABLE 1

SUMMARY OF LITERATURE SEARCH BY JOURNAL AND ARTICLE TYPE

Journal	Conceptual	Empirical	Other**	Total
Academy of Management Journal	0	2	1	3
Academy of Management Review	1	0	0	1
Administrative Science Quarterly	0	0	0	0
Business and Society	1	5	1	7
Business Ethics Quarterly	6	1	1	8
International Journal of Mgt. Reviews	0	0	1	1
Journal of the Academy of Marketing Science	0	1	0	1
Journal of Applied Psychology	0	0	0	0
Journal of Business Ethics	34	25	4	63
Journal of International Business	0	3	0	3
Journal of Management Studies	2	5	0	7
Journal of Occupational and Org. Psychology	0	0	0	0
Journal of Organisational Behaviour	0	0	1	1
Journal of Management	0	0	1	1
Org. Behaviour & Human Decision Processes	0	0	0	0
Organisation Science	1	0	0	1
Organisation Studies	1	0	0	1
Personnel Psychology	0	0	0	0
Strategic Management Journal	0	3	1	4
Total	46	45	11	102

*Table does not include articles by C.K. Prahalad (six articles), these articles are provided in reference list.

** Other includes essay or literature review.

TABLE 2
SUMMARY OF LITERATURE BY YEAR*

Year of Publication	No. of Articles
1997	2
1998	1
1999	0
2000	2
2001	0
2002	5
2003	3
2004	2
2005	7
2006	2
2007	4
2008	4
2009	17
2010	11
2011	4
2012	18
2013	13
2014	10
2015	4
Total	109

*C.K. Prahalad's articles are included in the above table. The publication years are 2002 (two articles); 2003 (one article); 2007 (one article); 2010 (two articles); 2012 (one article).

TABLE 3
SUMMARY OF LITERATURE AND LEVEL OF ANALYSIS*

Level of Analysis	Conceptual	Empirical	Other	Total
Institutional	26	8	4	38
Firm	18	24	4	46
The Poor	4	11	0	15
Multi-level: Institutional and Firm	2	1	0	3
Multi-level: Institutional and The Poor	0	2	0	2
Multi-level: Firm and The Poor	0	1	1	2
Multi-level: Institutional, Firm and The Poor	1	0	0	1
Total	51	47	9	107

* Literature reviews are not included in this table, Prahalad's articles are included.

TABLE 4

LITERATURE SUMMARY - CHARACTERISTICS OF THE POOR

Role of the Poor	Characteristic
BOP markets	• Over four billion people who live on less than \$2/day (Prahalad, 2012) • Live in rural and urban areas (Prahalad, 2012) • Gender inequality exists (Kilgour, 2012; Mair et al., 2012) • Institutional voids exist (Mair et al., 2012) • State fragility (Ault and Spicer, 2014) • Vulnerable to climate change (Romar, 2009) • Social relationships very important (Ansari et al., 2012)
Consumers	• More at risk of market failure (Brown, 2010) • Disadvantaged eg pay more for products and services, limited access to goods (Hill, 2002; Hill, 2008; Prahalad and Hart, 2002) • Access to markets is difficult for the rural poor (Hill, 2008) - Consumer behaviour: • Play more and spend more on lotto, advertising has little influence on spending (Borg and Stranahan, 2005) • Dependent on sharing possessions (Hill, 2008) • Less likely to continue to use free /moderately priced products (Jones Christensen et al., 2015)
Employees	• Low levels of self-efficacy, negative affectivity and impoverished social networks leads to diminished job performance and difficulty realising success (Leana et al., 2012)
Producers	• Limited decision making power (Blowfield and Dolan, 2010; VanderHoff Boersma, 2009)
Entrepreneurs	• Informal entrepreneurship is prevalent (Branzei and Abdelnour, 2010) • Disintegration of social structure predicts entrepreneurial activity under extreme poverty conditions (George et al., 2015) • Community-based entrepreneurship (Peredo and Chrisman, 2006) • Small enterprise clusters exist (Arnould and Mohr, 2005) • Social not legal contracts (Arnould and Mohr, 2005) • Irresponsible entrepreneurship exists (Azmat and Samaratunge, 2009) • Capable of borrowing money, developing entrepreneurial idea, repaying loans (Barboza and Trejos, 2009)

TABLE 5

LITERATURE SUMMARY - INCLUSIVE BUSINESS CONSTRAINTS

Level	Constraint
Institutional	• Weak institutions (Ault and Spicer, 2014; Azmat and Samaratunge, 2009; Hall et al., 2012; Mair et al., 2012; Penh, 2009) • Corruption (Azmat and Samaratunge, 2009; Beets, 2005; Nwabuzor, 2005) • Conflict (Penh, 2009) • Trickle-down effect is limited (Hill and Rapp, 2009)
Firm	• Resource constraints (Halme et al., 2012; Kistruck et al., 2013) • Contradictory business and poverty alleviation goals (Blowfield and Dolan, 2010; George, 2005; Idemudia, 2009; Karnani, 2007; Smith, Gonin, and Besharov, 2013; Utting and Zammit, 2009) • Ethical dilemmas (Radermacher and Brinkmann, 2011) • Corporate imperialism (Khan, 2007; Prahalad and Lieberthal, 2003) • Tax avoidance (Singer, 2006) • Lack of accountability to the poor (Williams, 2004)
Individual (The Poor)	• Power imbalance (McMurtry, 2002; VanderHoff Boersma, 2009) • Low levels of self-efficacy, self-esteem and impoverished social networks make it difficult to realise job success (Leana et al., 2012) • Limited buying power (Hill, 2008) • Limited marketplace opportunities (Barboza and Trejos, 2009; Hill, 2002) • Poverty is multi-faceted (Dembek et al., 2015)

TABLE 6

LITERATURE SUMMARY - INCLUSIVE BUSINESS OUTCOMES

Outcome Level	Outcome
Firm	• BOP market development (Brugmann and Prahalad, 2007; London and Hart, 2004; Prahalad and Hammond, 2002; Prahalad and Lieberthal, 2003; Reficco and Márquez, 2012; Singh et al., 2014) • Access to local knowledge and social capital (Berger et al., 2011; Tashman and Marano, 2009) • Enhance firm reputation (Brugmann and Prahalad, 2007; Gielissen et al., 2008) • Growth and increased profits (Prahalad and Hart, 2002) • Innovation (Halme et al., 2012; Prahalad, 2012; Prahalad and Hammond, 2002) • Legitimacy (Owen and Kemp, 2012)
The Poor	• Improve social inequity (Bardy et al., 2012; Grimalda, 2000; Shivarajan and Srinivasan, 2013) • Reduce child labour (Mena et al., 2010) • Sustainable local development (Owen and Kemp, 2012; Peredo and Chrisman, 2006) • Poverty alleviation (Bradley et al., 2012; Maak and Stoetter, 2012; Osuji and Obibuaku, 2014; Pless and Appel, 2012; Prahalad and Hammond, 2002; Rodríguez, 2009; Singer, 2006; Tashman and Marano, 2009; Tavanti, 2012; VanSandt and Sud, 2012) • Access to healthcare and medicine (Demuijnck and Ngnodjom, 2013; George, 2005; Leisinger, 2005; Pless and Appel, 2012) • Employment (Demuijnck and Ngnodjom, 2013) • Entrepreneurship (Barboza and Trejos, 2009; Peredo and McLean, 2013) • Economic inclusion (Mària and Lozano, 2010; Sud and VanSandt, 2014) • Fairer markets (Santos et al., 2015; Santos and Lacznia, 2009; Sud and VanSandt, 2011) • Enhanced gender equality (de Arruda and Levrini, 2014; Mair et al., 2012)

CHAPTER 3

PAPER 2:

FIRM INTERACTIONS WITH THE POOR: AN INSTITUTIONAL PERSPECTIVE

SIGNED DECLARATION

PAPER 2

Publication Details

Full Title	Firm Interactions with the Poor: An Institutional Perspective
Authors	Sally A. Curtis and Andrew Penn Bradly
Candidate's Contribution	The candidate is the primary author and contributed greater than 70% of the content of the publication and was responsible for the following: • Performed literature review; • Collected, analysed and interpreted data; • Developed research ideas, model and arguments using institutional theory; • Wrote the entire manuscript; • Incorporated feedback from conference proceedings.
Status	In Preparation
Conference Proceedings	14 th Annual Academy of Business in Society (ABIS) Conference, Milan, Italy, 19-21 October, 2015.
Target Journal	Business & Society

Candidate's Declaration

I confirm that the details above correctly reflect my contribution to the preparation of this manuscript.

Candidate's Name

Candidate's Signature

Date

Sally Anne Curtis



24/11/2016

Co-author's Declaration

I authorise the inclusion of this manuscript in the candidate's thesis and certify that:

- The declaration made by the candidate above correctly reflects the extent of the candidate's contribution to this work.
- The candidate contributed greater than 70% of the content of the publication and is the "primary author" i.e. the candidate contributed substantially to the manuscript preparation.

Co-author's Name

Co-author's Signature

Date

Andrew Penn Bradly



24/11/2016

FIRM INTERACTIONS WITH THE POOR: AN INSTITUTIONAL PERSPECTIVE

ABSTRACT

Inclusive business involves expanding livelihood opportunities and access to products and services to the poor in commercially viable ways. While success story rhetoric to promote the idea is common, little is known about the firm's experience of inclusive business. By applying Scott's (2008) institutional theory framework we develop a model of how institutions enable and constrain firms who attempt to interact with the poor. Building on empirical data from case study firms in the Pacific island country of Vanuatu, we illustrate that while some regulative institutions enable firms which interact with the poor, other weak formal institutions along with normative and cultural-cognitive institutional elements undermine the firms' efforts. Firms respond to the risk and uncertainty caused by the institutional environment by lobbying, building social capital, displaying compassion with boundaries, building capacity and capability, and customising practices while maintaining a sense of otherness. Overall, the firms' response to the misaligned institutional environment suggests that firms play a role as agents in bringing about institutional change.

INTRODUCTION

There has been increasing scholarly interest in the management literature about firm interactions with the poor. This interest is driven by the argument that there are significant growth opportunities for firms that pursue business in developing countries, with some claiming that there is a fortune at the bottom of the economic pyramid (Prahalad, 2010; Prahalad and Hart, 2002). The other driver stems from increasing

pressure from the international development community for business to contribute to poverty alleviation efforts. The premise being that it provides a win-win scenario where both the firm and the poor benefit. To capture this idea we use the term inclusive business, which involves private-sector firms expanding access to livelihood opportunities and products and services to the poor (UNDP, 2010; World Business Council for Sustainable Development, 2014). While this idea certainly has merit, the success story rhetoric used to promote the idea has largely ignored the reality of doing business with the poor for those responsible for implementation. As one firm manager in this study said, ‘it’s probably the hardest place in the world to achieve your objectives’. This quote begins to uncover the reality of firm interactions with the poor and examining this experience is the aim of our study.

We apply an institutional perspective to examine firm interactions with the poor. Metaphorically speaking, institutions refer to the rules of the game, which are socially constructed and guide behaviour in society (North, 1990). There are formal institutions such as government regulations, property rights and constitutions, and informal institutions such as customs and traditions (North, 1990). Institutional theory is concerned with the ways in which institutions enable or constrain behaviour (Scott, 2008). It is one of the dominant theories for examining business in developing countries and has provided useful insights particularly for the study of international business and business strategy in emerging economies, although this line of research has not focused specifically on firm interactions with the poor (Hoskisson, Eden, Lau, and Wright, 2000; Peng, Wang, and Jiang, 2008). At the same time, the institutional environment is also highly relevant to understanding the lives of the poor, as Sen (1999) notes in *Development as Freedom*, ‘individuals live and operate in a world of institutions. Our

opportunities and prospects depend crucially on what institutions exist and how they function' (p. 142). This highlights the critical role that institutions play in influencing the behaviour of both the firm and poor stakeholders. Although the business-poverty literature is in its infancy, the application of an institutional perspective to this field is beginning to provide important insights.

One of the themes explored in the business-poverty literature is the presence of weak formal institutions that often exist in developing countries. To function effectively markets need a functioning institutional framework that enables market development, typically provided by the state (North, 1990). This framework is often very weak in developing countries and gives rise to institutional voids where key market institutions such as property rights are inaccessible for some members of society (Mair et al., Martí, and Ventresca, 2012). These weak institutions can be the reason the poor are excluded from the formal economy, they can encourage destructive entrepreneurial outcomes (Hall, Matos, Sheehan, and Silvestre, 2012), and they can also be detrimental to the performance of firms, which engage with the poor. Ault and Spicer's (2014) study provides evidence of the effects of weak institutions on firms providing microfinance to the poor. The results of their study demonstrate that, while the extent of state fragility provides opportunities for microfinance institutions (MFIs) by way of higher rates of poverty, MFI performance is lower in more fragile state settings (Ault and Spicer, 2014). Given the prevalence of weak institutions and their importance to functioning markets, scholars have devoted effort to understanding how firms can successfully interact with the poor within this context. This line of study emphasises the importance of cross-sector partnerships (Brugmann and Prahalad, 2007; Calton, Werhane, Hartman, and Bevan, 2013; London and Hart, 2004; Reficco and Márquez, 2012; Rein and Stott,

2009) and social intermediaries (Kistruck, Beamish, Qureshi, and Sutter, 2012; Mair et al., 2012) to assist in filling institutional voids that arise from weak formal institutions.

Despite having weak formal institutions, settings where the poor live are rarely void of institutions altogether (London and Hart, 2004; Mair et al., 2012). The nature of these institutions is an understudied area as it relates to firm interactions with the poor, although there is some evidence to suggest that informal institutions such as norms and cultural traditions are especially important (London and Hart, 2004; Mair et al., 2012). While relevant research has tended to focus on particular institutions such as the state (Ault and Spicer, 2014; Hall et al., 2012) or social institutions (London and Hart, 2004; Mair et al., 2012), we aim to investigate multiple institutions that influence firm interactions with the poor. This approach has been used in other studies examining multiple institutions providing interesting insights in Mair et al.'s (2012) study of how a social intermediary in Bangladesh fills institutional voids to make marketplaces more inclusive for women. This study examines autonomy and property rights as these institutions relate to women in Bangladesh. Mair et al. (2012) found that, although formal legislation exists regarding the equal treatment of men and women, the on-the-ground reality tells a different story, where women's access to property rights and autonomy is limited by local community, political and religious norms. This study highlights the importance of examining institutions at multiple levels and understanding interactions between institutions.

Our study aims to extend this line of research by conducting a broader analysis of multiple institutions as they relate to firm interaction with the poor from the perspective of firms with a profit motive. By viewing multiple institutions together we can more

fully examine the ways in which institutions work together, or against each other, to enable and constrain firm interactions with the poor (Scott, 2008). This integrated perspective provides a more complete picture of the relevant institutional forces affecting firm interactions with the poor (Sen, 1999). Specifically, the study addresses the question, how do institutions affect firm interactions with the poor?

The article proceeds as follows. Firstly, we provide an overview of the analytical framework used as the basis of the study. Secondly, we provide an overview of the methods used for the study. In this section we provide background about the research setting, data sources and data analysis process used for the study. In the third section we present the research findings, which include a detailed discussion using the analytical framework as an anchor for presenting the results. In the final section we discuss the implications of the findings for the business-poverty literature.

ANALYTICAL FRAMEWORK: SCOTT'S PILLARS OF INSTITUTIONS

As stated above, previous research suggests that examining a range of formal and informal institutions is helpful in advancing understanding of inclusive business (Mair et al., 2012) and so we apply Scott's (2008) pillars of institutions to examine the firm's experience of interacting with the poor. In doing so, we draw on the work of other management scholars who have used this analytical framework to study other phenomena such as organisational crises (Wicks, 2001) and knowledge sharing (Currie and Suhomlinova, 2006).

In his review of institutional theory, Scott (2008) presents a perspective that attempts to capture the full landscape of institutions. Scott (2008) argues that there are three pillars

of institutions that provide a complete picture of an institutional setting – regulative, normative and cultural-cognitive. These pillars represent a continuum of institutions from formal (regulative) to the more informal (normative and cultural-cognitive) and provide a full perspective of institutions, hence providing an ideal analytical framework for our study.

The regulative pillar involves the formal system of rules and enforcement sanctioned by the state (Scott, 2008). This pillar represents the rational actor model based on the logic of instrumentality where social order is achieved through rules, laws and sanctions. In this line of thinking, agents make rational decisions based on self-interest in the context of rules, laws and sanctions (Scott, 2008).

The normative pillar of institutions emphasises the values and norms that guide obligatory dimensions of social interactions (Scott, 2008). Values are conceptions of desirable standards that are used to make assessments about behaviours in social situations. Norms refer to the ways in which people should behave in order to comply with societal values. Scott (2008) suggests that an example of a value is ‘winning a game’ (goal or objective) and the norm is ‘rules specifying how the game is to be played’. Roles are also important in this view of institutions, where some values and norms apply to all members of society and others might only apply to people who hold certain positions in society (Scott, 2008). Whereas the effect of the regulative pillar is guilt or innocence, the effect of the normative pillar is a feeling of shame or disgrace for those who do not comply with the norm or pride and honour for those who comply. The cultural-cognitive pillar refers to the embedded beliefs that guide individual feelings, thoughts and actions (Scott, 2008). In this view of institutions, cognitive

processes mediate an individual's reaction to an external stimulus (Scott, 2008). In other words, individuals attribute their own subjective conception of meaning to activities and objects. Scott (2008) has labelled the pillar as cultural-cognitive to show that internal processing (cognitive) is shaped by external frameworks (cultural). In this perspective compliance occurs because other ways of behaving are inconceivable; individuals behave in ways that are taken for granted as 'the way we do things' (Scott, 2008, p. 58). The effect of compliance with respect to this institutional pillar is one of positive emotions such as confidence whereas non-compliance results in negative emotions such as confusion and disorientation (Scott, 2008).

Although Scott (2008) considers that the three pillars have different ontological assumptions and provide different ways that organisations gain legitimacy there can be situations where institutions interact and exert different pressures on organisations (Martin and Scott, 1998) and we are interested in these interactions. Scott (2008) also emphasises that institutions constrain and enable behaviour. Institutions constrain behaviour by imposing 'legal, moral and cultural boundaries' that determine what is legitimate and illegitimate behaviour (Scott, 2008, p. 50). While institutional theorists often emphasise constraints posed by institutions, Scott (2008) stresses the importance of the enabling role that institutions play to empower actors and shape behaviour. This involves examining the complex institutional environment at multiple levels to understand the range of institutional forces and how they interact to shape behaviour. We apply this perspective of institutions to our study by examining how institutional forces constrain and enable firms that interact with the poor.

RESEARCH METHODOLOGY

This study is part of a broader research endeavour that explores inclusive business with the focus of this particular study being to explore firms' experience of interacting with the poor. As the inclusive business literature is in its infancy, we apply a case study methodology, which is well suited to the goal of generating and building theory in fields where little empirical data or theory exists (Eisenhardt, 1989; Yin, 2009). This methodology is also useful for examining complex social phenomena (Yin, 2009).

Research Setting

Given the importance of formal and informal institutions to the study of inclusive business, we selected a research setting that was institutionally complex that allowed for an examination of inclusive business. Vanuatu, an island country in the Pacific, provides an opportunity to examine the on-the-ground reality of inclusive business in a multifaceted institutional setting, an approach that has yielded important insights in previous research (Mair et al., 2012). Many ni-Vanuatu, particularly in rural areas, are subsistence workers defined as,

“A person that did “work to support the household by producing goods mainly for own consumption”, performed a variety of tasks such as farming, gardening, fishing or producing handicrafts for their own consumption” (Vanuatu National Statistics Office, 2009, p.102).

This highlights the importance of land ownership in Vanuatu where the majority of households reside on customary land (Vanuatu National Statistics Office, 2009).

In addition to formal institutions established after independence in the 1980s, there is a strong loyalty to *kastom* – the beliefs, practices and social structures perceived as traditional (Cox et al., 2007) and various religions, mostly Christian, where religious leaders often have broader decision-making roles in the village. These institutional arrangements provide an ideal setting to examine how formal and informal institutions interact in relation to inclusive business.

Furthermore, much of the relevant business-poverty research to date has focused on Africa, the Americas and Asia (see for example George, Kotha, Parikh, Alnuaimi, and Bahaj, 2015; London and Hart, 2004; Mair et al., 2012) whereas our research provides a perspective from the Pacific. Some reports suggest that poverty in the Pacific is increasing with an estimated 25 per cent of people on average living below the basic needs poverty line and higher when considering non-income measures of poverty (UNDP, 2014). Pacific island countries have recorded low economic growth in recent years and the demand for cash incomes has increased with urbanisation. Poverty alleviation strategies in the Pacific typically emphasise private-sector development and the need to build more inclusive markets by providing economic opportunities. If this is a key aspect of poverty alleviation strategies in the Pacific and the poverty problem is growing in this region, research that contributes to our understanding of the phenomena is critical.

At the top of the Government of Vanuatu's poverty alleviation strategy is 'private sector development and employment creation' (Government of the Republic of Vanuatu, 2006, p. 1) which implies that firm interactions with the poor are encouraged in the country. Vanuatu is ranked 134 out of 188 countries on the Human Development Index (UNDP,

2015) and according to some estimates about 30 per cent of the population live in poverty (Alkire, Roche, Santos, and Seth, 2011). Vanuatu is an archipelago of 83 islands and became a republic in 1980. Prior to this time it was governed by a British-French condominium. The country has a population of 234,000 and the majority of the population, 75 per cent, reside in rural areas and many are engaged in subsistence agriculture (Vanuatu National Statistics Office, 2009). The mainstay of the economy is agriculture (cattle, coffee, cocoa and copra) and in more recent years tourism has contributed significantly to economic development (Prasad and Kausimae, 2012).

Sample

We used purposive sampling to select case study firms, the preferred sampling strategy for case study research where cases are selected based on theoretical, not statistical, reasons (Eisenhardt, 1989; Yin, 2009). The selection of cases was guided by the following criteria. The firm should: (1) provide livelihood opportunities or expand access to products and/or services to the poor; and (2) offer the potential for a study of multiple institutions at play. In addition, the aggregate group of cases should: (1) include a minimum of two cases to allow for theoretical replication (Yin, 2009); and (2) should include instances of firms providing livelihood opportunities and expanding products and services to the poor so that both aspects of inclusive business can be examined. We identified five firms that met our criteria. The firms were identified through background interviews with government officials, non-government organisations and business associations in Vanuatu. In these interviews we asked respondents to identify firms that provide livelihood opportunities or products and services to the poor. We applied Sen's (1999) definition of poverty where we

considered the poor to be those individuals deprived of basic capabilities such as education, healthcare and basic necessities such as electricity and water. This process resulted in a total of five firms in the sample, which provides a high degree of certainty when developing theory from case studies (Yin, 2009). An overview of the firms in the sample is provided in Table 1.

TABLE 1
OVERVIEW OF CASE STUDY FIRMS

Name of Firm	Industry	Number of Employees	Multinational
Tanna Coffee	Coffee production and manufacturing	6	No
Eratap Resort	Tourism	40	No
Evergreen	Tourism	80	No
Telecommunications Firm	Telecommunications	83 (6,500 globally)	Yes
Volcanic Earth	Health and Beauty	18	No

The first firm is Tanna Coffee, a coffee-processing firm that has invested heavily in the development of coffee farming on the Vanuatu island of Tanna. This is a remote island where income-earning opportunities in the formal economy are extremely limited and the firm has developed the coffee industry to support about 500 farmers. The second firm is Eratap Resort, a luxury tourism firm on the main island of Efate. This firm is located near a remote village and provides employment and supply opportunities to village members who previously engaged in subsistence agriculture. Evergreen is the third firm in the study. This firm is also in the tourism industry and provides employment opportunities solely to ni-Vanuatu. The fourth firm is a telecommunications firm that wished to remain anonymous and is therefore referred to

as the ‘Telecommunications Firm’. This firm entered Vanuatu when a new licence became available following deregulation in the industry; the firm provides mobile phone services to previously unserved low-income customers. The fifth firm in the study is Volcanic Earth, a manufacturer of health and beauty products. This firm provides income-earning opportunities to suppliers in remote areas of local products such as coconuts and tamanu nuts. The firm also established a coconut factory and has mentored a ni-Vanuatu man from a remote island to manage the factory. The firm is a recipient of Australian aid funding for its poverty alleviation efforts.

Data Sources

We conducted in-depth interviews with the owners of each firm (a senior manager in one case). The in-depth interviews were conducted in person and ranged from between one and half hours to two hours in duration. We used a semi-structured interview template to explore each firm’s experience of doing business with the poor. There were broadly three sections in the interview. The first section aimed to gather general background information about the firm such as, the length of time it had been operating in Vanuatu and its broad objectives. The second section of the interview explored the nature of the firm’s interaction with the poor in each relevant stakeholder group. Questions in this section aimed to understand the firm’s practices in relation to the stakeholder and reasons why the firm adopted its stated practices. The final section of the interviews explored the firm’s experience of interacting with the poor, particularly as it relates to Scott’s (2008) three institutional pillars. For example, we asked managers about whether there are any cultural differences that affect the firm? The interview questions are provided in Appendix 1. Additionally, for the purpose of triangulation of

data sources (Yin, 2009) we interviewed stakeholders of the firms to validate the information in the interviews with managers. We also collected publicly available material from the websites of each firm, which enabled us to crosscheck data collected during the firm interviews. To verify our understanding of the institutional enablers and constraints that arose through the interviews we also drew on relevant published material related to Vanuatu. This included reports from United Nations agencies, the Government of Vanuatu and the Pacific Policy Institute.

Research Protocols and Procedures

The interviews were conducted by two investigators which, according to Eisenhardt (1989), has two key advantages. The first is that it enhances the creative potential of the study because each investigator brings a different perspective and insight. The second is that having more than one investigator increases confidence in the findings as perceptions of the data can be discussed to identify convergent or conflicting observations. All interviews were recorded and transcribed verbatim to allow for data analysis.

As we conducted the research in a foreign cultural context we engaged a local research assistant to assist with some interviews and provide advice on local protocols and practices. Next, we created a database to organise and code the data using the software package, NVivo. This provided a computer-assisted approach to organising and coding the data, which is essential in the early stages of data analysis (Yin, 2009).

Data Analysis

As the research was exploratory we analysed the data using an inductive coding process and let categories emerge from the data (Strauss & Corbin, 1990). We were guided by the overarching research question in analysing the data, namely how do institutions enable and constrain firm interactions with the poor? We approached the data analysis in two stages first; we examined the factors that enable and constrain firm interactions with the poor and categorised these factors using Scott's (2008) institutional pillars. Second we examined firm responses to the constraints to understand how firms deal with the constraints.

Stage 1: Examining the institutional enablers and constraints of firm interactions with the poor. First, we analysed the data and categorised comments from the interview transcripts as either enablers or constraints. This involved several steps to move from first order categories represented in the data to abstract concepts (Miles and Huberman, 1994). This analysis showed that there were nine references to enablers compared to 166 references to constraints. Due to the small number of references to enablers these were easier to categorise using Scott's institutional pillars. The data representing enablers are summarised in Table 2.

We used Scott's (2008) institutional pillars as a framework to categorise the institutional constraints. We assigned relevant statements to regulative, normative and/or cultural-cognitive categories. Our analysis recognised that although the institutional pillars are distinct for analytical purposes, in reality we discovered that some issues related to more than one institutional pillar. For example, managers

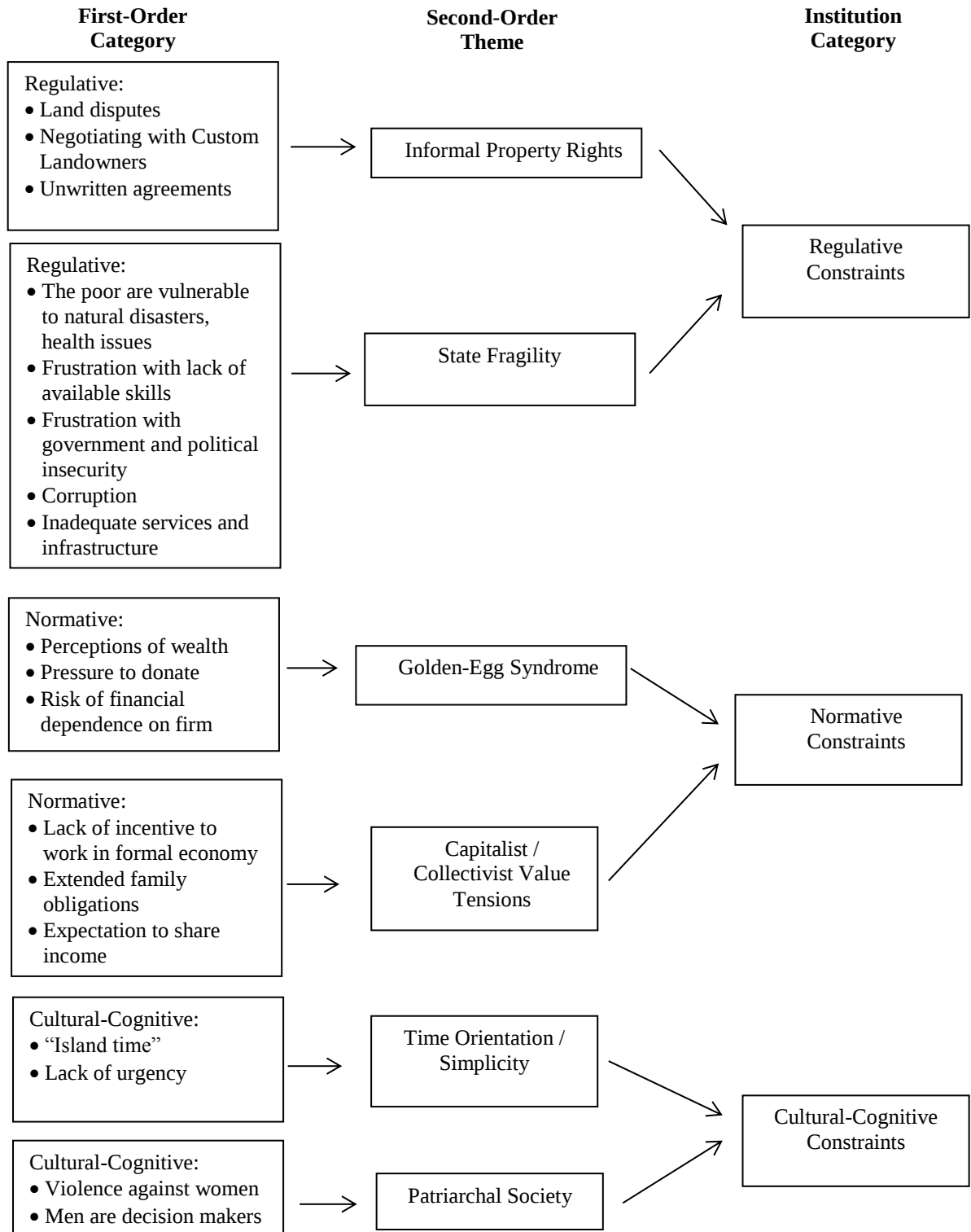
discussed the influence that time orientation (cultural-cognitive pillar) has on productivity levels and at the same time they believe that low levels of education access and quality (regulative pillar) also contribute to low productivity levels.

We performed open coding (Miles and Huberman, 1994) and coded any statements related to formal institutions to the regulative category. This included statements about the state including the role and responsibilities of the state. Given their importance to market building we also coded statements related to property rights to the regulative pillar (de Soto, 2001; Mair et al., 2012), for example, comments about land ownership were coded to the regulative pillar. Statements that referred to expectations, obligations or values were coded to the normative category (Scott, 2008). As different roles can have a different set of expectations we analysed the data to examine the expectations placed on firms and the poor (Scott, 2008). For instance, where a manager referred to instances where they were expected to make donations this was coded to the normative category under ‘firm role’.

In line with the cultural-cognitive pillar definition, statements related to behaviour and attitudes that go unquestioned as ‘the way we do these things’ (Scott, 2008, p. 58) were coded to the cultural-cognitive category. When coding to this category we were particularly interested in comments about behaviours and perceived attitudes and this included statements such as, ‘they don’t take business as seriously as we do’ (perceived attitude) and ‘they have domestic violence they have to contend with’ (behaviour). This process of coding to the three institutional categories involved several iterations of data analysis to move from first order codes represented in the data to abstract concepts (Miles and Huberman, 1994). This process is represented in Figure 1.

FIGURE 1

EXAMPLE OF CODING PROCESS – INSTITUTIONAL CONSTRAINTS



Stage 2: Examining the Effects of Institutions and Firm Responses. In addition to identifying institutional constraints and enablers we were interested in the effect these had on the firm and the firm's response to the institutional environment. As a result we investigated each case for effects and firm responses and coded it to these sub-categories. An example of this coding process for each firm is provided in Table 2. When we had analysed each case, we moved to cross-case analysis and organised the data in a meta matrix using the analytical coding categories outlined above (Miles and Huberman, 1994). This provided a matrix with all data coded to each institution and allowed further analysis and abstraction of the data. Through this process we discovered that regulative institutions provided the conditions for enabling initial firm interactions with the poor through property rights, government policy or foreign aid. We also discovered that all firms were constrained in some way by an aspect of each of the institutional pillars, which created risk and uncertainties for firms. We were then able to identify common strategies used by the firms in response to the institutional environment.

RESULTS

In this section we organise our results around institutional enablers and constraints using Scott's (2008) institutional pillars. At the end of this section, these results culminate in a model shown in Figure 2 that draws these results together to present the role institutions play in shaping firm interactions with the poor.

TABLE 2

ILLUSTRATIVE DATA SUPPORTING INSTITUTIONAL ENABLERS AND CONSTRAINTS. FIRM EFFECTS AND RESPONSES

	Eratap Resort	Evergreen	Tanna Coffee	Telecomms Firm	Volcanic Earth
Regulative Enabler	Lease land from poor and village is part of tourist product (Property Rights)	Family land used for tourism activities (Property Rights)	- Lease land from poor and source local supplies (Property Rights) - Aid funded coffee industry development (Foreign Aid)	Purchased license to operate (Pro-poor economic policy)	- Source local supplies (Property Rights) - Recipient of aid funding (Foreign Aid)
Regulative Constraint	‘I had to put a pipe along the road, the public road. But I wasn’t allowed to do that, until every single person that has land along the road was compensated...So, it took me a year to work out who the real 33 families were who would allow the pipe to go along the road’(Informal Property Rights)	‘it’s hard to do business in Vanuatu because of the constant change of politics, the disputes of land’ (Informal Property Rights, State Fragility)	‘at the moment some people who claim to be representatives of the estate land owners, you know, and causing us a bit of grief’ (Informal Property Rights)	‘poor housing, poor infrastructure, sometimes no electricity, limited access to good healthcare. There is also a lack of access to education...the skills are not available in the workforce...if a higher proportion of the population is in the low income range it does affect our ability to grow’ (State Fragility)	‘look at the roads, the roads are the worst I’ve ever seen...and it’s not because of the lack of aid, it’s just that the aid doesn’t get where it’s supposed to go’ (State Fragility)

	Eratap Resort	Evergreen	Tanna Coffee	Telecomms Firm	Volcanic Earth
Normative Constraint	‘if they make too much, then their business will be stopped...through jealousy...And so, in the end, you just go “You know what? I’m just going to sit under the coconut tree. At least I don’t have to worry about just giving my income. And worry about what that’s going, guy’s going to do to wreck my business’ (Collectivism / Capitalism)	‘when it comes to money you will have Tom, Dick and Harry, you know they want this, they want that’ (Collectivism / Capitalism)	‘the only incentive (to work) is school fees and a bit of health and education. An occasional bag of rice and tinned fish and kerosene... what do you need education for when you live in a paradise’ Collectivist / Capitalism)	‘there’s always an expectation that (firm) are doing something be it either a very small request where they’re just looking for something, say t-shirts or caps for their local football team in the village...or schools looking for funding for various projects...we are asked to contribute at some many different levels.’ (Golden Egg Syndrome)	‘I do think that we have an obligation to contribute towards the local economy, the culture, the education, the medical’ (Golden Egg Syndrome)
Cultural-Cognitive Constraint	‘they have domestic violence they have to contend with... And so, you just try and make this their little haven. So that they want to be here. They feel comfortable here’ (Gender roles)	‘I think it’s a lack of motivation...everywhere you just put anything in the ground it grows...people are not educated they are lazy, they just sit around and do nothing. I mean people don’t earn \$2 a day here they still survive there is fish in the sea.’ (Time Orientation / Simplicity)	‘The one thing I have learnt here is that I never used to have much of this, but now I’ve got plenty of patience. It doesn’t happen in a hurry. On Vanuatu time.’ (Time Orientation)	‘The challenges...lack of follow up, lack of a sense of urgency.’ (Time Orientation)	‘front tooth completely missing (referring to female employee). How does that happen? to make them unattractive to somebody else...dealing with customer’s beauty products and she’s got her front tooth

	Eratap Resort	Evergreen	Tanna Coffee	Telecomms Firm	Volcanic Earth
					missing' (Gender roles)
Firm Effects	'a bus load of guys turn up who decide that the guy who's got the contract shouldn't have it. You know, and you've got to deal with that. Because if you don't deal with that, you're going to have massive trouble through the weekend' (Potential for Disputes)	'I went as far as court to challenge over 11 court injunctions to stop me from doing it' (Potential for Disputes, High Transaction Costs)	'the productivity...it's a major concern of mine...the world average yield is 750 kilos per hectare. In Australia we got it up to 1.5 tonne...the average yield per hectare on Tanna is about 200 kilos, unfortunately.' (Low productivity)		'There aren't many people around here that can add up, without one of these...and you can completely forget multiplication, let alone division... when you're doing skin care formulations and stuff it's very important' (Lack of Human Capital)
Firm Responses	'You've got to really distance yourself from it (referring to cultural differences) and choose your battles.' (Cultural awareness, maintain distance)	'I give and I gain the trust and the respect from the community and the people' (Build Social Capital)	'I have access to a lot of people, and I'm not backwards in coming forward, and I remember approaching the Australian government and I said, 'You should see the schools on Tanna and the lack of resources and materials'. (Lobbying Government/Aid Donors)	'we try and do is adopt a self help approach so we provide the materials but the local community have to provide the labour.' (Compassion with Boundaries)	Established a coconut factory and mentor a local person to manage it. This has created opportunities for the poor to supply raw ingredients (Capacity and Capability Building).

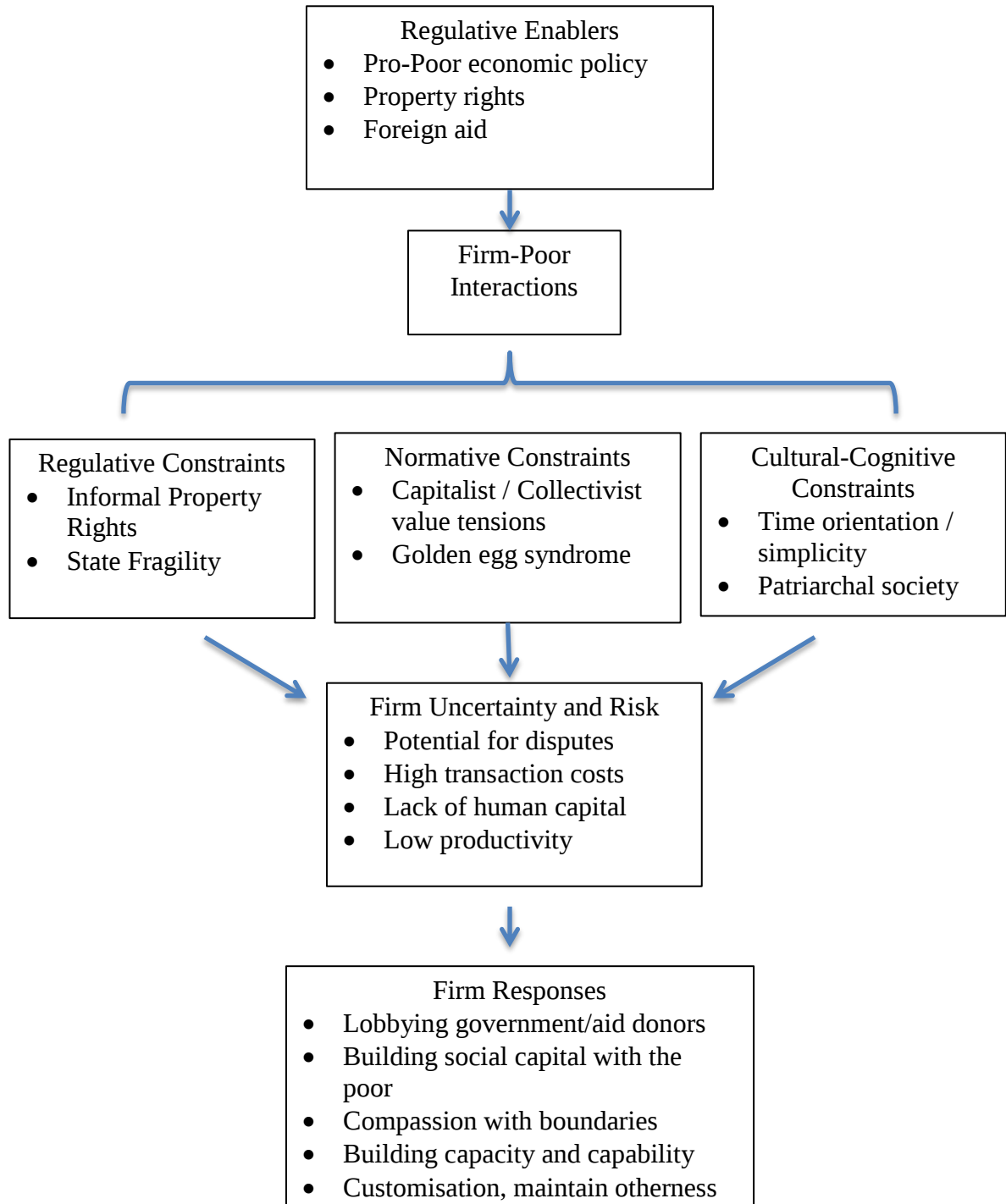
Institutional Enablers

Regulative Enabler: Pro-Poor Economic Policy. The firm managers in this study all referred to an aspect of economic policy that plays a role in supporting their business. The most notable example is the telecommunications firm which purchased a licence to operate in Vanuatu following market liberalisation of the telecommunications industry. Prior to this, there was only one telecommunications provider in Vanuatu and these services were unaffordable and inaccessible for low-income earners. A condition of the licence was that the firm improve access to telecommunication services throughout the country, which involved the firm investing in infrastructure in rural areas. The entry of a second telecommunications firm in 2008 led to significantly lower prices for mobile telephony and many low-income earners now have mobile phone access. In 2007 about 10 per cent of people had a mobile phone subscription and in 2009 this had increased to more than 50 per cent of the population (O'Connor, Naemon, and Sijapati-Basnett, 2012).

Apart from trade policy measures, governments can also enable inclusive business through industry policy initiatives. For example, firms noted the favourable tax environment for doing business in Vanuatu such as no income tax and tax exemptions for importing goods related to manufacturing. While this may, or may not, mean firms interact with the poor, more business activity increases the likelihood of this occurring. Hence, economic policy plays a key role in influencing firms to engage the poor.

FIGURE 2

THE ROLE OF INSTITUTIONS IN FIRM INTERACTIONS WITH THE POOR



Regulative Enabler: Formal Property Rights. Our results suggest that formal property rights are a highly salient institution with respect to firm interactions with the poor, particularly for firms in the study, which rely on natural resources and land (Eratap Resort, Evergreen, Tanna Coffee, Volcanic Earth). Property rights refer to goods or assets that the owner can legally exclude others from using or trade or lease (Besley and Ghatak, 2010). We categorise property rights as both enablers and constrainters of firm interactions with the poor. We found that both formal and informal property rights were present with respect to land ownership (informal property rights are discussed in the constraints section below). We define formal property rights as those with written legal documentation in place. Where formal property rights existed, this enabled firm interactions with the poor. For instance, Evergreen, Eratap and Tanna Coffee, which use land for tourism activities or farming, all have legal agreements in place with customary landowners. These agreements contain clauses that bind the firm to provide income-earning opportunities to customary landowner families who are typically from the poor. While formal property rights enable firms to engage the poor, informal property rights also exist that can be problematic.

Institutional Constraints

Regulative Constraint: Informal Property Rights. We refer to informal property rights where customary land tenure exists but with no written documentation. Following independence from the Anglo-French Condominium Government in 1980, the land in Vanuatu was officially restored to the customary owners through the constitution. The rules of *kastom* form the basis of land ownership and use where individual, family and clan identity is intrinsically linked to land (Australian Department of Foreign Affairs

and Trade, 2009). A troublesome aspect of the customary land system is that the ownership of land is not easily identifiable and relies on oral histories and varying inheritance practices; it is rare for documentation to exist (Australian Department of Foreign Affairs and Trade, 2009).

One manager described the frustration of these informal arrangements when it took him one year to identify and obtain permission from 33 customary landowners to install a water pipe on their land. This manager estimates that he spends considerable time resolving issues with the village. As Eratap Resort is located near the village, social stability in the area is important for guest safety and security. Similarly, Tanna Coffee relies on cooperation from village leaders and landowners to use the land for coffee production. This firm negotiated with seven Chiefs and 61 landowners about arrangements to grow coffee on the island. Despite having a written agreement in place with relevant stakeholders, the firm still experiences problems with disputes lodged by individuals who claim to represent landowners.

To complicate matters further, customary authority is often unclear. In the eyes of the law, village chiefs have authority to sign official documents including land leases. In practice, however, there is also a range of community chiefs put in place by former colonial authorities and chiefly status is often attributed to religious or political leaders (Australian Department of Foreign Affairs and Trade, 2009). This lack of clarity about leadership and authority causes uncertainty and confusion for firms and increases the likelihood of disputes. This can mean that a firm has acted in good faith to reach an agreement with the village through the chief only to discover that there is more than one

chief or that the position is under dispute. The following quote from an expatriate manager illustrates the inherent frustration of managing a firm in this environment,

Everything's disputed. And there's no one central zone. If there was one group I had to deal with, it would be so easy. So, every decision that's made, I have to make sure the two sides, there's really two sides at play, that they're happy, and fully aware of everything that's happening. And it's absolutely painful.

While the informal nature of property rights hinders business in the formal economy, property rights are an important institution for protecting ni-Vanuatu from extreme poverty. Most ni-Vanuatu have access to land through the customary system and this provides access to an abundance of natural resources. This issue is discussed in more detail with respect to ni-Vanuatu participation in the formal economy under the normative pillar.

Regulative Constraint: State Fragility. Like many developing countries, Vanuatu is a fragile state, which means there is little confidence in the government and generally poor quality infrastructure and services to support the business environment. Firm managers expressed their frustration with the state of political affairs including the constant political upheaval and corrupt politicians and the impact this has on basic service delivery and infrastructure. Between 2010 and early 2013 there were seven changes of Government following votes of no-confidence in the Prime Minister. The situation became so bad that in 2015, half of the Vanuatu Government were imprisoned for corruption. This political instability limits the State's ability to develop and implement public policy and provide basic infrastructure and services. The issues

arising from state fragility that received the most attention in this study were poor infrastructure and poor access and quality of education.

The lack of infrastructure poses a significant challenge for firms in various ways. For the telecommunications firm in the study customers in rural areas do not have access to electricity and this means they are unable to charge their mobile phones. For the tourism firms in the study the poor quality of roads makes it difficult for guests to access the resort; one expatriate manager stated, 'look at the roads, the roads are the worst I've ever seen since I've been here.' Poor quality telecommunications services and support are also problematic as described by a manager in the following example:

You have lots of connectivity problems with the internet, the email, telephone. You get a bit of rain and then you've got crackling in the line, water in the line. Then you go to ring the phone company and you can't get anybody. You have to physically drive to the phone company, like I had to this morning, and waste your time...and the chances are that they'll log it for somebody to come, and nobody will come, and you'll have to go back down and say, "well, where is he?" And this is a business phone.

Another issue with infrastructure mentioned in interviews was shipping constraints, which affects firms' ability to import and export goods. Managers discussed the long wait times for importing goods due, in part, to poor quality wharf infrastructure. Equally, those firms that export goods (Tanna Coffee and Volcanic Earth) identified high shipping costs and slow delivery times as impediments to the export arm of their businesses.

The most frequent aspect of state fragility mentioned in interviews with firm managers is the state of education in Vanuatu. Managers consistently commented on the low standard of education quality and access available to ni-Vanuatu and how a poorly educated population results in many challenges for firms. Some managers suggested that schools are akin to a babysitting service with unqualified teachers and limited resources. These anecdotal comments are also supported by an aid review in Vanuatu which suggests children are not meeting expected standards in literacy and numeracy (Australian Department of Foreign Affairs and Trade, 2014). In addition, education is costly for the Government of Vanuatu because of the many small communities across the 83 islands, which reduces the ability of ni-Vanuatu to access good education. As one manager noted, ‘if you’re a smart Eratap (village name) student, there’s no way you could afford to go to a good school in Vila (capital city), because it’s too expensive. It’s just out of your league.’ The state of education in Vanuatu means that serious capability gaps exist and this affects firms’ ability to find suitably qualified employees and suppliers.

While political instability, poor education and infrastructure are the key aspects of state fragility that impede firm operations, managers also mentioned poor healthcare and security as issues that can provide constraints. Overall, state fragility is a significant aspect of the regulative pillar that constrains business operations.

Normative Constraint: Capitalist and collectivist value tensions. Scott’s (2008) normative pillar emphasises the normative rules that specify the expectations or obligations in society. The normative system consists of values – what people in certain roles *should* aspire to – and norms – how people should behave in order to live their

values. The results of this study highlight the presence of two value systems that intersect when firms interact with the poor in Vanuatu – capitalism and collectivism – that are not always complementary. The collectivist system can mean that individuals lack the incentive to work in the formal economy.

The expat firm managers in this study work within a capitalist paradigm which emphasises the pursuit of self-interest, financial success and private ownership where individuals invest their own resources in assets to produce goods and services to make a profit for themselves (Kasser, Cohn, Kanner, and Ryan, 2007). Ni-Vanuatu values are shaped by the wantok system, which emphasises relationships and reciprocity where many people operate in a largely cashless traditional economy (International Labour Organisation, 2006). In the traditional economy ni-Vanuatu satisfy their basic needs of food and shelter using customary land and sea. This system is a socio-cultural network that connects people either socially or biologically and shapes group identity and support. A central part of this system is the belief that the problem of an individual is the problem of the community and the solution should be collectively approached, the social structure is based on large extended family networks called wantoks (International Labour Organisation, 2006). Members utilise these networks to access food, manual labour, childcare, and aged care, and deal with disputes in a traditional way (Regenvanu, 2009). This system provides a high level of social security for all family members and a strong sense of community and belongingness (Regenvanu, 2009).

In practice this means there is an expectation that members of the same extended family group will support each other, including providing financial support. Hence if a family

member earns an income there is often an expectation that this will be shared with others in the family group. The concepts of relationships and reciprocity, often associated with a collectivist society, are commonplace in Vanuatu and while the wantok system provides a form of social security for the poor, the managers in this study discussed the challenges it presents for interacting with the poor.

With its emphasis on relationships and reciprocity this value system can affect the motivation of ni-Vanuatu to work and earn money because there is an expectation that income will be shared among the extended family group. A firm manager explained it in the following way:

There's no incentive for them to make money. The more they make, the more they've got to give...and so, in the end, they just go You know what? I'm just going to sit under the coconut tree. At least I don't have to worry about giving my income. And worry about what that guy's going to do to wreck my business.

So while the wantok system brings valuable social security benefits to ni-Vanuatu it can provide a disincentive for people to work in the formal economy. It also goes some way to explain why productivity levels are low with respect to local supply arrangements. Below is an example of this expressed by the manager of Tanna Coffee, who compares coffee production in Australia (capitalist paradigm) with the Vanuatu island of Tanna (collectivist paradigm):

The productivity, it's a major concern of mine...the world average yield is 750 kilos per hectare. In Australia we got it up to 1.5 tonne...the average yield per

hectare on Tanna is about 200 kilos, unfortunately...I go down there and look at a plantation and see an absolute carpet of seedlings, millions of seedlings thinking, “There’s millions of cherries” and they’re not being picked. I know my plantation in Australia, you’re lucky if there’d be one cherry left on the tree.

This example illustrates the lost opportunity to earn money and a lack of willingness to do so. We argue that this lack of willingness arises in part because of the nature of collectivism where, if an individual earns extra money they would be expected to share it with extended family. This creates a lack of incentive to work beyond what is needed to meet everyday needs. In addition, social security provided by the wantok system limits village members; need for cash, particularly those in rural areas where kinship ties are still very strong.

Normative Constraint: Golden Egg Syndrome. Our results show that firms experience regular requests for donations from community members, employees and suppliers. Examples of the nature of the requests include money for school fees, sponsoring sporting events, household items, food, clothes, healthcare and paying for ceremonies such as weddings and funerals. The results suggest that this expectation to make donations comes largely from a perception about the relative wealth of the firm compared to most ni-Vanuatu and could also be linked to the core principles of the wantok system involving relationships and reciprocity. State fragility also means that public good provision is lacking and this creates gaps for the community in basic services. We borrow from a phrase used by one of the managers in the study and refer to this obligation as the *Golden Egg Syndrome*. This manager referred to his firm as the ‘golden egg in the middle of extreme poverty’. The golden egg conjures up an image of

how the firm is perceived by the poor – extremely wealthy – and this perception leads to pressure on firms to finance activities unrelated to the business. The results suggest that expatriate managers can become linked to kinship ties and this binds them, to some extent, to the principle of reciprocity. For example, one manager in the study is referred to as ‘Abu’ (father) by his employees and suppliers, while others are invited to village ceremonies and celebrations, demonstrating the close ties and acceptance of these expatriate managers with local villages. The *Golden Egg Syndrome* is even more present with respect to the ni-Vanuatu firm owner, given his kinship ties in the wantok system described above. This manager noted that ‘there are many requests and I have to be careful’. He receives requests in particular from his extended family but also from the community for items similar in nature to the expatriate managers in the study.

Also noteworthy with respect to the obligations of managers is an expectation that they will contribute to the local economy and often this obligation arises from the manager’s sense of what is ‘the right thing to do’. Scott (2008) suggests that the emotional effect of compliance or non-compliance with normative institutions is honour (compliance) or shame (non-compliance). The ni-Vanuatu manager discussed with pride his firm’s approach to only employing ni-Vanuatu people and providing economic opportunities, while an expatriate manager scoffed at firms, which do not support the local economy,

I don’t like it much when I see companies come over here and set up from Fiji and then bring their Fiji people over here instead of employing ni-Vanuatu. I don’t like that.

These examples illustrate this normative effect with respect to supporting the local economy. The implication of this norm leads to an expectation that firms will provide employment opportunities to local people and support community activities.

The normative elements of institutions are distinguished by a logic of appropriateness that determines the expected behaviours (Scott, 2008). The collective nature of the wantok value system contrasted with the individualistic nature of capitalism, under which the inclusive business approach operates, can pose problems for firms, which interact with the poor. Most strikingly the social security net created by kinship ties and customary land ownership disincentivises impoverished ni-Vanuatu to engage with the formal economy. Furthermore, the results suggest that this value system with hallmarks of relationships and reciprocity coupled with the *golden egg syndrome* leads to expectations on firms to contribute time and finances outside of core business operations. The result is a set of obligations arising from these normative institutional forces that managers feel they *should* comply with.

Cultural-Cognitive Constraint: Time Orientation and Simplicity. There is an irony in conversations with expatriate managers that they openly acknowledge. The ni-Vanuatu lifestyle is very relaxed and there is rarely any sense of urgency when going about daily life. While managers acknowledged that the slow pace of life in Vanuatu is a positive aspect of the culture in terms of lifestyle and even something to aspire to, they expressed frustration when it comes to managing a firm's business activities. As one firm manager put it,

The one thing I have learnt here is that I never used to have much of this, but now I've got plenty of patience. It doesn't happen in a hurry. On Vanuatu time.

The ni-Vanuatu way of life has typically emphasised simplicity. This is generally a non-materialistic lifestyle set in the context of a traditional economy where work is completed, not to obtain wealth, but to meet everyday needs. This approach to life has earned Vanuatu the title of the 'happiest place on the planet' (Winterman, 2006) and while many people in the western world aspire to a more simple lifestyle, this simplicity can mean that some ni-Vanuatu find it challenging working in more complex situations involving competing demands and tasks that are non-repetitive in nature. The owner of the five-star resort in this study discusses how he deals with this issue:

They are not good with complexity. So, let's just make sure that it's (the resort) small. We've only got 12 rooms and deal with 35 guests. It's very simple. Look at it now. There's not a soul here but the resort is chock-a-block. They've got time to do all the tables. We haven't got visitors pouring in here demanding a cocktail or this or that. So, we make it so it's as easy as possible for them to do the right job.

Managers noticed this cultural characteristic in employees and also noted its effects on supply arrangements. There is limited large-scale entrepreneurial activity in Vanuatu, which restricts the amount of local supplies available to firms. Ni-Vanuatu sometimes establish micro-enterprises, however, they rarely have the capacity to expand these to large-scale ventures that provide the necessary volume of supplies required by some firms. For instance, the health and beauty products firm desperately wants to source

products locally such as frangipani and vanilla (both grow in abundance in Vanuatu) but is unable to do so on the scale required because no processing plant exists. Similarly, one of the resorts sources fish from a local fisherman, however, needs to top up this supply from a foreign-owned seafood supplier because the local fisherman only has a small boat. So despite the good intentions of these firms to buy from poor suppliers, they are often limited by the capacity and willingness of local suppliers.

Cultural-Cognitive Constraint: Patriarchal Society. The majority of Vanuatu is a patriarchal society and men have cultural dominance (Bowman, Cutura, Ellis, and Manuel, 2009). The role of women in society is one of nurturer and female identity is typically associated with motherhood and looking after the welfare of the extended family, domestic chores, gardening and earning a living (Tor and Toka, 2004). Men have the role of decision-maker and earning a living (Tor and Toka, 2004). Men also hold the majority of decision-making roles, both in traditional society as Chiefs and in the Vanuatu Parliament (Bowman et al., 2009). It is common for women to work in the formal economy or in the informal economy selling garden produce, although women only make up about a third of the workforce in the formal economy (Hedditch and Manuel, 2010).

An issue evident in our study related to gender was domestic violence against women. Managers in the study recalled examples of female employees who were physically abused by their husbands. These employees arrive at work with injuries such as teeth missing and bruising on their bodies. Other studies show that domestic violence against women in Vanuatu is a growing problem (Bowman et al., 2009; Tor and Toka, 2004). Although official records show an increase in such abuse cases, women are typically

conditioned to believe that the abuse is acceptable or normal and do not report it (Tor and Toka, 2004). Although recent work to raise awareness about the issue has increased reported cases, domestic violence is still largely a private matter between husbands and wives, and relatives and others in the community do not interfere (Tor and Toka, 2004). Interestingly, the managers in this study also tended to adhere to this principle with one manager stating, ‘it’s a cultural thing’.

Firm Effects and Responses to the Institutional Environment

While some aspects of the regulative environment enable firms to engage with the poor, once the firm begins to engage the poor there are many institutional forces that constrain firm interactions with the poor. All in all these constraints create uncertainty and risk for firms engaging the poor. The potential for disputes exists as a result of the nature of informal property rights and obligations placed on village members and firms as a result of normative institutions. The firm experiences high transaction costs associated with filling gaps in infrastructure, negotiating land use when informal property rights exist, including significant efforts to develop and maintain relationships where social contracts exist, and inefficiencies resulting from aspects of all institutional constraints. The institutional forces influence firms to adopt the following strategies.

Lobbying Government and Aid Donors. Our results suggest that institutional elements from each pillar influence managers to become political actors. In the context of discussing their frustration with government, managers in the study discussed the role they play in lobbying government. This lobbying is not limited to business interests; it

also extends to lobbying government about issues of importance to a community where they have a connection. As the manager of Eratap Resort stated,

Eratap's (village name) never had a seat in parliament. And so, as a result, they've got no money from them. And the only way they're getting money now, is because I'm here and I kick and scream a bit more...they are pretty poor.

This provides evidence of managers becoming advocates for the poor; this was found to be the case particularly with respect to education and health issues.

Building Social Capital with the Poor. A combination of institutional forces influences managers to place substantial value on building social capital. The nature of property rights (regulative pillar) and a normative value system that emphasises relationships and reciprocity, along with the golden egg syndrome, all point to the importance of social relations. Interestingly, while poor infrastructure and basic services (regulative pillar) constrains business activity, firms use this situation to create an opportunity to buy social credits through community investment to address these gaps.

Table 3 provides data to illustrate the importance of social relations in this setting. The table outlines each firm, the focal poor actor and how the firm builds relationships with the poor. The firm in the study that invests most time and money into building social relations is Eratap Resort. The results suggest that this is the case because of the strong presence of each institutional force. Firstly, there is a strong interdependence between this firm and the focal poor actor, Eratap Village. The firm leases land from the village and the village forms part of the firm's product where guests have the opportunity to

TABLE 3

DATA SUPPORTING THE IMPORTANCE OF BUILDING SOCIAL CAPITAL WITH THE POOR

Firm	Focal Actor	Examples of how firm builds social capital	Examples of quotes illustrating importance of social capital
Eratap Resort	• Eratap Village • Employees • Suppliers	• Community investment • Spending time with focal actor • Trusted advisors • Employee benefits e.g. healthcare; loans	‘that’s the other key thing. You need to have someone like that who gives you the inside information in the village...and once you start getting all that, then it’s easier to get around the problems.’ ‘just by the nature of the business, everything that we do, you have to deal with them all (village members)... just being here all the time... It’s not just a build it and leave stuff. It’s like, fully immersed in every part of it.’
Telecommunications Firm	Customers / Potential Customers	• Community investment • Spending time with focal actor	‘We’re seen as vibrant, dynamic, we’re involved in the community so it does help to drive brand loyalty. It helps to grow our customer base.’ ‘I think it’s good to go to the rural areas because it’s good to represent (firm) there and it’s where much of the population lives in these rural areas so it’s good to go.’
Evergreen	• Mele Village • Employees	• Community investment • Spending time with focal actor • Employee benefits e.g. healthcare; loans	‘(I donate) because that is where I live and that is where my business is set up, I believe so much I give I gain the trust and the respect from the community and the people.’ ‘I don’t put money back into the community because I want to be a politician...I do it there because I think I gain the respect.’

Firm	Focal Actor	Examples of how firm builds social capital	Examples of quotes illustrating importance of social capital
Tanna Coffee	Suppliers (Tanna Island)	• Community investment • Trusted advisors • Spending time with focal actor	‘I derive my income from these people. They derive their income from me and, you know, I support their needs, as best I can.’
Volcanic Earth	• Suppliers • Employees	• Community investment • Employee benefits e.g. financial loans, healthcare	‘you do a kindness to them, they will generally try find a way to repay you in some way for that.’

holiday near a traditional village and are offered visits to the village. The nature of property rights causes ongoing problems for this firm. The manager voiced his frustration: ‘everything’s disputed. And there’s no one central zone. If there was one group I had to deal with, it would be so easy’. This manager estimates that he spends more than 50 per cent of this time in the village building and maintaining relationships. Along with spending considerable time in the village, the manager builds social capital through community investment. In response to a question about why he set up a community investment fund for the village, he responded as follows:

We don’t want to have any problems. So, I’ve done a deal with the village. It’s a million Vatu a year for the right to use them (the islands).... It has to go into local infrastructure projects that they nominate.

This example illustrates the potential for disputes arising from informal property rights. The normative value system also influences decision-making with respect to building social capital. Being a high-end resort located near a traditional village, this manager is acutely aware of the golden egg syndrome and associated risks related to guest safety and potential for theft. Despite the risk, the firm has never had any problems and the manager believes this is due to his relationship with the village, ‘I’ve never lost one thing...I don’t know what that is...respect. That’s all I can attribute it to’. The manager knows everyone in the village and attends village ceremonies and celebrations.

While social capital was probably most important for Eratap Resort given the strong interdependence with the focal poor actor, all firms emphasised building social relations. Where the focal poor actor was employees or suppliers, firms provided

additional benefits above and beyond what was expected by the law and the individuals. These benefits include healthcare, food, financial loans, accommodation, and clothing. When asked why they provide these items to suppliers and employees, the responses included,

you do a kindness to them, they will generally try find a way to repay you in some way for that' and 'I derive my income from these people. They derive their income from me and, you know, I support their needs, as best I can.

The firms in the study also used state fragility as an opportunity to build social capital. The telecommunications firm views the lack of infrastructure and services in rural areas as an opportunity to build the firm's brand by meeting perceived needs through community investment. The firm does this by consulting with village leaders to understand perceived needs and ensures that community investment decisions benefit the maximum number of people in the village. This approach provides opportunities for the firm to build relationships in rural areas and increase the firm's visibility. Examples of community-based initiatives funded by the firm include water storage tanks, solar panels and healthcare projects. A manager explained the relationship with the community in this way,

I suppose there is a lot of brand loyalty. We're seen as vibrant, dynamic, we're involved in the community so it does help to drive brand loyalty. It helps to grow our customer base.

The study results also suggest that the community investment decision-making process is just as important as the financial contribution to community projects. Firms in the study worked within existing governance structures in villages (Chiefs, village council) to consult about these investment decisions and only typically funded initiatives that would benefit the entire village.

Building Capability and Capacity. The state of education in Vanuatu (an aspect of state fragility) means that serious capability gaps exist and this affects firms' ability to find suitably qualified employees and suppliers amongst the poor population. This regulative constraint also interacts with the other institutional pillars. The 'golden egg syndrome' can mean that managers feel a moral obligation to contribute to the community and because they are exposed to capability gaps through their business they believe this is an area where they are able to contribute and have an impact. The cultural-cognitive pillar also provides a driving force for capability and capacity development, given the constraints presented by aspects of the culture, in particular time orientation and simplicity.

Managers frequently expressed their frustration with the state of education and to some extent there was a feeling of helplessness amongst managers with respect to this issue, given it is a state responsibility. This limits the firm's ability to influence regulative institutional change with respect to education (although they attempted to through lobbying), however, firms in the study contributed to developing individual capability and did so in a variety of ways. Table 4 provides examples of how each firm develops individual capability. The firms that employ the poor recognise that they need a lot of support and provide significant on-the-job training. Managers indicated that this is the

TABLE 4
EXAMPLES OF BUILDING CAPABILITY AND CAPACITY

Firm	Example of Capability Development
Eratap Resort	• School sponsorship program • Customised job design • On-the-job training • Traineeships
Evergreen	• School sponsorship • On-the-job training
Tanna Coffee	• Training programs for farmers • On-the-job training
Telecommunications Firm	• Sport sponsorship • Infrastructure development • Funding for education projects
Volcanic Earth	• Mentoring factory manager • On-the-job training • Customised job design

most effective mechanism to develop capability to perform the required duties. One manager explained it as follows,

when they do something wrong, immediately pull them aside, not in front of all the other staff, because they get embarrassed. Pull them aside and go “Look, what you did then, you can't do it like that. You’ve got to do it like this.” And they’ll be good for a while, then they’ll do it again. And you bring them back in and do it again. “Don’t do that.” And then the third or fourth time, then they’ll never do it for the rest of their life. And that is the only form of training.

In addition to developing individual capability, firms in the study which engaged poor suppliers developed individual capability and also capacity. While individual capability development involves increasing the knowledge and skills of one person, we use capacity building to refer to the application of this capability so that it brings benefits to

others in the community. Volcanic Earth set up a small factory and assisted a poor individual to obtain a business licence to manage the factory and supply coconut oil to Volcanic Earth. This supplier employs other poor people in the factory and also sources coconuts from remote islands, providing income-earning opportunities to people on these islands. This is an example of building the capability of one individual and also building capacity by providing this one individual with equipment and resources to provide income-earning opportunities to others in the community.

The firm spends considerable time and effort mentoring the factory manager as evident in the following statement from the manager,

He (supplier) will come to me every week with his pay slips and will get me to check them and so forth, because he didn't come from a high education...things that we take for granted as far as business, or being a business leader...I've had to try to teach Donald and mentor him on that and that's an ongoing process.

Firms also tended to take a long-term view of this issue and supported capability development opportunities for the poor such as school sponsorship schemes. Eratap Resort has a school sponsorship scheme and at the time of this study the scheme funded the education of 75 children in the nearby village. The telecommunications firm focuses on sport for development and along with building community spirit, the manager believes that sport develops individual knowledge and skills relevant to business.

In another example, the telecommunications firm builds capacity in villages in response to poor infrastructure (state fragility) in rural areas. Electricity is not available in many

rural areas in Vanuatu, making it impossible for customers of the telecommunications firm to charge their mobile phones. Consequently the telecommunications firm provides solar-powered chargers in the *nakamals* (village centres) in rural areas so that customers are able to charge their mobile phones. Of course, this provides access to electricity for the village to use for other purposes including lighting and refrigeration. All of these activities result in capability and capacity development in response to institutional forces from each of Scott's (2008) three pillars.

Compassion with Boundaries. The normative forces (reciprocity and golden egg syndrome) that create an expectation that firms will contribute in ways unrelated to core business activities results in managers making a wide range of contributions to employees, suppliers and the community (some of which have been discussed already). However, while firms in the study were generally very compassionate towards the poor, they were also very conscious of setting boundaries. As one manager explained, 'if you become known as a cheque writer, you're gone'. Firms demonstrated compassion by providing employees with additional benefits such as healthcare, access to finance, clothes and food and contributing to cultural and sporting events in the community. However, despite this generosity there was a consistent message in all the firm interviews that while ni-Vanuatu need support they also encouraged independence and self-sufficiency. This was evident in the way each manager discussed their approach to supporting employees, the community and suppliers. They referred to examples where they had provided financial support to ni-Vanuatu and typically expressed the view that ni-Vanuatu need to take responsibility. For example, one manager explained,

We have donated to communities helping them to build different things but what we try and do is adopt a self-help approach so we provide the materials but the local community have to provide the labour.

This comment reflects the general attitude of managers that individuals need to take responsibility for their own lives. While firms provide discretionary support to ni-Vanuatu, sometimes way beyond what could be expected, they also encourage self-sufficiency. This illustrates the intersection of the capitalist value system, emphasising independence and individualism, and the collectivist value system that emphasises reciprocity and dependence on extended family. To some extent, this suggests that managers are attempting to encourage a capitalist mindset. Some firms assisted employees and suppliers to open bank accounts and establish savings plans to encourage financial independence. The factory manager for Volcanic Earth purchased a motorised scooter via a loan scheme established by the firm. These activities are consistent with a capitalist mindset of accumulating individual wealth and possessions and have the potential to challenge institutionalised norms in Vanuatu.

Customisation, separate identity. Firms in this study were knowledgeable and mostly sensitive to the unique needs of the poor, although they often expressed frustration. This emotional response is a typical effect for an outsider (Scott, 2008). We found that on a day-to-day basis firms recognised the unique situation of the poor and customised interactions to accommodate their situation. For example, the poor often lacks access to reliable transport and firms with poor employees provided transport to and from work. These firms also ensured that the work environment and jobs were designed to suit their abilities. One manager indicated, ‘we make it as easy as possible for them to do the

right job'. This manager has observed that his employees do not cope well under pressure and ensures that the ratio of employees to customers is appropriate for their stress threshold. The telecommunications firm also customises its products and services for the low-income segment of the market. This has resulted in special deals that are only available to low-income segments of the market such as *Talk Club*, which allows low-income customers a higher number of calls each month. The firm is able to offer these special deals exclusively to low-income segments of the market by advertising directly to individual phones and they know who the low-income customers are because of customer spending records. The manager explained that while the profit margin is quite low their aim is to keep customers active: "if a customer only has 100 or 200 vatu a month we want to make sure they get the best value for that spend".

While firms worked as much as possible within existing cultural parameters, they also maintained a sense of otherness. This was evident by frequent references to 'they' and managers making comparisons between themselves and ni-Vanuatu. Interestingly this was also the case for the indigenous firm owner, who was at times critical of ni-Vanuatu, for instance he said, 'people are not educated they are lazy, they just sit around and do nothing'. This reveals the sense of frustration that managers' experience with respect to all aspects of the institutional setting. While they make every effort to work within these parameters they maintain a separate identity and do not conform, despite the presence of strong institutional forces.

DISCUSSION

The objective of this study was to examine how institutions affect firms that employ an inclusive business approach, and in doing so, present the reality of doing business with

poor stakeholders from the perspective of the firm. This is in contrast to many perspectives about doing business with the poor about what *should* and *could* be (see for example Prahalad and Hart, 2002; Santos, Laczniak, and Facca-Miess, 2015; Sud and VanSandt, 2011). Our findings contribute to theory development in two areas. First, how firm interactions with the poor are theorised from an institutional perspective and second, how multiple institutions interact and influence firm behaviour in this context. This research focus contributes to knowledge of inclusive business and highlights the complexity of institutional processes in an inclusive business setting.

Misaligned institutions

While other relevant research has tended to focus on the inhibiting role of formal institutions at the macro level of analysis (Ault and Spicer, 2014; Hall et al., 2012) our study examines the firm's perception of institutions at multiple levels. By applying Scott's (2008) institutional pillars we were able to conduct an analysis that demonstrates the critical enabling role of formal institutions that are undermined in many ways by other weak formal institutions and informal institutions.

While formal institutions can serve as catalysts for enabling interactions between firms and the poor, the presence of other weak formal institutions coupled with the informal institutional environment, constrains these interactions. Overall our results suggest that weak formal institutions and informal institutions present a number of risks and uncertain conditions for firm interactions with poor stakeholders. Despite the fact that others have noted the importance of 'social institutions' (London and Hart, 2004, p. 367) limited detail exists about the nature of these institutions or how they interact with

other institutions. Our study provides details about the nature of informal institutions and their effects on firm interactions with the poor. Of particular interest with respect to informal institutions was the presence of conflicting value systems between firms and poor stakeholders. On the one hand the capitalist mindset, which emphasises the individual and wealth creation, and on the other hand, a subsistence lifestyle that emphasises personal relationships, the kinship group and a non-materialistic lifestyle. In the case of Vanuatu this can mean that there is little incentive for the poor to engage with the formal economy despite other supporting institutions and good intentions of firms. These findings suggest that normative systems have considerable salience and can work against the efforts of other institutions. Our findings related to misaligned institutions have implications for policy makers who prioritise private sector development as a poverty alleviation strategy, and highlight the need for strategies that take a multi-faceted approach.

Firm Responses to the Institutional Environment

Our findings about firm responses to the institutional environment extend existing research that suggests firms rely heavily on relationship-based exchanges to conduct business in the presence of weak institutions (London and Hart, 2004; Peng, 2003). Our findings also suggest that normative and cultural-cognitive institutions influence the firm's decision to prioritise social relations and provide evidence of how firms go about building and maintaining relationships in this context. Firms do this through community investment and being visible and present with poor stakeholders. We also discovered that although state fragility can hinder firm interactions with the poor (Ault and Spicer, 2014), firms use state fragility as an opportunity to build social capital. A lack of

infrastructure in a village, for instance, gives the firm an opportunity to provide a much needed water supply system, electricity or roads and in return the firm seeks to improve its reputation with village members.

We also found that the institutional environment places firms under pressure to contribute to development in impoverished communities. Our results reveal that although managers responded with compassion towards the poor by making voluntary contributions they were careful not to be seen as ‘cheque writers’, as one manager put it. Again this highlights values associated with capitalism emphasising independence and the firm’s attempt at putting boundaries in place with respect to compassionate deeds.

Institutional pressures also place considerable pressure on firms to develop capability and capacity. This almost seems to be a condition of successful firm interactions with poor employees and suppliers in particular who are typically poorly educated and lack the skills and knowledge required for business. This illustrates a helpful role that firms can play as development agents given the importance of building capability in development efforts (Sen, 1999). It suggests that win-win scenarios are possible with the inclusive business approach, a proposition that has received criticism (Blowfield, 2012; Blowfield and Dolan, 2014; Karnani, 2007).

Institutional Change

Finally, while our study did not specifically examine institutional change, we present evidence to suggest that firms adopting an inclusive business approach are likely to challenge existing normative and cultural-cognitive institutions. Where institutional

pillars are misaligned, as we found in our study, conditions are created that are highly likely to give rise to institutional change (Scott, 2008). In our study, strong normative and cultural-cognitive systems exist, and are often misaligned with regulative institutions that support capitalism. While firms obtain a licence to operate under regulative institutions, normative and cultural-cognitive institutions inhibit commercial interactions with poor stakeholders. Although we found evidence that firms recognise and work within the parameters of the poor's unique situation (see description of 'customisation, separate identity' in results section), the strong sense of otherness present in managers suggests their frustration brings rise to business activities that seek to challenge unhelpful aspects of the institutional setting. For instance, attempting to make poor employees financially independent by assisting them to establish personal bank accounts and savings plans, hence challenging a key hallmark of the wantok system related to dependence on extended family. The core business of the telecommunications firm that has made mobile phones easily accessible is another example. Access to telecommunications and the Internet is likely to broaden the perspective of these poor consumers by introducing them to information outside of their usual social networks. This suggests that the concept of institutional entrepreneurship is relevant to understanding inclusive business, particularly the possible outcomes of inclusive business.

Institutional entrepreneurs are 'actors who introduce changes that diverge from existing institutions in a given environment' (Battilana, Leca and Boxenbaum, 2009, p. 95). This view recognises that the institutional environment shapes organisations but that organisations can also play an active role in shaping the institutional environment. While there has been an increased focus on studying institutional change in the past two

decades (Scott, 2008), the role of organisations in contributing to institutional change is an understudied area. The management research concerning institutional change tends to focus on change *within* the organisation or an industry, for example, Scott, Martin, Mendel and Caronna's (2000) study of institutional change in the healthcare industry or Fligstein's (1991) study of structural changes over time in U.S corporations. In other words, previous research of this nature has been concerned with the influence of institutions on the organisation, not how the organisation influences the institutional environment (Barley, 2007). Our findings suggest that there are instances when organisations exert pressure on multiple institutions with the potential to bring about institutional change over time.

This finding also has implications for inclusive business research and points to the importance of evaluating the impact of firm interactions with the poor with institutions in mind. The impact of the inclusive business approach on the poor has received limited attention in the management literature, with some exceptions. Ansari, Munir, and Gregg (2012) argue that base of the pyramid (BOP) initiatives need to be evaluated based on whether they build capability in low-income communities. We provide another perspective and suggest that evaluating the impact of inclusive business also needs to take into consideration institutional change. This perspective goes beyond impact assessments in terms of their contribution to typical poverty alleviation measures, which can divert attention away from institutional logics at various levels (Utting and Zammit, 2009). Examining institutional change considers power relations and the role the firm plays as a political actor in settings where the poor reside. Our results indicate that the complexities of power relations and how these affect outcomes for the poor are important in evaluating inclusive business. This brings into focus both the positive and

negative impacts that the inclusive business approach could have on normative and cultural-cognitive systems and requires a more complex assessment at the community and individual levels.

LIMITATIONS AND FUTURE RESEARCH

We acknowledge that research focused on one country has limitations in terms of generalisability, although there is evidence that some of our study findings are supported in other settings. At the very least our study adds to existing research that highlights the critical role of the institutional environment with respect to inclusive business (Ault and Spicer, 2014; Hall et al., 2012; Mair et al., 2012; Santos et al., 2015). It also adds further evidence to the role informal institutions play in creating barriers for the poor to participate in the formal economy (Mair et al., 2012). The nature of these barriers will vary between poverty settings as cultures and norms will differ and this points to the importance of research in a variety of poverty settings. As management research related to inclusive business evolves it seems pertinent that future research examines a variety of institutional settings and that comparative studies are conducted.

This study also highlights the importance of examining the influence of external institutions on firm interactions with the poor and how these ‘distant’ institutions interact with local institutions, particularly as various international actors often exert influence in developing countries. In our study we witnessed the influence of aid donors in supporting industry and even providing direct funding to one of the firms in the sample to address poverty alleviation. This discovery highlights a relatively new trend in aid donor poverty alleviation efforts involving aid funds bypassing government and going directly to the private sector. In Australia, this involved the aid program piloting a

project called the *Enterprise Challenge Fund*. Similarly, the United Kingdom's aid program has an initiative called *Development Capital* that invests in private-sector development (UK Department for International Development, 2015). While our results suggest that this strategy enables firm interactions with the poor, other institutional forces may inhibit its effectiveness. We acknowledge, however, that this was not the focus of our study and that this is an area requiring dedicated research attention in the future.

CONCLUSION

As firms increasingly interact with the poor and are encouraged to do so through formal institutions, the reality on the ground is that the institutional environment presents significant challenges for the firm. This study provides insight into the firm experience of inclusive business and importantly, how firms attempt to make these interactions successful. The findings of this study present a more realistic picture of firm interactions with the poor. This is important if inclusive business is to be considered a viable poverty alleviation strategy and if firms are to have successful business ventures involving the four billion people at the base of the world's economic pyramid.

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APPENDIX 1

FIRM INTERVIEW QUESTIONS

Section 1: Background

1. How long has the firm been operating in Vanuatu?
2. Who owns the firm?
3. How many workers does the firm employ?
4. Broadly speaking, what are the firm's objectives and how does it go about achieving these objectives?
5. Please describe the nature of your customer base e.g. Ni-Vanuatu, tourists, expatriates
6. Does the firm interact with the poor / low-income ni-Vanuatu? If so, in what ways? Why?

Section 2: Nature of interactions with the Poor

7. Please describe the nature of the firm's interactions with poorer / low-income ni-Vanuatu employees/suppliers/customers? Does the firm adopt tailored activities for these people? Why? How do these activities affect the firm?

Section 3: Firm experience of interactions with the Poor

8. Generally speaking, how would you describe the experience of managing a firm in Vanuatu? *Prompts: Regulatory environment? Expectations of your firm? Cultural differences?*
9. Overall, how would you describe the firm's relationship with the local community?
10. Does poverty threaten the firm in any way?

CHAPTER 4

PAPER 3:

INCLUSIVE BUSINESS AND POVERTY ALLEVIATION: THE IMPORTANT ROLE OF INSTITUTIONS AND CAPACITY BUILDING

SIGNED DECLARATION

PAPER 3

Publication Details

Full Title	Inclusive Business and Poverty Alleviation: The Important Role of Institutions and Capacity Building
Author	Sally A. Curtis
Candidate's Contribution	The candidate is the primary author and contributed greater than 90% of the content of the publication and was responsible for the following: • Performed literature review; • Collected, analysed and interpreted data; • Developed research ideas, propositions and arguments using Sen's capability approach; • Wrote the entire manuscript.
Status	In Preparation
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Candidate's Declaration

I confirm that the details above correctly reflect my contribution to the preparation of this manuscript.

Candidate's Name

Candidate's Signature

Date

Sally Anne Curtis



24/11/2014

Supervisor's Declaration

I authorise the inclusion of this manuscript in the candidate's thesis and certify that:

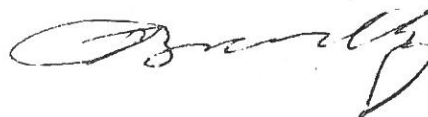
- The declaration made by the candidate above correctly reflects the extent of the candidate's contribution to this work.
- The candidate contributed greater than 90% of the content of the publication and is the "sole author".

Supervisor's Name

Supervisor's Signature

Date

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24/11/2016

INCLUSIVE BUSINESS AND POVERTY ALLEVIATION: THE IMPORTANT ROLE OF INSTITUTIONS AND CAPACITY BUILDING

ABSTRACT

The promise of inclusive business is that firms can be profitable by including the poor in the value chain and at the same time alleviate poverty; some even go as far as suggesting poverty can be eradicated (Prahalad, 2010). However, existing research has tended to focus on the first part of this promise while the second aspect related to poverty alleviation has received scant attention. To begin to redress this balance, this empirical study explores the relationship between inclusive business and poverty alleviation. I apply the capability approach and operationalise it by using Alkire and Foster's (2011) multidimensional poverty index to evaluate inclusive business activities of five firms in Vanuatu. This evaluation reveals that at least two conditions are important for poverty alleviation to occur. The first condition that strengthens the relationship between inclusive business and poverty alleviation is the presence of formal institutions that support the private sector in their interactions with the poor. The second involves a commitment to capacity building on the part of the firm. The findings suggest that where these conditions exist inclusive business is more likely to alleviate poverty, however, it can only go so far to assist with efforts to eradicate global poverty.

INTRODUCTION

Interest in market-based poverty alleviation solutions is gaining momentum in the management literature, usually referred to as inclusive business or the base of the pyramid (BOP) approach. While the rhetoric that surrounds the approach is that

business can be profitable in low-income markets and at the same time alleviate poverty (Prahalad and Hammond, 2002; UNDP, 2008; UNDP, 2013), much of the academic research has tended to focus on the first part of this proposition and tends to consider how firms can be successful in BOP markets based on business success measures (Halme, Lindeman, and Linna, 2012; Khavul and Bruton, 2013; London and Hart, 2004; Prahalad and Hammond, 2002). Given the uniqueness of BOP markets compared to markets in developing countries this line of research is important if firms are to be successful in BOP markets, however, a more balanced perspective is needed that also considers the second part of the proposition involving poverty alleviation and this is the focus of this study. It is important to understand inclusive business from this perspective to understand firm activities that are effective in alleviating poverty and those that have little, or no impact.

Traditionally, poverty reduction has been the responsibility of government, international development agencies and non-governmental organisations (NGOs) while poverty reduction involving the private sector has focused at the macro level with the goal of stimulating economic growth. This approach is based on the assumption that everyone will benefit from economic growth and the benefits will be distributed throughout the country. Many challenge this trickle-down effect, however, and argue that the poor are often excluded from the formal economy and the benefits of economic growth do not reach them (Hill and Rapp, 2009; Sen, 1999). This form of social exclusion has led to a focus on micro-level business activity and a potential role for business in poverty reduction efforts at the level rather than purely at the macro level.

Despite the seductive proposition of inclusive business there is debate about whether the approach can achieve simultaneous objectives where business makes a profit and poverty alleviation occurs. Proponents of the BOP approach have argued that, ‘MNC investment at “the bottom of the pyramid” means lifting billions of people out of poverty and desperation’ (Prahalad and Hart, 2002, p. 3). The idea has gained traction in the management literature and, although still in its infancy, research has begun to focus on how business can be successful in BOP markets, where success typically equates to the economic performance of the firm. This line of research suggests that partnerships (London and Hart, 2004; Reficco and Márquez, 2012; VanSandt and Sud, 2012), various forms of innovation (George, McGahan, and Prabhu, 2012; Halme et al., 2012), and paying attention to social performance (London and Hart, 2004) are important for firm success in BOP markets.

While research attention has focused on how business can successfully implement an inclusive business approach there is a degree of scepticism about the poverty alleviation aspect of the inclusive business proposition. Perhaps the most vocal critic is Aneel Karnani, who has argued that targeting the poor as a consumer group could lead them to make purchasing decisions that are not in their self-interest and thus a BOP approach risks being exploitative (Karnani, 2007). Karnani (2007) examines the case of *Fair & Lovely* skin whitening cream, a Unilever product, to demonstrate the negative implications to social welfare that might arise with the BOP approach. While BOP proponents argue that it is patronising to think that the poor are not capable of making decisions in their interest, there is some evidence indicating that this is the case. For instance the poor often draw on traditional beliefs and make decisions about medical treatment that are not beneficial to their health (Banerjee and Duflo, 2011). Hill

(2008:78) who has studied poor consumers extensively has described the poor as 'disadvantaged consumers'. Hill (2008:79) argues that research related to poor consumers suggests that the economic exchange strongly favours the interests of business over that of poor consumers and that typically predatory business tactics exist to take advantage of 'consumption restrictions'.

Others suggest that the role of business in poverty alleviation should be treated with caution and draw attention to issues of power relations and accountability. Often a characteristic of developing countries is state fragility where the poor receive limited protection from the State leaving them potentially vulnerable to exploitation by more powerful actors such as business, particularly where there is little incentive for business to prioritise poverty alleviation alongside profit motives (Blowfield, 2012; Blowfield and Dolan, 2014; Newell and Frynas, 2007). To illustrate this point Blowfield and Dolan (2010) examined the experience of tea producers in Kenya and found that the postulated benefits of Fairtrade were not realised by the intended beneficiaries in this case, particularly with respect to empowerment. They conclude that the business case and poverty alleviation case need to be better integrated to influence the actions of business (Blowfield and Dolan, 2010). Despite the potential for negative implications, however, even the sceptics acknowledge that inclusive business has potential to contribute to poverty alleviation if proper attention is paid to this issue and due consideration is given to the processes involved (Blowfield and Dolan, 2010; Newell and Frynas, 2007).

The work that considers inclusive business, or related ideas, from the perspective of the poor and social welfare tends to avoid providing an explicit and objective measure of

poverty (Kolk, Rivera-Santos, and Rufin, 2014). Much of this work is normative and provides arguments about how inclusive business can alleviate poverty through responsible leadership (Maak and Stoetter, 2012; Mària and Lozano, 2010) and partnerships (Shivarajan and Srinivasan, 2013; VanSandt and Sud, 2012). An objective measure of poverty is important as it allows an evaluation of inclusive business that assists to determine firm activities that are helpful in alleviating poverty and those that make little or no difference. Furthermore, using a widely used measure of poverty assists to make claims about the relationship between inclusive business and poverty alleviation more robust. One of the few theoretical perspectives that considers how firms can alleviate poverty is provided by Ansari, Munir, and Gregg (2012). While they avoid entering the debate about whether the aims of inclusive business can be realised for business and the poor, they argue that inclusive business initiatives should be evaluated on whether they expand capability through building social capital. This perspective applies Sen's (1999) capability approach as a way of conceptualising social welfare and argues that inclusive business should build or preserve social capital in order to improve the social welfare of the poor. I expand on Ansari et al.'s. (2012) work and answer their call to operationalise the capabilities approach in future research. Specifically, this study was guided by the question, applying Sen's (1984, 1987, 1999) notion of poverty, under what conditions does inclusive business alleviate poverty?

The article proceeds as follows. Firstly, I provide an overview of the capability approach and pay particular attention to operationalising this idea using the multidimensional poverty index (MPI). Second, I provide an overview of the research design and methodology including background about the research setting, data sources and data analysis process. In the third section I present the research findings and

propositions. Before concluding, I discuss the implications of the findings for the inclusive business literature.

THE CAPABILITY APPROACH

Traditionally, poverty has been conceptualised and measured in economic terms, typically based on income. In more recent times, however, a broader perspective has emerged that suggests that while income is an important means of achieving what an individual values, wellbeing should be conceptualised in terms of an individual's capability set (Sen, 1999). The central characteristic of the capability approach is its focus on what people are effectively able to do and be – their capabilities. Economist and philosopher, Amartya Sen (Sen, 1979, 1984, 1987a, 1999) played a pioneering role in developing the approach and it has since been developed by others, most notably by the philosopher, Martha Nussbaum (Nussbaum, 1988, 1995, 2000, 2003, 2004). I provide a brief overview of the capability approach below, for a more complete review see Robeyns (2005).

The capability approach is a framework for the evaluation and assessment of individual wellbeing and social arrangements and can be used to evaluate aspects of wellbeing including, although not limited to, poverty. Sen (1999) argues that evaluations and assessments of people's lives should focus on what they are able to do and be, rather than on happiness or economic measures. When applied to poverty, he argues that 'poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes' (Sen, 1999, p. 87). In viewing poverty as capability deprivation, Sen (1999) acknowledges that income can be an important factor in causing capability deprivation but it is not considered as intrinsically important. According to the

capability approach the ends should be conceptualised in terms of an individual's capabilities that give them the freedom to live the life that they value.

The capability approach has generated much discussion and debate, in particular about how to operationalise the approach and identify which capabilities matter. Sen (1999) is deliberately vague about which precise capabilities are important, arguing instead that capabilities should be selected through a democratic process and should be appropriate in the context for which they will be used. So far the approach has been largely absent in the inclusive business literature with some exceptions such as Ansari et al. (2012) who apply the approach in a theoretical way and call for future inclusive business research to operationalise the approach.

One attempt to operationalise the approach is provided by Nussbaum (2003, pp. 41 – 42) who provides a list of 'central human capabilities' across ten categories such as bodily integrity, emotions and affiliation. These capabilities, however, were developed as principles that could underpin each constitution rather than with poverty in mind (Robeyns, 2005). As Sen's early work was about poverty in developing countries he refers to 'basic capabilities' as a subset of capabilities. Basic capabilities refer to real opportunities to avoid poverty and can be useful 'in deciding on a cut-off point for the purpose of assessing poverty and deprivation' (Sen, 1987b, p. 109). This thinking influenced the United Nations' human development index to measure poverty in non-income terms, which has now been replaced with Alkire and Foster's (2011) multidimensional poverty index (MPI). Alkire and Foster's (2011) MPI is underpinned by Amartya Sen's conceptualisation of poverty and can be used to identify the poor and understand deprivation across three dimensions: education, health and living standards.

While this index was developed for the purpose of making cross-country poverty comparisons, it provides one of the few universally endorsed ways of operationalising the capability approach for the purpose of poverty analysis and therefore I use the MPI for the purpose of this study.

This begins to address concerns about the scarcity of objective assessments of the social impact of inclusive business (Kolk et al., 2014) and also responds to a call for operationalising the capability approach in the field of inclusive business (Ansari et al., 2012). The capability approach is not an explanatory theory. I use it as a framework for assessing inclusive business activities and draw on Sen's (1999) ideas to inform data collection and analysis and provide additional insight to the field of inclusive business. I use the MPI as an evaluation tool to evaluate various inclusive business activities and examine the processes involved in poverty alleviation applying the capability approach.

RESEARCH DESIGN, DATA AND METHODS

Research Design

I used an inductive approach to examine how and when inclusive business alleviates poverty, an approach that Eisenhardt, Graebner, and Sonenshein (2016) argue is ideal for a 'grand challenge' such as poverty. I studied five case study firms that interact with the poor in Vanuatu, a small island country in the Pacific. Many ni-Vanuatu, particularly in rural areas, are subsistence workers defined as,

A person that did "work to support the household by producing goods mainly for own consumption", performed a variety of tasks such as farming, gardening,

fishing or producing handicrafts for their own consumption (Vanuatu National Statistics Office, 2009, p.102).

This highlights the importance of land ownership in Vanuatu where the majority of households reside on customary land (Vanuatu National Statistics Office, 2009). About 30 per cent of the population live in poverty (Alkire, Roche, Santos, and Seth, 2011). Vanuatu is ranked 134 out of 188 countries on the Human Development Index (UNDP, 2015). Central to the Government of Vanuatu's poverty alleviation strategy, along with aid donors in the region, is private-sector development and inclusive growth (Australian Department of Foreign Affairs and Trade, 2015; Government of the Republic of Vanuatu, 2006). This has led to policies and programs that aim to include individuals in the formal economy that were previously excluded. For example, in 2008 Vanuatu ended a monopoly in the telecommunications sector and provided a license to another company on the condition that the company install infrastructure and provide affordable mobile phone access to the majority of people in the country, including many of the country's poorest. This resulted in a significant increase in mobile phone users throughout the country, particularly in rural areas where poverty is greatest. At the time of this study this was still fresh in people's minds, meaning they could recall how life was like without a mobile phone. The relatively recent inclusive growth strategy provides an ideal setting to examine the relationship between inclusive business and poverty alleviation.

The selection of cases was guided by the following criteria. The firm should: (1) provide livelihood opportunities or expand access to products and/or services to the poor; (2) offer the potential to study changes in individual poverty status as a result of

firm activities where changes are still fresh in people's minds; and (3) have been operating for several years to allow for changes to occur in the lives of the poor. In addition, the aggregate group of cases should: (1) include a minimum of two cases to allow for theoretical replication (Yin, 2009); and (2) should include instances of firms providing livelihood opportunities and expanding products and services to the poor so that both aspects of inclusive business can be examined. We identified five firms that met our criteria. I selected five firms in Vanuatu that are relatively new to operating in the country and/or new to interacting with the poor. All firms in the study include previously excluded individuals in the formal economy as employees, suppliers, consumers or community members. The study used a multiple case design and followed replication logic where each case was considered an experiment that served to prove or disprove inferences drawn from the cases (Eisenhardt, 1989b; Yin, 2009). A description of the five firms is provided below, paying particular attention to each firm's interaction with poor and deprived stakeholders.

Telecommunications Firm. The multinational telecommunications firm, which requested not to be named, established operations in Vanuatu in 2009 following a licence being made available by the Government of Vanuatu. Prior to this Vanuatu only had one telecommunications provider. A condition of the agreement between the firm and the government was that the firm aims to provide universal access to telecommunication services throughout Vanuatu. To meet this commitment the firm invested heavily in infrastructure throughout the country and increased mobile phone subscriptions from 10 per cent of the population to 50 per cent within the first year of operations, with many new users in poorer locations (O'Connor, Naemon, and Sijapati-Basnett, 2012). The firm has a large percentage of the low-income market in Vanuatu

and offers special mobile phone rates to low-income earners, determined by the customer's purchasing habits over time.

Eratap Resort. This tourist resort is located near the village of Eratap and leases the land from customary owners in the village. A good relationship with the village is critical for the firm to avoid disputes and to allow access to the village and surrounding areas for tourist activities. The village is located in a rural area and prior to the establishment of the resort in 2008 the majority of village members lived a subsistence lifestyle. Eratap Resort is a small firm with 48 employees, some of whom are from the local village, and the firm also provides funding for community development projects.

Tanna Coffee. This firm processes and manufactures coffee using coffee cherries grown on the Vanuatu island of Tanna. The coffee industry on Tanna was first established in 1982 through development funds to assist the newly independent Vanuatu. Eventually it was privatised and the current firm has been operating since 2007. At the time of the study the firm was the only coffee manufacturer in Vanuatu and purchased coffee cherries from more than 500 coffee growers on the remote island of Tanna. The firm also employs people from Tanna to assist with processing the coffee cherries and administrative activities.

Volcanic Earth. This firm manufactures health and beauty products using, as much as feasible, raw materials from Vanuatu such as coconut and tamanu oil. In 2009 the firm received aid funding directly from the Australian Government as part of a poverty alleviation initiative involving the private sector. The funding allowed the firm to expand operations and provide income-earning opportunities to ni-Vanuatu. The focus

of this study was the factory manager, who is engaged by the firm to supply coconut oil. Prior to this opportunity the factory manager was unemployed.

Evergreen. This firm is locally owned and operated and offers tours to tourists to local sites of interest. The firm was established in 1999, although it is only in more recent years that the firm has grown and provided employment opportunities to ni-Vanuatu people, many of whom are poor or deprived. The firm typically employs people from the firm owner's village and a neighbouring village.

As I was interested in the conditions under which firm activities are more likely to alleviate poverty I used an embedded design (Yin, 2009) where the firm was the primary case and within each case several individual cases were included for analysis within each firm. The embedded cases were individual stakeholders of the firm who were selected on the basis of being deprived in at least one of the MPI indicators prior to interacting with the firm. I focused on selecting individuals from the stakeholder group/s where the firm interacted with the poor, for example Tanna Coffee interacted with the poor as employees and suppliers so individuals were selected in each of these stakeholder roles.

Poverty Measure

Alkire and Foster's (2009, 2011) MPI provides a coherent framework for measuring poverty using a counting method to identify the poor and measure the intensity of poverty. The MPI is a measure of household poverty that has three dimensions: education, health and standard of living. The dimensions were selected through a series

of participatory exercises, enduring consensus, philosophical or psychological accounts of basic needs, universal values and human rights and the practicalities of data access (Alkire and Santos, 2010). The index is weighted so that each dimension is worth one third of the overall index. Table 1 provides the indicators across the three dimensions.

TABLE 1
MULTIDIMENSIONAL POVERTY INDEX

Dimension	Indicator	Deprived if...	Relative weight
Education	Years of schooling	No household member has completed five years of schooling	16.7%
	Child enrolment	Any school-aged child is not attending school in years 1 to 8	16.7%
Health	Mortality	Any child has died in the family	16.7%
	Nutrition	Any adult or child for whom there is nutritional information is malnourished	16.7%
Standard of Living	Electricity	The household has no electricity	5.6%
	Sanitation	The household's sanitation facility is not improved e.g. flushable toilet	5.6%
	Water	The household does not have access to clean drinking water or clean drinking water is more than 30 minutes' walk from home	5.6%
	Floor	The household has dirt, sand, dung floor or coral floor*	5.6%
	Cooking fuel	The household cooks with dung, wood or charcoal	5.6%
	Assets	The household does not own more than one of: radio, TV, telephone, bike, or motorbike, and do not own a car or tractor	5.6%

Source: Alkire and Santos (2010, p. 15)

*Coral floor was added for the purpose of this study, which is consistent with reporting against this measure for Vanuatu.

The index allows poverty intensity to be measured where a person is considered poor if he or she is deprived in at least one third of the indicators, vulnerable to poverty if deprived in 20 to 33 per cent of the indicators, and any score below 20 per cent is deprived. A person is considered to be in severe poverty if they are deprived in 50 per

cent or more of the indicators (Alkire, Conconi, and Roche, 2013). For the purpose of this study I refer to ‘the poor’ as individuals who are deprived in some way on the MPI.

Data Sources

There were two primary data sources. The first was data gathered through interviews with the owner or senior manager of each firm. This interview asked about the firm’s background, the nature of the firm’s interactions with poor stakeholders and their experience interacting with these stakeholders. Secondly, data was gathered through semi-structured interviews with individual stakeholders of the firm who were deprived to some extent according to the MPI. The study relied mostly on qualitative data, however, I also gathered MPI data that could be quantified to measure poverty and changes in poverty status. As discussed above, this allowed me to apply an accepted measure of multidimensional poverty that operationalizes the capability framework and addresses calls in the inclusive business literature for more definition and explicit measurement of poverty (Kolk et al., 2014). A numerical measure of poverty has the advantage of identifying trends over time and making comparisons between different individuals (Chambers, 2005). This numerical data combined with interviews gives a voice to the poor and allows for an examination of the poor’s experience with a firm in the context of how live (Chambers, 2007). A local research assistant helped to conduct the interviews and assisted with understanding cultural nuances when interpreting the data. Each interview was recorded and transcribed to enable data analysis.

The interviews with stakeholders began with asking the individuals to provide some personal background and then moved on to questions about their experience with the

firm. This section of the interview explored perceptions about positive and negative changes as a result of each firm's activities. In the final section of the interview I collected data for each of the MPI indicators. I collected data using this index about the individual's current situation and also asked them to recall the time before they interacted with the firm and provide data based on this recollection. I was also able to validate some of the current poverty status data through observation as interviews were often conducted in the individual's home. Although a longitudinal study would be ideal, this was not possible given study constraints. I supplemented the before and after MPI data with interview questions about 'the most significant change' experienced by the individual as a result of interaction with the firm. This data assisted validating the MPI data. Stakeholders needed to be deprived in at least one MPI indicator to be included in the study; respondents were removed from the sample if they were not deprived in any of the indicators. Volcanic Earth only has one stakeholder as no other stakeholders were suitable for the study and study limitations prevented further data collection. Although Volcanic Earth only has one stakeholder (a supplier), the case provides important insights for the study. A summary of the poverty intensity of the stakeholders included in the study for each firm is provided in Table 2.

TABLE 2
STAKEHOLDER POVERTY DATA FOR CASE STUDY FIRMS

Firm	Number of Stakeholders (individuals)				
	Severe Poverty	Poor	Vulnerable to Poverty	Deprived	Total
Eratap Resort	0	1	6	8	15
Evergreen	0	3	1	6	10
Tanna Coffee	3	7	3	2	15
Telecomms	1	4	1	5	11
Volcanic Earth	1	0	0	0	1
Total	5	15	11	21	52

Data Analysis

I followed the advice of Miles and Huberman (1994) and Eisenhardt (1989a) to analyse the data. They suggest that in a study with multiple cases, the first step is to analyse each case in detail before moving onto cross-case analysis. Hence there were two stages in the data analysis process, one involving analysing each case (the firm) including the embedded units of analysis (individual stakeholders) and a second stage involving cross-case analysis. I used the qualitative data analysis software, NVivo to assist with the analysis.

Stage 1: Within case analysis. The purpose of this stage of the analysis is to become ‘intimately familiar with each case as a stand-alone entity’ (Eisenhardt, 1989a, p. 540). In this stage I analysed each case separately to understand how and why the firm interacted with the poor. In the process I was guided by Sen’s (1999) capability approach, which acknowledges that poverty alleviation is influenced by factors at various levels in society. As a result I analysed the data to search for relevant factors at the institutional and firm level. Sen (1999) argues that institutions play a critical role in poverty alleviation efforts; however, he does not discuss institutions in the context of inclusive business except to say that the market mechanism is an important factor.

I began by analysing the manager interview transcripts. I searched for reasons why the firm interacted with the poor and details about these interactions and coded the comments. Manager comments often led me to examine secondary data related to external factors that influenced the firm’s activities with the poor. For example, in the interview with the telecommunications firm, the manager discussed the licensing

condition requiring the firm to invest in telecommunications infrastructure throughout the country. This led me to gather secondary data related to the licensing conditions such as government reports, newspaper articles and independent public policy reports related to the telecommunications sector in Vanuatu. This process also allowed triangulation of the data, which increases data validity (Yin, 2009). I also searched the data for how the firm interacted with the poor and coded the data by firm activities that were directed at the poor such as training and development, community investment, providing bank accounts and traineeships. I analysed these descriptive codes further and developed more abstract codes such as building competence and providing economic resources.

I then analysed the embedded cases relevant to the firm, including the MPI data. I calculated the MPI score for each individual at the time of interview and also calculated the score before the individual interacted with the firm (as reported by the individual using questions related to the MPI indicators). I then calculated the difference between these two scores to determine the change in MPI as a result of the firm's activities. I then conducted some basic statistical analysis to ascertain the percentage of stakeholders who experienced an improvement in the MPI and the average MPI change across the stakeholders in the sample for the firm.

The next step involved analysing the stakeholder interview transcripts for the firm (the embedded units of analysis) to understand how and why MPI change did or did not occur. I coded the transcripts to identify the significant changes reported by the individual as a result of their interaction with the firm. I began by categorising the comments as positive or negative changes and then proceeded to develop descriptive

codes and eventually developed more abstract concepts as suggested by Miles and Huberman (1994). This resulted in 33 descriptive codes in the positive change category and six in the negative change category. The reported positive changes, abstract codes and the number of participants citing the changes are provided in Table 3 and Table 4 provides the negative changes cited by individuals.

Some of the changes related closely to the three MPI dimensions, for example, I considered home improvements and access to water and electricity as living standard improvements. So I categorised some changes using the MPI dimensions of living standards, health and education. I used this qualitative data to verify the data reported against the MPI indicators. I developed abstract concepts to reflect the other changes; these included financial security, psychological benefits, self-efficacy, community development, family connectedness and competence. I then identified the stakeholders who reported change across these concepts for the firm. I followed the advice of Miles and Huberman (1994) who suggest ordering the cases (in this situation, the embedded cases) by change intensity and then analysing the concepts in Tables 3 and 4 against each embedded case making contrasts and comparisons. The change intensity was determined by the change in MPI score. Where there was no variance in a concept between embedded cases I concluded that it did not influence the MPI, again following the advice of Miles and Huberman (1994, p. 222). For example, *happiness* occurred in the majority of embedded cases, meaning that this concept had little influence on poverty alleviation outcomes, whereas, *improved competence* tended to occur in embedded cases with improved MPI scores. Through this process, given the small number of participants citing negative changes, I determined that the negative changes reported by stakeholders had little influence on the MPI.

TABLE 3

DATA ANALYSIS – POSITIVE CHANGES REPORTED BY INDIVIDUAL

STAKEHOLDERS AS A RESULT OF FIRM ACTIVITIES

Positive Change	Abstract Concept	Number of Participants Citing Change
Access to transport	Living standard improvement	41
Home improvements		
Can buy clothes		
Access to water and electricity		
Other assets		
Access to healthcare	Health improvement	16
Access to food	Education access	25
Pay for school fees		
Bank account	Financial security	20
Employment		
Reliable income		
Investments		
Access to credit		
Assisted to establish business	Economic Resources	10
Provided equipment		
Life is easier	Happiness	33
Happiness		
More comfortable		
Spiritual benefits		
Increased confidence	Self-efficacy	7
More control over life		
Supports community activities	Community development	24
Village is cleaner		
Reduces drug and alcohol problems		
Helps village parents with school fees		
Employment opportunities for the village		
Improved lifestyles in the village		
Access to healthcare		
Community pride		
Improved family communication	Family connectedness	16
Improved family relationships		
Improved knowledge and skills	Improved competence	21
Increased personal safety	Personal security	1

TABLE 4

**DATA ANALYSIS - NEGATIVE CHANGES REPORTED BY INDIVIDUAL
STAKEHOLDERS AS A RESULT OF FIRM ACTIVITIES**

Negative Change	Number of Participants Citing Change
Increased financial commitment	1
Increased conflict	4
Social problems	3
Loss of recreation space	2
Loss of food source	4
Social problems e.g. extra-marital affairs*	7

* This was a change cited by research participants in the consumer stakeholder group (telecomms firm) who indicated that text messages/phone call history on mobile phones assisted to provide evidence of extra-marital affairs and this often leads to domestic disputes.

Stage 2: Cross-case analysis. This stage in the analysis involved searching for cross-case patterns between the firms. I selected categories and looked for within group similarities and intergroup differences (Eisenhardt, 1989a). Firstly, I used the MPI data to sort the five cases from the highest to lowest MPI change as shown in Table 5. Sorting the cases in this way suggested that stakeholders of Volcanic Earth and Tanna Coffee were the most likely to experience MPI improvement. I then searched for similarities between Tanna Coffee and Volcanic Earth and how these cases differed from the other three cases. I searched for differences and similarities using the data analysis from the firm and changes reported by stakeholders. I also sorted the data by stakeholder group as shown in Table 6 and examined the similarities and differences in the same way as the firm analysis.

In this stage I also visited relevant literature, and from the data it became clear that formal institutions and capacity building are important factors that support poverty

TABLE 5
MAGNITUDE OF MPI IMPROVEMENT FOR EACH CASE

Firm	Stakeholders in Sample with MPI Improvement	Average MPI Improvement (numeric)
Volcanic Earth	100%	– 3.87
Tanna Coffee	100%	– 1.48
Eratap Resort	43%	– 0.31
Evergreen	40%	– 0.28
Telecommunications	18%	– 0.25

TABLE 6
MAGNITUDE OF MPI CHANGE FOR STAKEHOLDER GROUPS

Stakeholder	% with MPI Improvement	Average MPI Change (numeric)
Supplier	100%	– 1.25
Employees	65%	– 0.97
Community	50%	– 0.27
Consumer	18%	– 0.25

alleviation. In the next section I explain these results and develop a series of propositions related to the findings.

UNDER WHAT CONDITIONS DO FIRM ACTIVITIES ALLEVIATE POVERTY?

The Important Role of Formal Institutions

While development economists have noted the critical role that formal institutions play in poverty alleviation efforts (Banerjee and Duflo, 2011; Sen, 1999), limited attention has been given to their role in influencing firm behaviour as it relates to poverty

alleviation. Sen (1999) argues that the market mechanism and the freedom to participate in economic exchanges is a basic right and points out that many are excluded from this exchange. He argues that institutions may be required to build more inclusive markets and the results of this study suggest that this is indeed the case. The results indicate that formal institutions such as government regulation, aid programs and property rights play a role in influencing firm behaviour to adopt activities that alleviate poverty. This perspective implies that without the presence of formal institutions, firms are less likely to undertake activities that alleviate poverty. In summary,

Proposition 1: Firm activities involving the poor are more likely to reduce poverty where institutions, particularly those with specific poverty reduction objectives, enable and support these interactions.

I now provide evidence from the study to support this proposition. In each case, formal institutions are present and play a role in influencing firm behaviour in their interactions with the poor. Table 7 provides a summary of supporting data. Although the data suggests that formal institutions play a role in influencing all firms in the study to undertake activities that alleviate poverty, the highest gains appear to be made where development initiatives support business activity. As illustrated in Table 7, Tanna Coffee and Volcanic Earth have stakeholders with the highest MPI improvement. In both cases the firm had direct or indirect aid funding to support the establishment of their respective industries, suggesting that where institutions have an objective to alleviate poverty, firm activities are more likely to alleviate poverty. Below I discuss the relevant institution/s and the cases.

TABLE 7

POVERTY ALLEVIATION AND INSTITUTIONS

Firm	Enabler (external to the firm)	Institution	Percentage of stakeholders in sample with MPI improvement	Average MPI improvement (numeric)
Volcanic Earth	Enterprise Challenge Fund	International Aid	100%	– 3.87
Tanna Coffee	Commonwealth Development Fund	Aid funding, property rights	100%	– 1.39
Eratap Resort	Land ownership	Property rights	43%	– 0.31
Evergreen	Land ownership	Property rights	40%	– 0.28
Telecom municatio ns	Telecommunications Act	Government regulation	18%	– 0.25

In three cases – Eratap Resort, Evergreen and Tanna Coffee – property rights in the form of land ownership is a critical factor motivating firms to engage with the poor. Eratap Resort is located near Eratap village and leases land from customary owners in the village. Given obligations in the lease, proximity to the village and the village being part of the firm’s product, Eratap Resort funds community development projects and employs village members, which has resulted in poverty alleviation for some individuals. Similarly, Evergreen utilises land for tours that is family land and employ members of the family in addition to members of another village who also claim ownership of the land (there has been an ongoing land dispute). The results suggest that the wantok system also plays a role in motivating the firm to employ poor individuals. The wantok system is a social system where family members and their extended families share resources and ensure each other’s welfare. Although this informal institution plays a role (the firm tends to give priority to family members when

employment opportunities become available), land ownership (property rights) provided the necessary resources for the creation of the business in the first place and this enabled the firm to provide employment opportunities.

Government regulation was an enabling factor in providing access to mobile telephony in rural and remote communities in Vanuatu. Prior to 2009 there was a monopoly in the telecommunications sector in Vanuatu with limited mobile phone access across the country where only three per cent of the population had a mobile phone subscription (Sijapati-Basnett, 2008). The Telecommunications Act, 1989 was amended in 2007 opening the market to competition and a new licence was issued to the telecommunications firm in this study. A condition of the licence required the firm to launch its service within six months and cover 75 per cent of the population (Sijapati-Basnett, 2008). While only a small percentage of consumers in the study had any improvement in the MPI as a result of the telecommunications firm, this case highlights the critical role that macro level institutions play in establishing regulatory conditions to better serve the poor. In this case the objective of government regulation was to provide greater access to mobile phone services throughout the country in partnership with the private sector and this appears to have been achieved.

In the case of Tanna Coffee, development funding supported the development of the coffee industry on the island of Tanna. This funding, administered through the Vanuatu Department of Agriculture, has provided essential infrastructure and training to coffee farmers on the island. Tanna Coffee works in partnership with the Vanuatu Department of Agriculture to purchase equipment for farmers and has provided millions of seedlings

that have allowed farmers to establish plantations. The firm owner described it as follows:

As part of the Popaca program the European Union left 3.5 million vatu for the CAV (Coffee Association Vanuatu) to purchase materials and equipment and be delivered down to our factory. We make no profit out of this, but this is a service to our farmers, and the farmers can come up and buy cost price materials and equipment...we put an order in to the Department of Agriculture. They look after it, they order the stuff, they pay for it and we ship it out.

Property rights are also an important institution in this case. Land ownership allows individuals to use the land for growing coffee. The firm also leases land and has an agreement with customary landowners where they have a small share in the firm's profits. This was established under a commonwealth development scheme aimed at supporting the people of Tanna Island.

In the case of Volcanic Earth, aid funding provided directly to the firm, allowed the firm to expand the business. Volcanic Earth were recipients of funding from an Australian government poverty alleviation initiative called the *Enterprise Challenge Fund*, an approach that appears to be gaining popularity amongst aid donors. For the Australian government this was a pilot program that involved a competitive process where funding was provided directly to firms in Asia and the Pacific to encourage pro-poor growth. By funding business directly in this way there is an explicit agreement that recipient firms undertake activities to alleviate poverty, hence one of the objectives of the firm

becomes poverty alleviation and some accountability to the poor exists because of this agreement.

By examining the external reasons behind why each firm interacts with the poor, the evidence in this study supports the argument that institutions are a critical factor in influencing firms to engage in activities that alleviate poverty. Importantly the evidence suggests, at least in this study, that institutions tend to go some way towards achieving the objectives they set out to achieve. This implies that inclusive business is most likely to succeed in reducing poverty where enabling institutions have a poverty alleviation objective to support inclusive business activities. In the next section, I discuss the role of the firm within this context, noting that the institutional environment alone is insufficient for poverty reduction to occur.

Commitment to Building Capacity

Within the context of the institutional environment discussed above, the data suggests that a commitment from firms to build the capacity of the poor is critical for poverty alleviation to occur. In other words, institutions that provide an enabling environment are not enough.

The capability approach is not a theory that explains poverty alleviation, rather it assists to conceptualise poverty and focuses on what individuals are able to do and to be based on their capability set (Robeyns, 2005). To expand an individual's capability set Sen (1999) tends to focus on macro level solutions involving public policy rather than at the micro level involving firms. Despite this, it is possible to draw on principles from Sen's

(1999) capability approach relevant to firm interactions with the poor. Sen (1999) emphasises opportunity and empowerment where he argues that wellbeing should be evaluated in terms of ‘the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value’ (Sen, 1999, p. 87). This emphasis on self-determination implies that building individual capacity is a critical aspect of poverty alleviation.

Capacity building is a popular phrase in international development practice and is often discussed in the context of poverty alleviation. It is a process that involves strengthening people’s capacity so that they are able to achieve their long-term objectives (UNDP, 2009). Central to the notion of capacity building is empowerment and developing systems, structures, knowledge and skills to provide an enabling environment for poverty alleviation to occur. Capacity building is often discussed as a development process within the non-government organisation (NGO) sector as a people-centred approach to development (see for example Eade, 1997) and this focus on empowering individuals makes it philosophically consistent with the capability approach. While development efforts tend to focus on capacity building at the macro or meso level, the results of this study indicate that this is also relevant at the micro level where firms involved in capacity building are likely to alleviate poverty. In summary,

Proposition 2: Poverty alleviation is positively associated with firms’ efforts in building the capacity of the poor.

In the context of inclusive business, capacity building involves firm activities that provide an individual with the knowledge, skills, economic resources and financial security to achieve what they want to achieve. As illustrated in Table 7, stakeholders of

Tanna Coffee and Volcanic Earth were the most likely to have high improvement in poverty status, in fact poverty alleviation occurred for all Tanna Coffee stakeholders in the study. While all firms in the study engaged in capacity building activities to some extent, the evidence indicates that Tanna Coffee and Volcanic Earth focused on these activities more than other firms. Table 8 provides data to support the association between capacity building and poverty alleviation and I now present the results to explain each of these dimensions and provide evidence to support the proposition.

Building Competence. The findings suggest that capacity building in the context of firm interactions with the poor involves activities that increase an individual's competence, particularly where this competence can be applied to access economic opportunities. Competence consists of knowledge, skills and abilities. All of Tanna Coffee and Volcanic Earth's stakeholders reported an improvement in competence as a result of firm activities. In contrast, only 30 per cent of Evergreen stakeholders reported an improvement in competence, 21 per cent for Eratap Resort and zero per cent for the telecommunications firm. Tanna Coffee invested heavily in building coffee farming competence on the island of Tanna through a training program for farmers about how to grow coffee and prepare it for market. This involved training them in how to harvest coffee cherries and reduce the moisture content so that they are suitable for processing. This has resulted in more than 500 farmers on the island and increasing levels of coffee production. Tanna Coffee also invests in employee development, providing employees with on-the-job training and expanding their skills. For instance one employee, considered poor by MPI standards prior to working for the firm (MPI score of 4.42), had no experience in financial management and the firm provided training in this aspect of the business and he has taken on responsibility for managing the accounts. Over a

TABLE 8
DATA SUPPORTING BUILDING CAPACITY

Firm Activities	% Stakeholders who Reported Improvement	Illustrative Stakeholder Quotes
<i>Tanna Coffee</i>		
Building Competence • On-the-job training for employees • Internal promotions • Train farmers how to grow and prepare coffee cherries	100%	‘<Firm owner’s> daughter taught me how to do accounts...my knowledge has improved and I have gained more experience working here. I’ve made some mistakes but I learned from the mistakes.’ (Employee 2) ‘Now that I am working here I have learned how to operate the machines inside, how to do packaging and coffee making.’ (Employee 3) ‘I received training on how to dry the beans...the training was free.’ (Supplier 2) ‘The company provides training on how to plant coffee, how to clean and care for coffee trees. If there are three new shoots I cut off one of them and leave two.’ (Suppliers 4)
Financial Security • Staff bank accounts • Superannuation • Job security • Financial management advice • Support establishment of village associations who manage money • Reliable purchaser	67%	‘Everyone that has a coffee plantation in this area is a member of this association...you become a member by paying 5,000 vatu and the association gives loans up to 50,000 vatu. So if parents have trouble paying school fees they take a loan and then they pay off their loans at harvest time.’ (Supplier 2) ‘I now have two plots of land...one plot of land I have built three unit apartments.’ (Employee 1) ‘Now that I am permanent staff I have the opportunity to make a loan in the bank’. (Employee 2)

Firm Activities	% Stakeholders who Reported Improvement	Illustrative Stakeholder Quotes
Economic Resources • Provide farm and coffee processing equipment to farmers	47%	‘When I started producing coffee it was really hard for me because we didn’t have a pulper so I had to put the coffee beans in my mouth to do the pulping then through other processes for drying. Now that the pulper is here it has been much easier and now the farmers here are using it. It’s made the job much easier for us.’ (Supplier 5) ‘They gave us a pulper machine and the black plastic and also some nets to dry the beans.’ (Supplier 10)”
<i>Volcanic Earth</i>		
Building Competence • Ongoing mentoring • Business skills	100%	‘He gives me advice on how to manage this business even though I haven’t got good schooling I am learning stuff about how to manage a business.’ (Supplier 1) ‘It’s some of the things that I haven’t done before and I am very happy that I know these things.’ (Supplier 1)
Financial Security • Financial management advice • Set up bank account • Access to credit • Assistance to establish business • Reliable purchaser	100%	‘It’s helped me to use my money wisely.’ (Supplier 1) ‘I was not used to having lots of money...he helped me to open a bank account because I was scared to do that. He also helped me to get an ATM card.’ (Supplier 1)
Economic Resources • Assistance with business licence application • Factory equipment	100%	‘Every week we agree for him to deduct 4,500 vatu. They have been helping me a lot...I finished paying off what I owe them this year so now I own this factory. Do you see that sign on the door? I just put it up and they need to let me know before they come in here.’ (Supplier 1)

Firm Activities	% Stakeholders who Reported Improvement	Illustrative Stakeholder Quotes
<i>Evergreen</i>		
Building Competence On-the-job learning	30%	‘I went through tourism course that I paid myself for 1,000 vatu. I learned how to set up a buffet and how to set the table.’ (Employee 4) ‘One thing I think has changed a lot about me is that my English has improved a lot.’ (Employee 2)
Financial Security - Job security - Access to credit	50%	‘I think that working here is an opportunity for me because some of us do not have an opportunity to work in town...my salary has increased.’ (Employee 2) ‘When I need to get something in a hurry I go up to the office and ask for loan.’ (Employee 4)
Economic Resources Nil	0%	
<i>Eratap Resort</i>		
Building Competence Small number of trainees but employs mostly experienced staff	21%	‘My limited knowledge of English is being improved while I’m working here.’ (Employee 4) ‘When I came here I learned a lot of things from Tony. He is the one that teaches me more so I get to learn lots of things...he teaches me more about office work.’ (Employee 5)
Financial Security - Job security - Staff bank accounts	43%	‘When I was driving in town it seems like it takes time to find money, it was very hard from this time...I am the main person who always picks up people at the airport...it has made a big difference for me.’ (Employee 1) ‘Normally the resort pays us and puts the money in the bank but some of us didn’t want to remove the money so we just save the money at the bank.’ (Employee 7)
Economic Resources Nil	0%	

Firm Activities	% Stakeholders who Reported Improvement	Illustrative Stakeholder Quotes
<i>Telecommunications Firm</i>		
Building Competence • Nil	0%	Some stakeholders indicated that that they could now use a phone and its functions but these new skills did not translate into economic benefits.
Financial Security • Nil	0%	
Economic Resources • Access to mobile phone	36%	‘It’s (phone) made it easier for customers to make orders...whenever there is a gathering they contact me to provide food for them and that is extra income.’ (Consumer 11, restaurant owner) ‘The phone makes my work easier...before it was really hard. Before when people needed me they would send for drivers who come by me to contact me...if there is no one in my village in the market I wouldn’t get the message...now that <telecoms firm> has come it has helped me a lot.’ (Consumer 8, sawmill business owner)

period of about two years working for the firm this individual is no longer poor and has an MPI score of zero.

Similarly, the firm owner of Volcanic Earth spent considerable time with the contracted supply manager developing his competence to manage a business. Prior to working with Volcanic Earth this individual was unemployed and had some previous work experience in unskilled jobs, although he had never had experience with managing a business. The firm provided on-the-job training and ongoing mentoring to develop his knowledge and skills to manage his business as indicated by the manager:

He will come to me every week with his pay slips and things...because he didn't come from a high education, Donald, and things that we take for granted as far as business, or being a business leader or that sort of thing, I've had to try to teach Donald and mentor him on that and that's an ongoing process.

While there is evidence of Evergreen and Eratap Resort stakeholders gaining competence from firm activities, it occurs mainly due to work experience and not a concentrated effort on the firm's part to build competence, although Eratap Resort did attempt to do so. This resort attempted to employ and train 100 per cent of its employees from the nearby village but the firm owner described this attempt as a 'disaster', he said, 'it was like me coming to work and having 45 people with no idea what they were doing'. After this failed attempt he employed mostly people with experience in the hospitality industry from the capital city. Some Evergreen employees indicated that their English had improved since working for the firm but this occurred by interacting with English-speaking tourists rather than through a deliberate attempt by

the firm to develop these skills. Another employee attended a training course but only because they paid for it themselves. This is not to downplay the importance of building competence in this way; however, without the firm's commitment to building competence this responsibility falls to the individual and may not occur.

Economic Resources. Another aspect of capacity building involves firm activities directed at providing tangible resources to the poor that assist them to produce goods or services in order to make money. Instances where this was most likely to lead to improvements in the MPI occurred when the firm also purchased goods or services from the individual, as was the case with Tanna Coffee and Volcanic Earth. The telecommunications firm provided access to mobile phones and for a small number of individuals this translated to economic benefits but only because the individual already owned a business and could increase supply. Tanna Coffee and Volcanic Earth assisted suppliers to purchase equipment and were reliable purchasers of their products. For example, Tanna Coffee assisted farmers to procure coffee farming and processing equipment and were a reliable purchaser of coffee cherries. Without this equipment, farmers had limited capacity to produce quality coffee for market. For example, one farmer spoke about how, prior to having access to a pulping machine, he chewed the coffee cherries to remove the outer layer. Similarly, Volcanic Earth assisted its supplier to set up a coconut-processing factory and had a contract with the supplier to purchase coconut oil every week. Prior to this the supplier was unemployed and struggling to ensure that his family had food each day.

Financial Security. Another aspect of capacity building present in the Tanna Coffee and Volcanic Earth cases was activities that provided financial security to individuals.

This goes beyond simply providing income-earning opportunities; it includes firm actions that assist individuals to save money and invest for the longer term. The nature of being poor means they often do not have experience with managing money and have no experience with financial institutions, which can be critical for saving money. This is due in part to never having money to manage and also a fear of financial institutions. For example one individual said, ‘he helped me to open a bank account because I was scared to do that.’ Having a bank account is significant for at least two reasons for building capacity. Firstly, it allows for the possibility of saving money. Without a bank account, saving money can be difficult, particularly given the cultural context where individuals often receive pressure from friends and family to share their income or are at risk of theft, as one individual explained, ‘I have many friends who are alcoholic and they take it from my pocket so I just walk around with about 1,000 vatu. That’s why I have an ATM card.’ Secondly, having a bank account opens up the possibility of obtaining credit from the bank. Having a source of credit can allow for the possibility of investments that lead to further income. For example, an employee of Tanna Coffee discussed how he purchased land and borrowed money from the bank to build apartments that he planned to lease. Capacity building such as this provides a greater degree of financial security to individuals and also assists them to be self-sufficient.

DISCUSSION

The promise of inclusive business is that business can be profitable doing business with the poor and at the same time alleviate poverty, however, this claim has been largely untested using an objective measure of poverty. An objective measure is important in the evaluation of inclusive business in order to make robust claims about the relationship between inclusive business and poverty alleviation. An objective measure

also provides transparency in the evaluation and assists to identify firm activities that are effective in alleviating poverty and those that have little, or no impact. The findings of this empirical study begin to shed light on the necessary conditions associated with poverty alleviation. In doing so, it provides a perspective that is largely absent in the inclusive business literature – a perspective from the poor. Through an analysis of five case study firms that interact with the poor as employees, suppliers, consumers and/or community members, and by applying Sen's (1999) capability approach, I found that poverty alleviation is associated with a supportive institutional environment and firms that build the capacity of poor and vulnerable stakeholders. In this section I examine the implications of these findings for the inclusive business field.

The inclusive business literature is filled with scepticism about the role of business in poverty alleviation efforts. This scepticism largely stems from profit motives being the primary concern of business and that poverty alleviation is incompatible with the primary objective of business (Blowfield and Dolan, 2014; Blowfield and Dolan, 2010). Others have highlighted the unethical nature of some business activities involving the poor, most notably Karnani's (2007) case study of the 'Fair and Lovely' Unilever product, that highlights opportunistic behaviour where firms have little regard for the social welfare of the poor. While this scepticism seems justified given the track record of business interactions with the poor, the present empirical evidence indicates that inclusive business can indeed alleviate poverty under certain conditions, in particular where there is institutional support and where firms build the capacity of the poor.

Institutional Support

A condition that appears to be important for poverty alleviation to occur is an institutional environment that protects the poor and has pro-poor regulations and programs in place that support business activities. In other words, business will be more inclined to engage in activities that alleviate poverty if institutions encourage it to do so.

This provides support for the idea that, if the private sector is to contribute to poverty alleviation in a meaningful way, partnerships between business and organisations with a poverty alleviation objective would assist this to occur (Brugmann and Prahalad, 2007; London and Hart, 2004; Rein and Stott, 2009; VanSandt and Sud, 2012). While others have discussed the benefits of partnerships for firms operating in a BOP setting (London and Hart, 2004; Reficco and Márquez, 2012), these results indicate that they are also important for poverty alleviation. Partnerships between business and pro-poor organisations might address concerns about the tensions between business objectives and poverty alleviation objectives (Blowfield and Dolan, 2010). In a sense institutions have the power to make business accountable to the poor. This was the case in Vanuatu where pro-poor regulation in the telecommunications sector resulted in a significant increase in mobile phone access, and in the case of Volcanic Earth, aid funding was tied to poverty alleviation activities. Paying attention to the institutional setting has potential to address concerns about inclusive business related to the tensions between business and poverty alleviation objectives. Institutions have the ability to establish a business environment that influences firms to undertake poverty alleviation activities.

However, we know that in developing countries, formal institutions do not always represent the interests of the poor, as state fragility is common. For instance, regulations might be in place but not enforced and bribery and corruption can limit the poor's ability to participate in the formal economy (Banerjee and Duflo, 2011; Mair, Martí, and Ventresca, 2012). Given the importance of institutions for making inclusive business beneficial to the poor, this finding adds weight to the scepticism about inclusive business, particularly in settings where formal institutions are weak. Businesses, first and foremost, focus on profits; they might achieve this through activities that alleviate poverty, as is evident in this study, however the main focus is on survival. This sentiment is highlighted in the case of the telecommunications firm. When the marketing manager was discussing the firm's strategy for low-income customers, she said, 'the profit margin is not very big but still they're active customers so (we) just want to make sure they spend whatever they have to spend'. It is worth noting, however, that this sentiment was not present in the SMEs in the study, perhaps because they are not selling products to the poor. The comment illustrates, though, the firm's motives towards the poor as customers; the firm aims to build market share and encourage low-income customers to spend the small amount of money they do have on their mobile phone. This is not meant to downplay the benefits that the firm has provided to the poor by providing mobile phone services at affordable rates, however, it illustrates the firm's motives with respect to how they interact with the poor as a consumer group. The firm is interested in having the poor spend all of their money on mobile phone credit when perhaps some of this money could be spent on other basic necessities. This of course makes value judgements about how the poor should or should not spend their money, which some consider to be paternalistic (Prahalad and Hart, 2002). However, the poor are unlike more affluent consumers. Although not

referring to the poor as consumers per se, Banerjee and Duflo (2011, p. 268) note that ‘the poor often lack critical pieces of information and believe things that are not true’. They illustrate by providing examples about their lack of knowledge about the benefits of education and immunisation amongst other things. So while it appears on the surface to be paternalistic, there is evidence to suggest that the interests of the poor need to be protected in their interactions with business.

Furthermore, state fragility also means that essential services can be absent or of poor quality. So although firm constraints might assist individuals to meet education and healthcare expenses, the availability and quality of these services relies on government. For instance, many individuals in this study were able to afford school fees as a result of firm activities, however the quality of education in Vanuatu is generally regarded to be low (Australian Department of Foreign Affairs and Trade, 2014). Again, this highlights the critical role of institutions.

Another issue that this study highlights is how the inclusive business approach can bring about scalable change. Firms operating in isolation are not enough to bring about scalable change with respect to poverty alleviation. In this study, inclusive business activities touched the largest number of poor people where there was industry level support from government and/or aid donors. This was the case in the telecommunications and coffee industry where regulations or development assistance influenced or assisted firms to provide opportunities to the poor on a significant scale. Firms acting more in isolation in settings with high poverty levels, such as Eratap Resort and Evergreen, seem less likely to undertake activities that alleviate poverty and are limited in the extent to which their activities will bring about scalable change

amongst the poor. While these firms did alleviate poverty in some cases, the nature of their business and the attitudes of managers led them to recruit skilled people and they were less inclined to engage in activities that build the capacity of the poor.

Capacity Building

By considering poverty as a capability deprivation and not just in income terms, capacity building becomes an important mechanism. The poor are often engaged in unskilled labour with limited opportunity to escape poverty (Banerjee and Duflo, 2011). So providing economic opportunities is important but it may not be enough to break the cycle of poverty. The results of this study suggest that inclusive business is most likely to alleviate poverty when firms build the capacity of individuals. Capacity building as a poverty alleviation strategy typically involves building institutional capacity, however, the results indicate that this concept also applies to inclusive business. This finding complements Ansari et al.'s (2012) research that also applies the capability approach. While they argue that evaluating inclusive business on the basis of capability development is important, they do not operationalise the concept and the present study attempts to do this by applying the MPI. By using the MPI as an outcome variable, the findings point to the importance of capacity building for poverty alleviation to occur.

While others have briefly mentioned capacity building in the context of inclusive business (Ansari et al., 2012), the present study provides details about the nature of capacity building and defines it in the context of inclusive business. In this context, capacity building is where inclusive business activities provide an individual with knowledge, skills and resources to achieve what they want to achieve. Although

providing financial security is an aspect of this, it goes beyond merely providing economic opportunities and involves the firm considering how to assist individuals to achieve in the longer term. For example, providing assistance with financial management, developing business skills and assisting to establish and work with community associations. Interestingly, London and Hart (2004) found that capacity building can also assist the firm to be successful in low-income markets by improving social performance, something which is particularly important in these markets. In London and Hart's (2004) study, which was focused on MNCs providing products and services to the poor (more akin to the BOP concept), they found that capacity building initiatives such as training programs for entrepreneurs and distributors and supporting micro finance institutions assisted with the success of MNC ventures in low-income markets. The results of our study support London and Hart's (2004) findings but also suggest that capacity building is important for SMEs and firms without an interest in providing products and services to the poor. Overall, this suggests that capacity building is important for the success of inclusive business in terms of business outcomes as well as poverty alleviation.

Capacity building involves a significant investment of time and money and without external support firms may be constrained by what they are able to do in this respect. While the firms in this study that experienced these constraints did provide traineeships to a small number of poor individuals, their ability to do so was limited. The poor often lack the knowledge and skills required for employment in the formal sector, as was the case with Eratap Resort's failed attempt to provide employment opportunities to the poor. Again, this is an area where partnerships between business, civil society and government might be helpful (London and Hart, 2004).

RESEARCH LIMITATIONS

The promise of inclusive business is attractive both for business and those concerned with poverty alleviation. This study applies the capability approach to begin to shed light on how inclusive business can alleviate poverty. By reporting on five firms' interactions with poor stakeholders in Vanuatu I highlight the important role of institutions and find that capacity building is a key factor influencing poverty alleviation outcomes. As with all case study research, however, an important issue is the degree to which the findings are generalisable to a broader sample. Although the study draws on insights from Sen's (1999) capability framework and is grounded in a conceptual perspective that has widespread support in the international development field, whether the findings are generalisable is ultimately a question that will be answered by future studies. The nature of poverty differs across the world and future research is needed to examine inclusive business in different contexts. For instance in Vanuatu, hunger is not a significant issue as there is fertile land where food production is relatively easy. This is not the case in more arid climates where hunger is a serious issue. The nature of poverty is also different in situations where there is conflict and this will undoubtedly affect inclusive business activities and possibly the extent to which poverty alleviation is possible. Therefore future research that examines inclusive business in different contexts is critical for understanding success in a variety of contexts.

Another limitation of this research is that due to study constraints, I relied on individuals to recall changes in poverty indicators before they interacted with the firm. Ideally, research examining the effects of inclusive business on poverty alleviation would be conducted as a longitudinal study spanning years. Longitudinal research is often difficult to conduct due to study constraints and obtaining access to the same

individuals over several points in time, however, this would provide a more accurate reflection of the relationship between inclusive business and poverty alleviation.

Finally, in his book, *The Idea of Justice*, Sen (2009) begins to question the role of institutions in capability development and instead argues that social outcomes are what matter. He argues that just institutions may or may not lead to just outcomes and the idea of justice can vary depending on one's personal values. This means that the idea of justice is a contested issue. The present study adopts a measure of poverty that considers education, health and living standards to be important measures of wellbeing and justice. While the multidimensional poverty index is as close as it gets to a universally accepted measure of poverty that incorporates non-economic measures, future research could examine other notions of justice as it relates to poverty. This research could focus on examining the intersection between the values of business, formal institutions and the poor. This research would ideally be conducted at multiple levels of analysis to understand the conditions when inclusive business achieves justice for the poor where the poor are involved in defining justice.

CONCLUSION

Despite these limitations, the study provides important insights to advance the theoretical development of inclusive business. Although increasing numbers of firms are exploring opportunities at the BOP, very few empirical studies have examined the relationship between inclusive business and poverty alleviation using an objective measure (Ansari et al., 2012; Kolk et al., 2014). I introduce the MPI as a way of operationalising the capability approach and evaluating inclusive business activities. This evaluation allowed an exploration of the conditions where inclusive business

appears most likely to alleviate poverty. The analysis of five firms, which interact with the poor as employees, suppliers, consumers and/or community members, shows that institutions play a critical role in supporting inclusive business for the purpose of poverty alleviation. The results suggest that inclusive business certainly has potential to alleviate poverty, however, it is unlikely to eradicate poverty as some have suggested (Prahalad, 2010). It is one small piece of a much larger puzzle for eradicating poverty and relies on a supportive institutional environment and firms that are committed to building the capacity of the poor to enable them to live the life they wish to live.

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APPENDIX 1

INDIVIDUAL POVERTY DATA BEFORE AND AFTER INTERACTION WITH FIRM

Firm	Stakeholder	MPI score Before Interaction with Firm	Current MPI score	Poverty Change (numeric)
Tanna Coffee	Employee 2	4.42	0	– 4.42
Volcanic Earth	Supplier 1	3.87	0	– 3.87
Tanna Coffee	Employee 4	2.2	0	– 2.20
Tanna Coffee	Employee 5	6.09	3.89	– 2.20
Eratap	Supplier 1	2.2	0.55	– 1.65
Telecomms Firm	Consumer 8	3.3	1.65	– 1.65
Tanna Coffee	Supplier 4	6.64	4.99	– 1.65
Tanna Coffee	Supplier 7	4.97	3.32	– 1.65
Evergreen	Employee 2	1.1	0	– 1.10
Tanna Coffee	Employee 1	1.1	0	– 1.10
Tanna Coffee	Employee 3	1.1	0	– 1.10
Tanna Coffee	Supplier 1	2.2	1.1	– 1.10
Tanna Coffee	Supplier 8	2.2	1.1	– 1.10
Telecomms Firm	Consumer 11	2.75	1.65	– 1.10
Eratap	Employee 5	2.75	1.65	– 1.10
Eratap	Community 1	4.42	3.32	– 1.10
Tanna Coffee	Supplier 2	3.3	2.2	– 1.10
Tanna Coffee	Supplier 5	6.64	5.54	– 1.10
Eratap	Community 3	2.2	1.65	– 0.55
Eratap	Community 4	2.2	1.65	– 0.55
Eratap	Community 7	1.1	0.55	– 0.55
Evergreen	Employee 1	1.65	1.1	– 0.55
Evergreen	Employee 3	1.1	0.55	– 0.55
Evergreen	Employee 4	0.55	0	– 0.55
Tanna Coffee	Supplier 10	4.42	3.87	– 0.55
Tanna Coffee	Supplier 3	3.3	2.75	– 0.55
Tanna Coffee	Supplier 6	4.97	4.42	– 0.55
Tanna Coffee	Supplier 9	3.3	2.75	– 0.55
Evergreen	Community 5	2.77	2.77	0.00
Evergreen	Community 2	3.34	3.34	0.00
Eratap	Community 2	0.55	0.55	0.00
Eratap	Community 6	1.1	1.1	0.00

Firm	Stakeholder	MPI score Before Interaction with Firm	Current MPI score	Poverty Change (numeric)
Evergeen	Community 1	0.55	0.55	0.00
Evergeen	Community 3	3.32	3.32	0.00
Evergeen	Community 4	2.2	2.2	0.00
Telecomms Firm	Consumer 1	1.1	1.1	0.00
Telecomms Firm	Consumer 10	4.42	4.42	0.00
Telecomms Firm	Consumer 2	1.65	1.65	0.00
Telecomms Firm	Consumer 3	1.1	1.1	0.00
Telecomms Firm	Consumer 4	3.87	3.87	0.00
Telecomms Firm	Consumer 5	1.1	1.1	0.00
Telecomms Firm	Consumer 6	1.1	1.1	0.00
Telecomms Firm	Consumer 7	3.87	3.87	0.00
Telecomms Firm	Consumer 9	6.09	6.09	0.00
Eratap	Employee 2	0.55	0.55	0.00
Eratap	Employee 3	1.65	1.65	0.00
Eratap	Employee 4	1.65	1.65	0.00
Eratap	Employee 6	0.55	0.55	0.00
Eratap	Employee 7	0.55	0.55	0.00
Evergreen	Employee 5	1.1	1.1	0.00
Eratap	Community 5	2.2	3.32	0.00

CHAPTER 5

GENERAL DISCUSSION OF KEY FINDINGS AND CONCLUSION

GENERAL DISCUSSION OF KEY FINDINGS AND CONCLUSION

This thesis aimed to understand how firms and the poor experience inclusive business. Firm interactions with the poor are an under-researched phenomenon despite poverty being described in management literature as a ‘grand challenge’ (Eisenhardt, Graebner and Sonenshein, 2016). The sheer number of people living in poverty throughout the world, as many as four billion (Prahalad and Hart, 2002), is enough to signify the significance of the challenge. The private sector are increasingly interacting with the poor and understanding how to do so in a way that brings benefits to both private sector firms and the poor is essential. Applying insights from insitutional theory and the capabiltiy approach, a theoretically-informed approach (Miles and Huberman, 1994) was used to answer the study’s central research question:

How do firms and the poor experience inclusive business?

To answer this question, this study drew upon extant literature on business and poverty and applied an institutional perspective of firm interactions with the poor. The study also drew on the capability approach to understand the poor’s experience of inclusive business. To examine how firms and the poor experience inclusive business, the research program had three sub-objectives. First, as limited conceptual clarity exists for inclusive business I aimed to define the concept and develop a conceptual framework to explain why firms pursue an inclusive business approach and how this can be achieved. Second, given the importance of institutions presented in the conceptual framework, I aimed to examine empirically the firm’s experience of inclusive business using institutional theory as a lens for this investigation. Third, I aimed to examine the

relationship between inclusive business and poverty alleviation using Sen's (1984, 1987a, 1987b, 1999) capability approach to evaluate the effects of inclusive business on the poor.

In this final chapter I discuss the significance and contributions of the research. I integrate the key arguments from the three papers and discuss the implications for theory and practice. This chapter also outlines the limitations of the research program and provides suggestions for future research. Finally, I provide an overall set of conclusions for the research program.

SIGNIFICANCE AND CONTRIBUTION OF THIS RESEARCH

The study is significant in its finding that inclusive business can bring benefits to both the firm and the poor, suggesting that the private sector can play a role in poverty alleviation. Inclusive business involves MNCs and SMEs adopting an integrative management approach to expand access to products and services to the poor and provide them with sustainable livelihood opportunities while being mindful of local impoverished communities. Inclusive business recognises that the institutional environment plays an important role and while MNCs and SMEs are involved in the design and implementation of inclusive business, social enterprises, NGOs, government or aid donors can also initiate and enable inclusive business. The results of this study showed that from the perspective of firms that interact with the poor, the formal institutional environment provides a range of factors that motivate firms to interact with the poor, however there are a range of institutional factors that undermine a firm's ability to adopt an inclusive business approach. From the perspective of the poor an analysis of qualitative interview data indicates that respondents in this study were

generally very positive about their interactions with the firm. Furthermore, using the MPI to measure poverty change, poverty alleviation occurred for 55 per cent ($n=28$) of participants in the study. Overall, misaligned institutions constrain the extent to which a win-win scenario is likely to occur.

The Important Role of Institutions

The conceptual framework in Paper 1 predicts that institutions play a role in constraining and enabling inclusive business with the empirical studies in Paper 2 and 3 confirming this to be the case. In Paper 1, the conceptual framework predicted that formal and informal institutions constrain inclusive business and that formal institutions can also enable inclusive business. The empirical results in Paper 2 and Paper 3 show that formal institutions such as pro-poor economic policy, foreign aid and property rights are important catalyst conditions that enable inclusive business. Paper 2 presents evidence to suggest that these conditions influence firms to adopt an inclusive business approach. Paper 3 presents evidence to suggest that institutions, particularly those with explicit poverty alleviation objectives, strengthen the relationship between inclusive business and poverty alleviation. This suggests that formal institutions play an important role in protecting the interests of the poor. Paper 2, however, develops further understanding of the importance of institutions from the perspective of the firm to provide an on-the-ground perspective of the influence of institutions. This study shows that while formal institutions such as pro-poor economic policy, foreign aid and property rights are catalysts that enable firm interactions with the poor, firms also experience a range of other institutional constraints in their interactions with the poor.

Papers 1 and 2 provide evidence that formal and informal institutions inhibit inclusive business. While paper 1 presented evidence that predicted this to be the case, paper 2 examined how firms which interact with the poor experience institutions in reality. Using Scott's (2008) institutional pillars I uncovered a range of regulative, normative and cultural-cognitive institutional constraints. This study supports our prediction in Paper 1 that weak formal institutions (regulative) inhibit inclusive business achieving its goals (Ault and Spicer, 2014).

While limited attention has been paid to the role of informal institutions in relevant literature, Paper 1 predicted that social norms and culture would constrain inclusive business. For example, I cited research showing how women in rural Bangladesh are excluded from the marketplace due to social norms (Mair, Martí, and Ventresca, 2012). Paper 2 uncovers a broader range of social norms and cultural constraints that inhibit inclusive business. We found evidence in a different cultural context to support Mair et al.'s (2012) findings that a patriarchal society works against inclusive business. In Vanuatu women are typically responsible for household chores and childcare and men play the role of decision-maker and breadwinner (Tor and Toka, 2004). While the extent of exclusion of women from the formal economy was far less severe than that presented by Mair et al.'s (2012) study in Bangladesh, this patriarchal system does limit the participation of women in the workforce. Furthermore, I discovered that domestic violence against women in Vanuatu affects female performance and attendance at work, which over time has implications for job security.

Paper 2 uncovers so much more, however, in terms of the social norms and cultural characteristics that constrain firms in their interactions with the poor. Of particular

interest was the presence of conflicting value systems between firms and the poor. On the one hand the capitalist mind-set, which emphasises the individual and wealth creation, and on the other hand, a subsistence lifestyle that emphasises personal relationships, the kinship group and a non-materialistic lifestyle. In the case of Vanuatu, where hunger is generally not a problem, this can mean that there is little incentive for the poor to engage with the formal economy despite good intentions of firms.

We also found that *golden egg syndrome* contributes to risk and uncertainty for firms involved with inclusive business, which I categorise as a normative institutional constraint. Golden egg syndrome refers to the image of the firm being ‘a golden egg in the middle of poverty’ as one manager in the study put it. This situation leads to pressure on the firm to contribute to community activities through donations, or other philanthropic efforts. While this does not strictly inhibit inclusive business, the perception that the firm is wealthy leads to expectations placed on the firm and becomes a sustainability risk that needs to be managed. The risk being that if the firm does not meet community expectations it loses legitimacy, which may have implications from civil society action or disruption to the firm’s operations. Overall, these institutional constraints present firms with uncertainty and risk, and therefore influence the mechanisms discussed below.

Firm Mechanisms

The conceptual framework in Paper 1 predicts how it is possible to achieve the goals of inclusive business and Papers 2 and 3 validate some of the mechanisms presented in the conceptual framework. Paper 2 considers inclusive business from the perspective of the

firm. In this paper I argue that the institutional environment strongly influences firm behaviour to undertake an inclusive business approach in the first place and then informal institutions present a range of obstacles. As firms strive to achieve legitimacy in the local community they respond to pressure from informal institutions, which are more salient than formal institutions. In this context, weak formal institutions coupled with more salient informal institutions present uncertainty and risk for firms that interact with the poor. In response, firms look for ways to build social capital with the poor and build capacity and capability in the community. Interestingly in Paper 3, which examines the relationship between inclusive business and poverty alleviation, I also discovered that building capacity is an important condition for poverty alleviation to occur. This suggests that capacity building is beneficial to both firms and the poor in this context. For the firm, it helps to gain legitimacy and build human capital, and for the poor, it helps to address basic capability gaps and therefore alleviate poverty (Sen, 1999).

THEORETICAL IMPLICATIONS

This research program contributes to the literature on the business-poverty interface in a number of ways. Firstly, I provide conceptual clarity for inclusive business and present a framework that explains why firms adopt an inclusive business approach and how they can be successful in their inclusive business efforts. To date there has been limited attention given to conceptualising firm interactions with the poor. The BOP concept has become popular but it emphasises multinational corporations (MNCs) and the poor in the role of consumer (Kolk, Rivera-Santos, and Rufín, 2014) and also suffers from a history of failed attempts (Khavul and Bruton, 2013) and ethical concerns (Chatterjee, 2016; Karnani, 2007). In contrast, inclusive business emphasises the full range of

interactions that both MNCs and small-to-medium enterprises (SMEs) can have with the poor including as consumers, employees, entrepreneurs, producers and community members, and is underpinned by both normative and instrumental elements. I present inclusive business as a concept driven by business motives to access resources and pursue growth opportunities and a global political agenda that encourages private-sector involvement in poverty alleviation. The empirical study also suggests that firms feel a moral obligation to address poverty reflected in the ‘compassion with boundaries’ response from firms identified in Paper 2. The conceptual framework incorporates the roles of formal and informal institutions that both enable and constrain inclusive business. It also provides what is known about the mechanisms that enable inclusive business to bring about simultaneous benefits for firms and the poor. In doing so, I provide a framework that guides future research and makes detailed suggestions for future research to test the validity of the conceptual framework.

Second, I demonstrate the relevance of applying Sen’s (1984, 1987a, 1987b, 1999) capability approach to the study of inclusive business, an approach that defines poverty as capability deprivation rather than simply a lack of income. This approach focuses attention on expanding the capabilities of the poor and consistent with other management scholars I argue that inclusive business be evaluated in these terms (Ansari, Munir, and Gregg, 2012). Furthermore, I operationalise the capability approach by applying Alkire and Foster’s (2009, 2011) multidimensional poverty index to examine the relationship between inclusive business and poverty alleviation. This begins to address concerns about previous research of this nature using more subjective measures (Kolk et al., 2014) and calls to operationalise the capability approach (Ansari et al., 2012).

Third, I show the significance of institutional theory to the study of inclusive business for understanding the factors that inhibit and enable inclusive business success. I demonstrate that the institutional environment explains how firms with an inclusive business approach behave and survive in this context. The presence of weak formal institutions and informal institutions, which often contradict and undermine the work of enabling institutions, lead firms to prioritise poverty-alleviating activities such as capacity building in order to gain legitimacy or to meet operational needs.

In addition to contributing to the literature on the business-poverty interface, this study also provides insights about institutional theory. First, I present a study that examines the interactions between formal and informal institutions. Institutional theorists have called for research of this nature (Roland, 2004) and the results of this study suggest that informal institutions such as cultural traditions and social norms have greater salience in a developing country context than formal institutions, thus highlighting the critical importance of social norms and cultural beliefs in understanding which institutions have salience. Second, this study has implications for understanding institutional change. Scholars studying institutional change and organisations have tended to focus on change *within* organisations and the influence of institutions on the organisation, not how the organisation influences the institutional environment (Barley, 2007). Scott (2008) argues that institutional change occurs when institutions are misaligned, as found in the empirical study in Paper 2. The results of this study suggest that firms have potential to exert pressure on other institutions and bring about institutional change. This is a unique finding that opens up potential for new avenues of research related to institutional change, which I discuss below in the section on future research.

Finally, this research provides a perspective of institutions and inclusive business from the Pacific. The nature of poverty differs in various parts of the world and it is critical that we understand inclusive business in a variety of poverty contexts. Related research to date has focused on Africa, the Americas and Asia (see for example George, Kotha, Parikh, Alnuaimi, and Bahaj, 2015; London and Hart, 2004; Mair et al., 2012) whereas this research provides a perspective from a Pacific island country. By doing so, the research expands understanding of inclusive business in a context largely unexplored in the literature. This provides increased visibility of poverty in the Pacific and attempts to address concerns that poverty in the Pacific is ‘a forgotten priority’ (Pollard, 2012). Some reports suggest that poverty in the Pacific is increasing with an estimated 25 per cent of people on average living below the basic needs poverty line and higher when considering non-income measures of poverty (UNDP, 2014). This situation deserves more attention and the empirical results of this study go some way to focusing attention on this region of the world.

PRACTICAL IMPLICATIONS

The aim of inclusive business is to simultaneously bring benefits to both firms and the poor. In practical terms the research program provides insights to assist firms to successfully achieve inclusive business success as well as those responsible for public policy.

For firms involved with inclusive business, or wishing to adopt an inclusive business approach, this research suggests the following. First, firms need to pay attention to understanding the full range of institutions that are present in the context in which the firm operates. On the surface it may seem that formal institutions are important,

however, this research suggests that understanding social norms and cultural beliefs and practices are critical for understanding and managing the risks of inclusive business. Second, because informal institutions are highly salient and no legal documentation or written agreements exist, relationships are critical for managing risks and uncertainties. Although cultural differences exist across different settings, our results support research conducted in other settings that suggest social performance is important for inclusive business success (London and Hart, 2004). This has implications for the selection of managers who design and implement initiatives involving the poor and suggests that these individuals need to be particularly adept at managing relationships with local communities. One way firms can build relationships with the poor is to build their capacity, which results in a win-win situation where the firm gains legitimacy and operational capability and builds the capability of the poor, therefore reducing poverty.

This research also has implications for public policy makers with an interest in the private sector's role in poverty alleviation. As outlined in Paper 1, there is a strong political agenda for the private sector to be involved in poverty alleviation. For instance, international aid agencies are increasingly providing direct aid funding to firms through competitive grant processes (see for example UK Department for International Development, 2015). This research program suggests that institutional mechanisms play a critical role in providing incentives for firms to adopt an inclusive business approach. In fact, the results of Paper 3 suggests that without institutions providing incentives to the private sector to adopt an inclusive business approach, poverty alleviation is less likely to occur. This implies that for the private sector to play a meaningful role in poverty alleviation institutional mechanisms are essential and if these are absent, firms

that interact with the poor are probably more likely to prioritise profit maximisation over poverty alleviation.

However, if aid agencies are to continue the trend of providing direct funding to private-sector firms, the results of this study suggest that public policy makers should pay attention to the informal institutional setting as this can limit the ability of inclusive business to reduce poverty. In Vanuatu the evidence indicates that social norms and cultural characteristics at the village level do not always support inclusive business. For instance the wantok system means that individuals are expected to share their earnings with others in the kinship group, and for some, this results in a lack of incentive to earn an income. This means that despite the best intentions to provide livelihood opportunities, some individuals choose not to take up the opportunities because of cultural characteristics that do not support the goals of inclusive business. Hence, policy makers should pay particular attention to the informal institutions that inhibit inclusive business. This may involve community consultation with village leaders and members prior to funding private-sector firms to ensure an understanding of cultural factors that could inhibit inclusive business efforts. This consultation needs to be led, at least in part, by the intended beneficiaries as these are the people who understand the cultural nuances. This understanding can then be used to develop and fund inclusive business initiatives that take social norms and cultural characteristics into consideration.

Furthermore, public policy makers need to be aware of the limitations of inclusive business. While the results of this study suggest that private sector activities can reduce poverty, inclusive business is not a substitute for government, which is primarily responsible for poverty alleviation. Inclusive business typically brings benefits to

individuals located within close proximity to the firm, for example, a nearby village.

One of the issues with inclusive business is that the benefits are only be experienced by those individuals who happen to be geographically located where the firm has operations. Ultimately, this uneven distribution of benefits is an issue for governments to manage as part of the broader poverty alleviation strategy.

RESEARCH LIMITATIONS

The research findings need to be considered with a number of limitations in mind. First, the generalisability of the results is subject to certain boundaries. The study was conducted in Vanuatu and some of the findings, particularly those relating to cultural characteristics, may only apply in this context. Also, generally speaking, extreme poverty does not exist in Vanuatu, for example, hunger and malnutrition is typically not an issue due to a high level of domestic agricultural activity and traditional community support. Therefore these results need to be interpreted within the context of poverty in Vanuatu. The study results also need to be interpreted with the characteristics of the firms in the sample in mind. Four of the five firms were SMEs and only one firm interacted with the poor in their role as consumers. Furthermore, this examination only considers one product targeted at poor consumers – mobile phones. Obviously, the nature of products and services will have differing effects on the poor and may even alter how firms behave.

In terms of research design, a notable limitation is that participants were asked to recall responses related to the poverty indicators before they interacted with the firm. The risk of this approach is that participants may have difficulty recalling details of their lives prior to their involvement with the firm and provide inaccurate information. To increase

the likelihood of accurate information I used data triangulation (Yin, 2009). Specifically, this involved collecting data about each case from a variety of sources including multiple interviews conducted separately with each research participant, direct observation, open-ended interviews and structured survey questions related to the multidimensional poverty index (MPI). For example, in the interviews with stakeholders I firstly asked open-ended questions about the significant changes that had occurred in the participant's life as a result of their involvement with the firm. Later in the interview I asked closed questions related to the MPI indicators and crosschecked this data. As much as possible I conducted interviews in the participant's village and this allowed me to observe the living conditions of the participant directly. I also asked managers and community members about changes they had witnessed in the lives of the stakeholders since being involved with the firm. All of this evidence was used to crosscheck and validate claims about changes to the participant's poverty status resulting from firm activities.

While this study provides evidence that inclusive business can expand individual capabilities using the MPI, this measure does not capture the potential for capability contraction that exists in Vanuatu. Specifically, land ownership is not captured in the MPI and this is an important issue in the Vanuatu context. The majority of households in Vanuatu reside on customary land and many ni-Vanuatu live a subsistence lifestyle (Vanuatu National Statistics Office, 2009). Customary land ownership in Vanuatu provides a source of food security, cash income and social wellbeing and has been under threat by investors in recent years. By applying the MPI with dimensions of education, health and assets (not including land assets), this study did not specifically examine the impact of firm activities on customary land ownership. For instance, if land

ownership was included as an asset in the MPI, Eratap Resort may have had instances where capability contraction occurred (as this resort leases customary land).

DIRECTIONS FOR FUTURE RESEARCH

There are several important avenues where future research can advance the contributions of this research program and address the limitations outlined above. Given the study findings that demonstrate the importance of the informal institutional environment, research is needed to examine the relationship between inclusive business and the institutional environment in different cultural contexts. This line of research is important for understanding whether the results presented in this study can be generalised to other contexts. In addition, it is important that inclusive business be examined in different poverty contexts. The nature of poverty differs across countries and within countries (for example rural versus urban poverty) and future research is needed that examines inclusive business in different contexts. For instance, in Vanuatu, hunger is not a significant issue as there is fertile land where food production is relatively easy. This is not the case in more arid climates where hunger is a serious issue. The nature of poverty is also different in situations where there is conflict and this will undoubtedly affect inclusive business activities and possibly the extent to which poverty alleviation is possible. Therefore future research that examines inclusive business in different contexts is critical for understanding the variables for success.

While one of the objectives of this research program was to examine the relationship between inclusive business and poverty alleviation, this is only the beginning of understanding the impact of inclusive business initiatives. More work is warranted using different poverty measures and methodologies to address limitations such as those

discussed above. Management research involving objective assessments of firm activities directed at the poor are scarce (Kolk et al., 2014). This line of research is important in order to make more robust claims about the relationship between inclusive business and poverty alleviation. An objective measure also provides transparency to the evaluation and assists to identify firm activities that are effective in alleviating poverty and those that have little, or no impact. Future research could draw on London's (2009) assessment approach that evaluates the economic, capability and community impact of BOP initiatives. Although this approach is specifically for BOP initiatives, I encourage future research to incorporate approaches from other disciplines. For example, Hulme (2000) provides a review of impact assessment methodologies for microfinance that could be applied more broadly to inclusive business initiatives. In this review Hulme (2000) discusses three paradigms of impact assessments (scientific, humanities and participatory rural appraisal) and possibilities for the various levels of analysis such as individual, household, community and institutional impacts. This review provides the range of possibilities available for future research that seeks to examine the relationship between inclusive business and poverty alleviation.

As institutions are an important element of inclusive business, understanding inclusive business through the lens of institutional theory seems to be a promising avenue for future research. This program of research supports findings in other studies that confirm the important role of formal and informal institutions in constraining and enabling inclusive business (Ault and Spicer, 2014; Mair et al., 2012). Further research that addresses this topic and seeks to understand how to overcome institutional constraints is an obvious area for future enquiry. One particular area that warrants future attention is institutional change. This is of interest to advance both understanding of inclusive

business and institutional theory. For inclusive business, given the many constraints posed by the institutional environment, understanding how to change the inhibiting institutions so that inclusive business can meet its objectives would be helpful. Inherent in this line of enquiry are ethical considerations involving the impact of inclusive business on cultural traditions and social norms, which could be perceived as positive or negative depending on one's point of view. Sen (1999) deals with the issue of culture and human rights in the context of development and cautions against making broad sweeping assumptions with respect to these issues. He argues that rights be viewed in terms of their *intrinsic* importance, their *consequential* role in providing economic security and their *constructive* role in terms of values and priorities (Sen, 1999, p. 246). Adopting this view requires an understanding of what the poor want from inclusive business in different contexts and what this means for cultural traditions and social norms.

In terms of institutional theory, understanding institutional change is of great interest to institutional scholars and these research findings suggest that private-sector organisations have potential to influence institutional change. This research program uncovered the conflict between capitalist values inherent in inclusive business and collectivist values often present in subsistence-based lifestyles. We also know there are instances of inclusive business initiatives that aim to empower women (Mair et al., 2012; Venkataraman, Vermeulen, Raaijmakers, and Mair, 2016) and these have potential to challenge cultural traditions and the role of women. Scott (2008) argues that when institutions are misaligned in this way conditions are in place to enact institutional change. On the other hand, Roland (2004) presents a framework for assessing institutional change that involves *slow-moving* and *fast-moving* institutions where he

argues that slow moving institutions (i.e. those that are difficult to change) include culture and social norms. As others have noted, this is an issue that warrants further research attention in the study of organisations and institutions where scholars shift the focus from how institutions shape organisations to how organisations shape the institutional environment (Barley, 2007).

OVERALL CONCLUSION

This research aimed to investigate how firms and the poor experience inclusive business. In order to do this the first step involved conceptualising inclusive business, as conceptual clarity is largely absent in the scholarly literature. Following a detailed review of relevant literature I propose a definition of inclusive business that involves the private sector expanding access to livelihood opportunities and products and services in commercially viable ways. In further developing the concept I argue that inclusive business is both normative and instrumental, meaning that integrative management is critical to achieve benefits for both the firm and the poor. The conceptual framework developed as part of this research program acknowledges that institutions play a critical role in both enabling and constraining inclusive business efforts. The empirical studies confirmed the importance of the institutional environment. From the perspective of the firm, formal institutions act as a catalyst to encourage firms to interact with the poor, however, weak formal institutions and informal institutions inhibit the firm's inclusive business efforts.

Despite these obstacles, the study shows that inclusive business alleviates poverty, particularly when firms engage in capacity building activities. Overall, this study suggests that inclusive business has potential to benefit both firms and the poor but

formal institutions play a critical role in ensuring that the poor benefit. This suggests that firms interacting with the poor without institutions that support the poor's interests are likely to prioritise profit maximisation. These findings highlight the potential of inclusive business to benefit both private-sector firms and the poor; however without supporting institutions, business is likely to receive greater benefits than those living in poverty. Given the importance of the topic, I hope this research will inform and encourage further study of the business-poverty interface to assist firms in their interactions with the poor and the many actors with an interest in poverty alleviation.

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APPENDIX A

DELEGATED AUTHORITY'S APPROVAL TO SUBMIT THESIS BY COMPILATION

RE: Thesis by Compilation - Sally Curtis

From: Timothy Higgins

Fri 11/18/2016 11:36 AM

To: Sally Curtis <sally.curtis@anu.edu.au>;

Cc: Andrew Bradly <andrew.bradly@anu.edu.au>; CBE HDR
<hdr.cbe@anu.edu.au>;

Dear Sally,

I am happy to approve your request to submit your PhD thesis by compilation.
Juta, please forward this email to HDR Examinations Office as evidence of approval.
Please also arrange to place a copy of this email approval in Sally's central student file.

Kind regards,

Tim

Tim Higgins

Associate Dean (HDR)

Associate Professor in Actuarial Studies

Research School of Finance, Actuarial Studies and Statistics ANU College of Business
and Economics

Australian National University

Canberra ACT 2601

Ph: +61 2 6125 4507

Fax: +61 2 6125 0087

From: Sally Curtis

Sent: Tuesday, 15 November 2016 9:21 PM **To:** Timothy Higgins

Cc: Andrew Bradly; CBE HDR

Subject: Thesis by Compilation - Sally Curtis

Dear Tim

I am seeking approval to submit my PhD thesis as a 'Thesis by Compilation'. I have received endorsement from my supervisory panel to complete my thesis by compilation. My primary supervisor, Andrew Bradly, is copied on this email and can attest to this. I intend to submit three papers in my thesis as follows:

Paper 1: 'Inclusive business: Towards a conceptual framework and research agenda' Status: In preparation for submission
Target journal: Journal of Management Studies (A* on the ABDC list)

Paper 2: 'Firm interactions with the poo: A multilevel institutional perspective' Status: In preparation for submission
Target journal: Business & Society (A on the ABDC list)

Paper 3: 'Inclusive business and poverty alleviation: The important role of institutions and capacity building' Status: In preparation for submission
Target journal: Journal of Business Ethics (A on the ABDC list)

I am aware of the ANU guidelines regarding thesis by compilation and I have followed these guidelines in preparing my thesis, including matters of formatting, authorship and thesis construction.

I look forward to hearing from you.

Regards

Sally Curtis
u3983386

APPENDIX B

ETHICS APPROVAL

Human Ethics Protocol 2011/263

From: aries@anu.edu.au

Wed 6/8/2011 4:03 PM

To: Sally Curtis <sally.curtis@anu.edu.au>;

Cc: Andrew Bradly <andrew.bradly@anu.edu.au>;

Human.Ethics.Officer@anu.edu.au human.ethics.officer@anu.edu.au

THIS IS A SYSTEM- GENERATED E- MAIL. PLEASE DO NOT REPLY. SEE BELOW FOR E- MAIL CONTACT DETAILS.

Dear Ms Sally Curtis,

Protocol: 2011/263 Exploring the effects of socially responsible business practices on poverty alleviation

I am pleased to advise you that your Human Ethics protocol received approval by the Chair of the Humanities & Social Sciences DERC on 8 June 2011.

For your information:

1. Under the NHMRC/AVCC National Statement on Ethical Conduct in Human Research we are required to follow up research that we have approved once a year (or sooner for short projects) we shall request a brief report on any ethical issues which may have arisen during your research or whether it proceeded according to the plan outlined in the above protocol.
2. Please notify the committee of any changes to your protocol in the course of your research, and when you complete or cease working on the project.
3. Please notify the Committee immediately if any unforeseen events occur that might affect continued ethical acceptability of the research work.
4. Please advise the HREC if you receive any complaints about the research work.
5. The validity of the current approval is five years' maximum from the date shown approved. For longer projects you are required to seek renewed approval from the Committee.

All the best with your research,

Kim

Ms Kim Tiffen
Ethics Manager/rDNA Secretary

Office of Research Integrity,
Research Office,
Ground Floor, Chancelry 10B
Ellery Road
The Australian National University
ACTON ACT 0200 T: +61 6125 3427
F: +61 2 6125 4807
Kim.Tiffen@anu.edu.au or
human.ethics.officer@anu.edu.au

http://www.anu.edu.au/ro/ORI/Human/human_index.php

APPENDIX C

PARTICIPATION INFORMATION SHEET AND CONSENT FORM



Interview information sheet

Exploring business practices in Vanuatu

The interview is being undertaken as part of a Doctor of Philosophy degree at the Australian National University, through the College of Business and Economics. This study is not funded by any external sources. The intent of this interview is to explore business practices in Vanuatu. It is expected that the interview will take no longer than 1 hour. Participation in the research is voluntary.

The research objectives are:

- What is the nature of business practices in Vanuatu?
- How does business manage its relationship with stakeholder groups in Vanuatu?
- How do business practices contribute to development?

The outcomes of this research will:

- Contribute towards an understanding of business practices in Vanuatu,
- Result in the publication of a doctoral thesis at the Australian National University.

Interview questions will revolve around business practices in Vanuatu and the contribution that business makes to the community. The interviewer will take notes of the discussion. Given permission, interviews may also be recorded to support any written notes. Recording taken during the interview, such as audio, video or photography, may be made available to you upon request, in so far as those recordings relate to you. Prior to publication of any audio or visual material, your consent will be sought with a copy sent to you for approval. Unless permission is given by research participants, published data will protect the identity of research participants. In other words, no names or personal details of research participants will be made public without consent of the individual.

All data entered in a computer will be stored in a password protected account accessible only by me. The data will be kept confidential at all times. Your organisation's name and information along with your name and position will not be quoted unless you consent to this.

This research operates under the research ethics protocols of the University, and any questions or complaints can be forwarded to:

Human Ethics Officer
Human Research Ethics Committee
Australian National University.
Tel: +61 2 6125 7945.
Email: human.ethics.officer@anu.edu.au

Thank you for your help with this research. If you have any further questions, please do not hesitate to contact me.

Kind regards,

Sally Curtis

Contacts:

Sally Curtis

Associate Lecturer
School of Management, Marketing and International Business
Room 1101, Copland Building 24
Phone: +61 2 6125 9191
Email: sally.curtis@anu.edu.au

Supervisor:

Dr. Andrew Bradly

School of Management, Marketing and International Business
Room 1094, Copland Building 24
Phone: +61 2 6125 1638
Email: andrew.bradly@anu.edu.au

Consent Form

I(please print) consent to take part in the Exploring Business Practices in Vanuatu Research Project. I have read the information sheet for this project and understand its contents. I have had the nature and purpose of the research project, so far as it affects me, fully explained to my satisfaction by the research worker. My consent is freely given.

2. I understand that if I agree to participate in the research project I will be asked to attend an interview. This will take up to one hour and will involve questions relating to the business practices in Vanuatu.

3. I understand that information gained during the research project will be reported in an unpublished PhD thesis. My name and position title will not be used in relation to any of the information I have provided, unless I explicitly indicate that I am willing to be identified when quoted.

4. I understand that any personal, sensitive or potentially incriminating information will be kept confidential so far as the law allows. This form and any other data collected throughout the duration of the interview will be stored separately in a locked office at the Australian National University. Data entered onto a computer will be kept in a computer accessible only by password by Sally Curtis and Andrew Bradly.

5. I understand that although any comments I make will not be attributed to me in any publication; it is possible that others may guess the source of information, and I should avoid disclosing information which is of confidential status or which is defamatory of any person or organisation.

6. I understand that I may withdraw from the research project at any stage, without providing any reason and that this will not have any adverse consequences for me. If I withdraw, the information I provide will not be used by the project.

7. In any publications produced as a result of this research I consent to be identified by (check one):

- ☐ My full name, position, and organisation
- ☐ My full name
- ☐ My position and organisation (if you tick this box it is possible that you could be identified)
- ☐ My organisation
- ☐ A representative of an anonymous organisation within my industry sector

8. I consent to being recorded by the interviewer.

- ☐ Yes
- ☐ No

Signed Date

Researcher to complete

I, certify that I have explained the purpose and procedures of the research to this participant and consider that s/he has understood these and given informed consent to participate in interview.

Signed Date