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The Entrepreneurship Process in Base of the Pyramid Markets: The Case of Multinational Enterprise/Nongovernment Organization Alliances

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Although base of the pyramid markets are significant sources of entrepreneurial opportunities, the nature of entrepreneurship in these markets is not well understood. Additionally, these markets remain largely underserved by multinational enterprises (MNEs). Given theoretical and practical gaps associated with these issues, we integrate entrepreneurship, institutional, and network theories to discuss how the entrepreneurship process of MNEs is negatively affected in base of the pyramid markets. We then explain how partnerships with nongovernment organizations (NGOs) can offset such negative effects due to NGOs' high degree of localized knowledge, social embeddedness within multiple informal networks, and ambidexterity in dealing with diverse stakeholder groups. Both economic and social benefits can result from such partnerships.

Introduction

Base of the pyramid (BOP) markets, which are often physically located within least-developed countries (LDCs) and the more rural regions of developing and emerging countries, are significant sources of entrepreneurial opportunities (Hart, 2005; Prahalad & Hart, 2002). These markets are comprised mostly of the nearly 4 billion people, or 70% of the world's population, that live on less than two dollars per day. However, these same people often pay high prices, compared with prices consumers living in developed markets pay, when purchasing food, health care, and other basic services (Prahalad, 2006). Overall, BOP markets collectively represent a 5 trillion-dollar bloc of potential consumers

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per year (World Resources Institute, 2007). Despite the opportunities within these markets, they remain underserved by multinational enterprises (MNEs) based in developed markets (Prahalad).

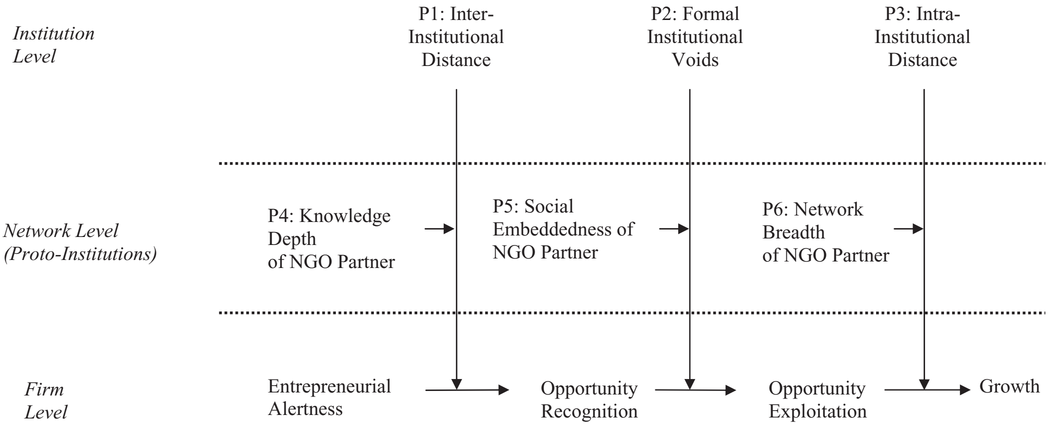
Integrating insights from entrepreneurship, institutional, and network theories, we describe MNEs' entrepreneurship processes in BOP markets. Our research question is "how can partnerships between multinationals and nongovernmental organizations (NGOs) overcome the institutional barriers at each stage of the entrepreneurship process?" To answer this question, we first discuss MNEs as facing significant institutional barriers in the form of a lack of formal institutions (i.e., formal institutional voids) and high institutional distance in BOP markets (Khanna & Palepu, 1997). Because of the formal institutional voids, socioeconomic activities are instead guided by informal institutions (London, 2009; London & Hart, 2004). A high degree of institutional distance between developed and BOP markets (as well as across BOP markets themselves) means that multinationals face significant knowledge gaps in terms of the daily norms, values, and beliefs (Kostova & Zaheer, 1999; Ricart, Enright, Ghemawat, Hart, & Khanna, 2004), impeding the multinationals' ability to identify opportunities deemed valuable by local societies. The formal institutional voids themselves create barriers in terms of how multinationals organize resources to exploit opportunities.

Second, we discuss how multinationals can overcome the institutional barriers (i.e., formal institutional voids and knowledge gaps created by high institutional distance) through partnerships with nongovernmental organizations (NGOs) embedded within the undeveloped markets. For example, Groupe Danone (the world's largest supplier of fresh dairy products) and the Grameen Group (a large NGO) formed a joint venture to locally produce and sell nutritionally enhanced yogurt products in Bangladesh, where 48% of young children are malnourished. Similarly, Royal Philips Electronics partnered with the Development of Humane Action (DHAN) Foundation to develop a mobile teleclinic truck to serve the medical needs of rural communities in India, where medical care is typically unaffordable. In Kenya, Vodafone formed an alliance with the NGO Faulu to provide banking-enabled cell phones, a venture that seeks to enhance the quality of life for Kenyans through increased financial and physical security. While addressing social needs by way of such ventures, MNEs are also motivated by the potential to capture financial benefits and to position themselves for longer-term growth (Prahalad & Hammond, 2002).

Prior internationalization research has focused on the use of partnerships with governments, large domestic corporations, and business groups to help mitigate the risks of entering foreign markets (Khanna & Rivkin, 2001; Ricart et al., 2004). However, alliance formation as an entry mode into BOP markets remains understudied. Within BOP markets, traditional partners often are unstable or in short supply (London & Hart, 2004). NGOs within these undeveloped markets often possess resources that can be valuable in supporting the MNEs' international entrepreneurial efforts, such as knowledge of local markets and informal institutions, access to legitimacy in terms of local informal institutions, and an understanding of both the local and MNEs' institutional contexts. Also, as compared with traditional partners, NGOs offer a potentially decreased level of opportunism (Anheier, 2000), wide-reaching rural networks (Rondinelli & London, 2003), and a social embeddedness within those networks as a result of longstanding assistance and relief efforts (Salamon, 1994). To NGOs, multinationals offer access to capital (Oster, 1995), improved efficiencies and accountability (Selsky & Parker, 2005), and economies of scale and large distribution networks (O'Regan & Oster, 2000) to help scale their social efforts. The number of such NGO–MNE alliances within undeveloped markets has significantly increased as both MNEs and NGOs realize partnering's benefits (London & Hart; Teegen, Doh, & Vachani, 2004).

Figure 1

First-Order and Second-Order Moderating Effects on the Multinational Enterprises' Entrepreneurship Process in Base of the Pyramid Markets.



P, proposition, NGO, nongovernment organization.

Our paper proceeds as follows. First, we discuss entrepreneurship as a process through which alert firms recognize and exploit opportunities and make decisions concerning growth. We then establish the boundaries of BOP markets and our research context. Following this, we integrate institutional theory and network theory to discuss institutions and network relationships as important contextual variables influencing the entrepreneurship process. As illustrated by Figure 1, we build on this foundation to discuss how institutional influences create significant obstacles to MNEs' use of the entrepreneurship process in BOP markets. We then discuss how MNEs can overcome institutional barriers to their entrepreneurial efforts by partnering with NGOs and provide examples to illustrate the theory-based propositions. We conclude with a discussion of the theoretical and policy implications of our research.

The Entrepreneurship Process

Firms use the entrepreneurship process to promote and sustain competitiveness (Covin & Miles, 1999). Entrepreneurship surfaces when firms seek to capture the value perceived in entrepreneurial opportunities (herein called opportunities), which are defined by the potential to create value via providing a more desirable end product and/or providing a product more efficiently than what exists (or does not exist) (Casson, 1982). Scholars differentiate among firms that use the entrepreneurship process to create value based on financial rewards (Miller, 2005) versus those that seek to create social benefits (Mair, Robinson, & Hockerts, 2006). We focus on how MNEs use entrepreneurship to provide sources of value to poor, informal regions that are characterized as BOP markets. In doing so, MNEs provide significant social benefits to these regions. In turn, MNEs can reap substantial financial rewards, reputational gains (McWilliams, Siegel, & Wright, 2006), and technological, relational, and learning benefits (Prahalad & Hart, 2002;

Waddell, 1999). Thus, the potential to gain financial and social benefits for multinationals in BOP markets is interrelated.

Whether entrepreneurship is aimed at deriving financial rewards and/or some other form of value, the process remains basically the same: alertness leads to recognition and then exploitation of opportunities, followed by decisions concerning growth (Bygrave & Hofer, 1991; Venkataraman, 1997). *Alertness* refers to a "motivated propensity of [firms] to formulate an image of the future" by seeking out opportunities that have been previously overlooked (Kirzner, 1985, p. 56). While many firms may be characterized by high levels of alertness, only some of them recognize opportunities. *Opportunity recognition* occurs when two or more previously distinct knowledge matrices are bridged, thereby creating a new knowledge matrix that enables a firm to fill a market gap (Smith & Di Gregorio, 2002). As such, the relationship between alertness and opportunity recognition is a function of both the knowledge possessed by the firm and how the firm processes this knowledge (Gaglio & Katz, 2001). Some firms may be relatively more alert to certain opportunities based upon their unique stocks of knowledge and experiences (Shane & Venkataraman, 2000). Firms may also benefit from knowledge available through network ties (Singh, 2000). Together, different sources of knowledge can inform firms about markets, customer needs or wants in these markets, and how to better serve customers (Shane, 2000). In other words, the knowledge available to alert firms attunes them to opportunities.

Upon recognizing an opportunity, firms may then decide to exploit the opportunity. *Opportunity exploitation* refers to the set of new venture activities through which firms acquire, bundle, and leverage resources to create the value perceived in the opportunity (Sirmon, Hitt, & Ireland, 2007). This stage of the entrepreneurship process is characterized by significant uncertainty and risk. Uncertainty stems from the inability to accurately predict market demand, changes in key segments of the external environment (i.e., technological, sociocultural, economic trends, etc.), or competitor actions. To the extent that predictions are inaccurate, risks of financial loss exist due to irreversible investments in specialized assets made to support exploitation (Choi, Levesque, & Shepherd, 2008).

Growth results from effective exploitation. In an entrepreneurial sense, *growth* refers to the activities through which firms *recognize* and *exploit* opportunities in broader markets. In essence, growth is an extension of both recognition and exploitation stages in that firms must recognize these opportunities and then acquire, bundle, and leverage resources to exploit them. While firms may have some level of experience during the growth stage (i.e., based on their initial recognition and exploitation), new markets and/or opportunities introduce new and different sources of uncertainty.

Increasingly, firms are using the entrepreneurship process in international markets. Opportunities exist for firms to leverage existing technologies in these markets, thereby spreading research and development costs across a larger customer base (Hitt, Tihanyi, Miller, & Connelly, 2006). Firms can also transfer learning from an international venture to domestic and other international efforts (Dess et al., 2003; Hart, 2005). However, firms with international ventures in BOP markets may need to significantly alter the underlying technology of their products, or adapt marketing activities to align with what are often extreme cultural differences of BOP markets (Prahalad, 2006). Thus, while the learning that derives from adaptation allows firms to transfer some knowledge to other ventures, the extent to which prior learning can be leveraged within new BOP markets may be limited due to their extreme heterogeneity. Next, we discuss the specific context and boundaries of BOP markets.

Base of the Pyramid Markets

The boundaries of BOP markets have been commonly drawn by scholars based on a standardized comparison of prices (purchasing power parity) across countries or regions for a similar bundle of products and services (London, 2008). There is some variance in what scholars consider to be the exact boundary of BOP markets. Some scholars suggest the boundary includes markets of consumers who live on an average of less than two dollars a day, whereas the World Resources Institute states that BOP markets are markets composed of consumers with an average annual income of $3,000, scaled to 2002 U.S. dollars (World Resources Institute, 2007). The range of defined boundaries suggests that BOP markets exist within not only the least-developed countries (LDCs) but also many regions in countries with developing and emerging economies. In fact, while countries labeled as developing countries, like Brazil and India, may have increasingly developing regions, a stark contrast exists between these developing regions and the majority of the countries' undeveloped regions. Moreover, these undeveloped regions often are characterized by very different sociocultural elements than the more developing regions within the same country (London). Thus, the degree to which a market is classified as developed, developing, or BOP depends not upon country boundaries, but rather upon market characteristics.

In Table 1, we highlight the key differences in terms of formal institutions that exist between markets in developed economies, markets in developing and emerging economies, and BOP markets. As the table summarizes, developed economies are supported by well-developed formal institutions. Similarly, the developed regions in developing and emerging economies are supported by developed formal institutions, although in some cases, the formal institutions may have sources of inefficiency or may not be fully developed within a particular region. In contrast, the formal institutions of BOP markets are often undeveloped (London & Hart, 2004). Instead, socioeconomic activities are guided largely by informal institutions.

Most previous research on MNE activities in countries with developing and emerging economies does not distinguish between the developed and undeveloped regions of these countries. Rather, research implicitly illustrates these countries as being homogeneous in terms of economic development and sociocultural elements (Karnani, 2007). The differences between the developed and undeveloped regions offer strategic implications for MNEs. While potential local-firm alliance partners may exist in the developed regions, local firms often lack the needed presence or infrastructure in the undeveloped regions to support the MNEs' needs, preferring instead to focus on serving only the top of their domestic economic pyramids (London & Hart, 2004). Moreover, given the significant economic and sociocultural differences between the regions, local firms often lack the nontechnical expertise needed to provide products and services to the undeveloped regions.

Herein, we discuss how the institutional environment in BOP markets specifically influences the entrepreneurship process used by MNEs. We discuss how formal institutional voids and the informal institutions that guide socioeconomic activities can be characterized by differences between developed and BOP markets (as well as across BOP markets). We then describe the MNE's entrepreneurship process as a market-driving process. Given high institutional distance between developed economies and BOP markets and the formal institutional voids, multinationals are not likely to enter and immediately exploit opportunities within these markets. Rather, the entrepreneurship process in these undeveloped markets occurs as a market-driving process, in which MNEs

Table 1

Comparison of Formal Institutions of BOP Markets with Markets in More Developed Regions

	Developed economies	Developed regions of developing and emerging economies	Base of the pyramid markets
Capital markets	Various formally established sources of funding, including equity markets, banks, venture capitalists, business angels, etc.	Some formally established sources of funding, such as banks and perhaps fledgling equity markets, but significant amounts of funding not readily available	No formal capital market except for extremely large businesses. Small and medium enterprises and individuals forced to rely upon familial ties, limited personal savings, and "loan sharks"
Labor markets	Well-educated, skilled labor markets with efficient means of tapping this market, including media outlets, the Internet, and employee search firms	Labor markets include sources of well-educated and skilled labor, but not as consistently as in developed economies. Tapping labor markets may not be as efficient	Vast majority of workforce uneducated, unskilled, and unorganized. Extremely high information asymmetry in labor matching
Infrastructure	Highly developed transportation (i.e., paved and comprehensive interstate and intrastate highways and roads), communication systems (i.e., TV, Internet, and wireless/wired outlets), and utilities (gas, electrical, water, etc.)	Infrastructural elements, such as transportation, communication, and utilities, are often developed but not as comprehensive throughout the regions	Public infrastructure in highly populated urban areas is undependable and inadequate. What infrastructure that does exist in rural areas is largely supported by private communities rather than public funds
Contracts and enforcement	Formal contract law and established regulatory and court systems for enforcing contracts	Contract laws are often defined, but corruption and weak enforcement create potential business inefficiencies	Dominated by informal governance mechanisms related to group norms, reputation, and power
Property rights	Established property rights defining one's property, the means through which one can increase one's property, and the means through which to enforce one's rights	Property rights are defined, but corruption, weak enforcement, and economy-level changes weaken one's rights	"Barking dogs" effect—notions of ownership do exist but are only informally recognized. Little to no property rights protection available in the event of violations

BOP, Base of the pyramid.

create the market and the means through which to serve the market. We describe NGOs as unique local alliance partners for multinationals to facilitate their entrepreneurship processes, serving society's social needs while positioning the multinationals to gain financial benefits.

Theory and Propositions

We rely on the MNE's entrepreneurship process as described above as the foundation for our theorizing and propositions. Our discussion centers on key higher-level factors that we contend shape the various stages of the entrepreneurship process. Following Figure 1, we next discuss institution-level influences (i.e., institutional distance between MNEs' home markets and BOP markets [inter-institutional distance], formal institutional voids, and institutional distance across BOP markets [intra-institutional distance]) that undermine the MNE's efforts to use the entrepreneurship process in BOP markets. We then discuss the role of partnerships with NGOs as "proto-institutions" that help MNEs overcome the negative, institution-level influences.

Institutions and the Entrepreneurship Process

Inter-Institutional Distance and Opportunity Recognition. That alertness increases the recognition of opportunities is a central tenet of entrepreneurship theory (e.g., Kirzner, 1979), but this link does not operate in isolation. Contextual elements influence the strength of this link (Ozgen & Baron, 2007; Singh, 2000; Webb, Tihanyi, Ireland, & Sirmon, 2009). For example, contextual elements, such as institutions, serve as valuable sources of knowledge (or lack thereof) that can enhance (or diminish) the perceived value of a particular idea and whether the idea is recognized as an opportunity (Ireland & Webb, 2007).

Institutions are the embodiment of the set of expectations in society that define socially acceptable actions and outcomes (Suchman, 1995). North (1990) dichotomizes institutions into formal institutions (the laws, regulations, and supporting apparatuses that define and enforce social acceptability from a legal standpoint) and informal institutions (norms, values, and beliefs that define legitimacy of behaviors and outcomes). Institutions encourage desirable actions and outcomes through the use of rewards (e.g., contract eligibility, reduced transaction costs, and valued products and services) and enforcement (e.g., fines and/or the termination of one's activities) (DiMaggio & Powell, 1983; Suchman, Steward, & Westfall, 2001).

Defining what is socially acceptable is one way institutions influence the entrepreneurship process (Suchman, 1995). In other words, institutions define a space of legal and legitimate opportunities. Via formal institutions, entrepreneurs are encouraged to recognize legal opportunities with the incentives of economic benefits. As informal institutions, norms, values, and beliefs help to define opportunities that are deemed legitimate and may be desired by a sizeable group. Together, formal and informal institutions resolve uncertainties that entrepreneurs face, including uncertainty regarding access to resources and other infrastructural needs, features of the intended market, and whether others can unfairly appropriate value from the entrepreneur's activities (i.e., through corruption and other criminal activities). In doing so, institutions provide valuable knowledge that informs opportunity recognition.

Institutional environments differ across societies. A number of studies highlight the differences of both formal and informal institutions across country boundaries (Hofstede, 1980; House, Hanges, Javidan, Dorfman, & Gupta, 2004). This research highlights institution-specific differences, such as the quality of property rights and level of uncertainty avoidance. A key challenge for firms is that even when differences across institutional environments can be identified, the differences undermine interpreting and using signals that institutions provide regarding socially acceptable and desired opportunities. In other words, firms' inability to bridge knowledge gaps because of institutional differences inhibits the recognition of opportunities.

For MNEs seeking to serve BOP markets, enormous populations and social needs are the foundation from which an entrepreneurial idea with the potential for value creation may surface (Brugmann & Prahalad, 2007). However, MNEs often face significant knowledge gaps concerning how to serve these markets (cf. Zaheer, 1995). MNEs lack critical pieces of information (such as daily norms of the local society or local beliefs regarding the efficacy of technological advancements) that are needed as inputs to opportunity recognition. For example, some MNEs that have tried to address health-related opportunities via water-sanitizing products and nutrient-enhanced foods have failed (Hanson & Powell, 2006). In some BOP markets, citizens distrust technology because they cannot observe and do not understand the underlying process. Numerous MNEs have retreated from BOP markets because they were unable to mesh a business model with local norms, values, and beliefs (Hanson & Powell).

In essence, MNEs are generally unfamiliar with local norms and culture, while the local societies in BOP markets are unfamiliar with the institutions that shape the MNEs, which are usually those of their more developed home markets. Kostova and Zaheer (1999), as well as Xu and Shenkar (2002), refer to the gap between an MNE's domestic institutions and the institutions of their foreign market as institutional distance. For a number of reasons, the institutional distance between MNEs' domestic and BOP markets greatly exceeds the institutional distance between MNEs' domestic and foreign, developed economy markets, including the BOP markets' (1) detachment from globalization and international trading patterns; (2) poorly developed educational, legal, and political systems (if they exist); (3) history of colonialism; and (4) vastly diverse religious bases, among other differences. We refer to the institutional differences between MNEs' domestic markets and the BOP markets as *inter-institutional distance*.

Inter-institutional distance causes MNEs to struggle to understand local markets and informal institutions, thereby undermining their ability to create value through entrepreneurship. While multinationals may possess the technical knowledge to serve opportunities in these undeveloped markets, the fundamental differences in the informal institutions in these markets relative to the multinationals' domestic markets undermine the multinationals' absorptive capacity (Simanis et al., 2005). More specifically, the multinationals' limited absorptive capacity exists with respect to the identification and absorption of key pieces of nontechnical knowledge—that is, how to connect with and educate local customers in terms of the source of value offered, what features of an innovation are desirable or undesirable by local customers given daily norms, beliefs, etc.—to create value as perceived by customers in these markets. While motivated by the potential of significant financial and social rewards in BOP markets (i.e., MNE alertness is piqued), the large inter-institutional distance undermines the knowledge base of MNEs and their ability to recognize viable opportunities. As such, the scope of value-creating opportunities available in BOP markets significantly narrows, or even disappears, for MNEs. Therefore, we propose that when MNEs operate in BOP markets:

> **Proposition 1:** Inter-institutional distance between MNEs' home markets and BOP markets will negatively moderate the relationship between entrepreneurial alertness and opportunity recognition.

Formal Institutional Voids and Opportunity Exploitation. As noted above, there are institution-specific differences across societies. However, as broad categories, formal and informal institutions also differ in their relative prominence across developed economies and the undeveloped regions of BOP markets in LDCs, developing economies, and emerging economies (De Soto, 2000). Activity within developed economies is dominated by formal mechanisms, such as property rights, codified laws, and enforceable contracts (North, 1990). Informal institutions offer a secondary influence (Schneider, 2002; Webb et al., 2009).

In contrast, the undeveloped regions of BOP markets have institutional voids (Khanna & Palepu, 1997), which perhaps should be more specifically termed "formal institutional voids." Formal institutions do not support economic activity as strongly relative to informal institutions in BOP markets for at least two reasons. First, in terms of policy, formal institutions lack critical elements, such as property rights, favorable tax structures, and bankruptcy laws that safeguard investments. Second, the infrastructure and supporting apparatuses of formal institutions are undeveloped. BOP markets generally lack effective enforcement agencies that can preserve property rights and root out criminal activities. Meanwhile, poor systems for accessing and transferring money undermine venture funding, and poorly developed roads hinder efforts to deliver products and services. As such, capital markets and other public-use infrastructures do not support the requirements of economic activity (Khanna, Palepu, & Sinha, 2005; Luo, 2002).

Formal institutional voids hinder the MNE's ability to engage in opportunity exploitation. Obstacles can include time-consuming processes for acquiring appropriate licenses or dealing with continuously changing governmental representatives because of political instability. These obstacles encumber the legitimacy of the multinational's operations within BOP markets. The lack of enforcement agencies and public-use infrastructures create additional difficulties for the MNE. Without adequate infrastructure such as factor markets, product markets, and distribution channels, MNEs cannot efficiently acquire, bundle, and leverage the resources needed to exploit opportunities in BOP markets. Therefore, we propose that when MNEs operate in BOP markets:

> **Proposition 2:** The degree to which there are formal institutional voids in BOP markets will negatively moderate the relationship between opportunity recognition and opportunity exploitation for MNEs.

In addition to the formal institutional voids, MNEs cannot easily tap into the local society's informal networks. Local societies often hold a level of distrust for foreign corporations dating back to colonialism. Without an initial level of trust, the local society is less likely to embrace the presence of and develop relationships with MNEs. Therefore, multinationals alone cannot access factors and resources needed to exploit opportunities from local informal networks.

Intra-Institutional Distance and Growth. Even when multinationals effectively recognize and exploit opportunities within a BOP market, they face significant challenges in trying to expand to additional BOP markets. This is because of what we refer to as *intra-institutional distance*, a term denoting that within the general realm of BOPs, different markets can be quite diverse (Karnani, 2007; Peng, 2001; World Resources Institute, 2007). For example, there are vast cultural and institutional differences between the three primary BOP regions of Latin America, Africa, and South-East Asia. Even within each region, local norms and practices often vary considerably, thereby limiting the ease with which multinationals can efficiently expand their entrepreneurial activities. Moreover, multiple BOP markets can exist within national borders. Within Africa, there are more than 800 languages (Mann & Dalby, 1987). Kenya alone is comprised of over 40 indigenous tribes, each with its own strong identity, cultural traditions, and separate dialect (Fox, 1996). Therefore, the knowledge that underlies an opportunity in one BOP market may require substantial adaptation before it is useful in another.

In addition to the need to adapt knowledge from one BOP market to the next, formal institutional voids exist within, yet differ across each market (Khanna et al., 2005). New obstacles surface in each BOP market concerning how to acquire, bundle, and leverage resources to effectively exploit opportunities. For instance, Bhutan is ranked 38th in the world in terms of contract enforcement through legal institutions, while Zimbabwe is ranked 74th, and Bangladesh is ranked 175th (Doing Business 2008, 2008). Yet for access to credit from finance institutions, Bhutan ranks 158th in the world with Zimbabwe and

Bangladesh at 97th and 48th, respectively. Thus, MNEs face significant investments in establishing new and different infrastructure elements to overcome unique formal institutional voids with each new entry.

In summary, even when MNEs can acquire knowledge and establish infrastructure within a BOP market to exploit opportunities, intra-institutional distance (i.e., institutional differences within and across BOP markets as a set) creates significant challenges for MNE growth. Growth into new undeveloped markets may require that the multinational adapt knowledge to take into account specific nuances of the local culture and/or markets, as well as develop local infrastructures for each of the broader markets. As such, we propose that when multinationals operate in BOP markets:

Proposition 3: Intra-institutional distance across BOP markets will negatively moderate the relationship between opportunity exploitation and growth for MNEs.

NGO-Based Networks and the MNE's Entrepreneurship Process

In essence, NGOs represent the collective, often nonprofit efforts of social activists. The ultimate goal of NGOs is to ensure that individuals and firms conform to a certain standard desired by an NGO's supporters. NGOs use various mechanisms to achieve their goals, including advocacy, developing norms and standards, sharing and coordinating resources and expertise, or harnessing markets for development (Witte & Reinicke, 2005). Although in general, any particular NGO focuses on a limited set of interests, NGOs' interests range from environmental concerns to human rights to issues regarding health, social justice, and welfare (Schepers, 2006). "NGOs" encompasses a diverse set of organizations, including religious organizations, cooperatives, professional unions, and other nonprofit interest groups. Teegen et al. (2004) dichotomize NGOs into "outward-looking" and "inward-looking." Outward-looking organizations exist for someone's benefit other than that of the members, whereas inward-looking organizations exist more for private than public purposes (Teegen et al.). We focus on outward-looking NGOs that are primarily concerned with economic, social, or environmental issues within BOP markets.

Because they promote seemingly incompatible agendas, the relationship between firms and NGOs historically has been adversarial (Berger, Cunningham, & Drumwright, 2004). However, social and economic goals are becoming increasingly interrelated, causing the organizations' goals to be viewed as more complementary (Zadek, Hojensgard, & Raynard, 2001). At least in some cases, animosity has given way to cautious optimism, as firms and NGOs are beginning to visualize the value to be gained by sharing their resource portfolios.

Of interest to us is the increasing number of alliances between multinationals and NGOs that are being formed with the purpose of recognizing and exploiting opportunities in undeveloped markets. While perhaps lacking the technology and resources to serve these markets themselves, NGOs can complement multinationals' strengths (i.e., their resource base, technologies, economies of scale) to establish a viable business model and tailor products and services for local economies (Sen, 1999). The alliances help MNEs (1) acquire knowledge about social issues, especially at localized levels; (2) gain expertise in stakeholder management, with which NGOs are intimately familiar; and (3) obtain access to new markets and sources of innovation as they adapt to highly uncertain conditions and resource constraints (Prahalad & Hart, 2002; Rondinelli & London, 2003; Waddell, 1999).

Knowledge Depth of NGOs as Reducing the Effects of Inter-Institutional Distance. As an idea develops into an opportunity, various sources of uncertainty that characterize the opportunity and the context are resolved. Networks serve as a valuable source of knowledge to resolve uncertainty and inform the evolving nature of the opportunity. Networks consist of the system of ties among organizations and other entities for the purpose of achieving some shared objective(s) (Whetten, 1981). Gaining some level of stability, enhancing efficiency and effectiveness, and gaining access to knowledge and resources are some of the reasons for forming networks (Oliver, 1990). In effect, networks are formed because participating organizations cannot achieve their objectives alone and as a "response to the challenges posed by the interdependencies that shape [the organizations'] common environment" (Gulati & Gargiulo, 1999, p. 1443). With repeated transactions, organizations become embedded within their networks (Uzzi, 1996). Embeddedness manifests in various forms (Zukin & DiMaggio, 1990). In general, scholars speak of organizations being embedded in networks when they share common ways of thinking and beliefs concerning how to operate.

In the BOP context, a significant social need and the size of the potential market play a primary role in stimulating the entrepreneurship process. For example, estimates suggest that 1.1 billion people in BOP markets lacked safe, affordable water sources in 2002, with the number expected to increase to 5 billion people by 2025 (Hanson & Powell, 2006). While the social needs and the potential size of the market provide an initial focus (i.e., the entrepreneurial idea) for MNEs to recognize opportunities, sources of uncertainty remain concerning the particular type of technology that will be used to fulfill the need, how to get to the customer given the often poor infrastructure in BOP markets, how to get the customer to adopt and then maintain adoption, how to package potential products given storage issues, and how to recoup investments or appropriate profits in order to sustain operations without taking advantage of the local society, among other sources of uncertainty. To the extent that NGOs are embedded within these undeveloped markets through decades of social efforts, they understand local institutions, and they legitimate modes of operation, beliefs regarding the value of certain product and service features, and the daily norms of local citizens. NGOs therefore can help multinationals evolve initial ideas into valuable opportunities.

One such example involves the Grameen Group, a large nonprofit NGO, and Groupe Danone, the largest supplier of fresh dairy products in the world.[1] These two organizations formed a joint venture to locally produce and sell nutritionally enhanced yogurt products in Bangladesh. The idea for the partnership was initiated by Dr. Muhammed Yunus, founder of the Grameen Group, during a conversation with Danone CEO Franck Riboud. The eventual opportunity was characterized by many different aspects, including how to manufacture, package, and distribute the yogurt, the specific business model for achieving sustainability, operating within local laws and regulations, and so on. Grameen was instrumental in determining how to address these sources of uncertainty. The NGO encouraged a social business enterprise model for sustainability. Grameen argued that if the local community perceived the yogurt venture as charity, this would only increase dependency; however, a social business enterprise would increase adoption and commitment to the venture. Grameen's influence was also evident with other considerations, including the use of solar power and biogas to operate the manufacturing plants and to produce biodegradable yogurt packages. The knowledge provided by Grameen decreased sources of uncertainty and associated costs for Danone. In doing so, Grameen helped Danone recognize the opportunity that started with an idea between two executives.

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1. Information regarding the example obtained from media reports, press releases, and a case study titled "Grameen Danone Foods: A Social Business Enterprise," ICMR Case #BECGO73.

Based on their closer understanding of local institutions (as well as other local conditions), NGOs can also serve as a critical source of key market information. For instance, the ABB Group is a Swiss-based engineering firm involved in designing and producing "off-the-grid" energy systems.[2] These systems demonstrate enormous potential for many rural areas within BOP markets, where approximately 1.3 billion people live without access to electricity (IEA, 2002). In such areas, domestic corporations using centralized models either do not possess the capital to undertake rural expansion, or such expansion is economically infeasible using large-scale power plants. However, the mere idea that such areas may benefit from "off-the-grid" systems may fail to progress to a market opportunity without access to more detailed information. To access such information, ABB formed a partnership with the World Wildlife Federation (WWF) to obtain key market information, including beliefs regarding affordability, behavioral norms as evidenced by spending and consumption patterns, and climate conditions of the local context. The WWF has spent years acquiring such knowledge to further its work in the areas of deforestation and health care. Such information allowed ABB to examine the feasibility of alternative business models for addressing such markets, and thus to progress from an idea to the recognition that a specific market opportunity existed.

In summary, NGOs' knowledge of local institutions allows them to provide knowledge about the BOP context and the technology underlying the opportunity. The NGO's knowledge reduces sources of uncertainty and perceived costs resulting from the institutional distance between multinationals' home markets and BOP markets. As such, the knowledge NGOs provide can enhance multinationals' opportunity recognition in BOP markets. Therefore, we propose that when MNEs operate in BOP markets:

> **Proposition 4:** Alliances with NGOs possessing knowledge depth in BOP markets will reduce the negative effects of inter-institutional distance on the relationship between entrepreneurial alertness and opportunity recognition for MNEs.

Social Embeddedness of NGOs as Reducing the Effects of Formal Institutional Voids. Given the formal institutional voids within BOP markets, economic activities are supported more strongly by informal network-based mechanisms, such as societal norms, trust, and familial ties (De Soto, 2000). Without formal institutions in place to mitigate the contractual hazards of transacting with parties outside a firm's own social network, opportunity exploitation is often constrained. Evidence supporting this assertion can be found in the limited presence of medium-sized enterprises (Dia, 1996) and the presence of large informal sectors in BOP markets overall (Schneider, 2002).

With increasing embeddedness, networks become characterized by shared rules, routines, values, norms, beliefs, and supporting apparatuses that are different from those in the overarching society (Portes & Sensenbrenner, 1993; Webb et al., 2009). In other words, networks embrace the notion of "private ordering" rather than relying on strong formal institutional environments to govern transactions. Within networks, organizations rely on network-based "social coordination and control, such as occupational socialization, collective sanctions, and reputations, than on authority or legal recourse" (Jones, Hesterly, & Borgatti, 1997, p. 916). Networks, in effect, form their own set of "proto-institutions," which we define as the set of network-level rules, routines, values, norms,

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2. Information regarding the example was obtained from ABB's corporate website, a case titled "ABB: Providing Access to Electricity," ICMR, Case #BECG052, a case study titled, "ABB: Access to Electricity program eases poverty" (WBCSD, 2005), and a white paper for "ABB's Initiative for Access to Electricity" produced by ABB in 2005.

beliefs, and supporting apparatuses that, in at least some ways, differ from formal and/or informal institutions' prescriptions in the broader society (Lawrence, Hardy, & Phillips, 2002).[3]

Entrepreneurs can leverage their networks' proto-institutions as substitutes for the lack of formal institutions' support in society. Facilitated by their proto-institutions, networks allow entrepreneurs to form internal capital markets, secure access to important factors, gain legitimacy from an informal institution's standpoint, and avoid negative implications (i.e., bribery and other corrupt behaviors) of formal institutional voids (Khanna & Palepu, 1997). *Guanxi* in China, *blat* in Russia, *pratik* in Haiti (Xin & Pearce, 1996), Korean *chaebols*, Indian business houses, and Latin American *grupos* (Guillen, 2000) are examples of networks with proto-institutions.

The transition from opportunity recognition to opportunity exploitation occurs with the acquisition, bundling, and leveraging of resources to create the actual value perceived in the opportunity. In BOP markets, formal institutional voids undermine MNEs' ability to exploit opportunities. MNEs looking to enter such markets lack the legitimacy and established relationships needed to operate within contexts dominated by informal institutions. In many cases, MNEs are also distrusted by local governments, communities, and individuals because of enduring impressions created during the colonial era (Brenkert, 1998).

Through alliances with NGOs, MNEs can access the resources needed to overcome their own weaknesses and reduce the risks resulting from formal institutional voids. NGOs provide and manage (i.e., bundle and leverage) resources directly, as well as mobilize resources through their network ties formed and embedded within the local context. Perhaps more importantly, NGOs understand both the institutions within which the MNEs developed and the institutions of the local context. While perhaps not necessarily internalizing either context's institutions fully, NGOs can appeal to both sides' needs, as well as serve as an "honest broker" to provide legitimacy and trust to both.

Specifically, the nonprofit status of NGOs engenders trust within BOP markets (Johnson & Prakash, 2007; Selsky & Parker, 2005). Over time, this trust evolves into legitimacy as the NGO works with the local community and comes to understand the local informal institutions (Teegen et al., 2004). MNEs can gain trust and legitimacy through relational ties with NGOs. Just as local entities are skeptical of MNEs, MNEs are also skeptical of the quality of local entities. Through their affiliation and support from NGOs, local entities gain reputational capital in the eyes of the MNE that can smooth transactions and facilitate the MNE's local operations. By being embedded in the informal institutions of BOP markets, the NGOs can mobilize key resources and other means to support the multinationals' opportunity exploitation that in any other case would not be readily accessible due to the formal institutional voids.

Returning to the examples of Grameen–Danone and WWF–ABB, the NGOs also played instrumental roles in reducing the negative influences of formal institutional voids, thereby facilitating the MNEs' opportunity exploitation. Grameen, through its numerous other ventures in Bangladesh involving education, microfinance, and communication services, was able to draw upon its own resources and network relationships to facilitate Danone's exploitation of its nutrient-enhanced yogurt opportunity. Grameen used

3. We suggest that proto-institutions differ in at least some ways from society's broader institutions. This does not necessarily mean that proto-institutions conflict with broader institutions. Rather, proto-institutions can complement broader institutions, perhaps may be more focused on a smaller set of norms, values, and beliefs than broader institutions, or may share some norms, values, and beliefs with broader institutions while conflicting with others.

network relationships embedded in the local context to develop a local supply source, provided financing for local farmers to buy cows through its loan circle programs, and established a distribution presence involving women selling the yogurt products door-to-door.

Likewise, because of its involvement with WWF, ABB was able to convince members of the local community to construct a shelter for the generator, as well as dig trenches for power cables. Individuals within such markets are often reluctant to invest their time and resources into projects that do not produce an immediate payback, and certainly not with organizations that are mistrusted. However, WWF, through its previous forestation and health-care projects, had shifted the mindset of the community to a longer-term orientation and subsequently was able to extend these relational ties to ABB. As a result, not only were the initial costs to ABB lower as a result of the community's involvement, but their participation at such early stages provided for greater buy-in at the grassroots level.

In sum, MNEs alone typically lack the established presence to advance from opportunity recognition to opportunity exploitation in BOP markets. Furthermore, formal institutional voids serve as a significant obstacle for a firm to individually develop the local presence it requires to exploit opportunities. Many locally embedded NGOs possess the resources and network relationships needed to create and manage links between multinationals and BOP markets. As such, NGOs can serve as effective alliance partners to MNEs for overcoming formal institutional voids (i.e., by providing network relationships with the local societies to develop factor and product markets, among other infrastructural elements), and for exploiting opportunities in BOP markets. In line with this assertion, we propose that when multinationals operate in BOP markets:

> **Proposition 5:** Alliances with NGOs embedded in local networks in BOP markets will reduce the negative effects of formal institutional voids on the relationship between opportunity recognition and opportunity exploitation for MNEs.

Network Breadth of NGOs as Reducing the Effects of Intra-Institutional Distance. When partnering with NGOs, MNEs often use an incremental, learning-based approach in the early stages. Initial entry generally involves a pilot study within a local community or single country that allows NGOs and MNEs to refine the opportunity. If pilot studies reach a satisfactory level of performance (i.e., as measured by a maintained level of customer adoption, sustainable development, and/or a satisfactory level of social benefits), NGOs and MNEs have joint incentives to rapidly expand and grow their venture to (1) provide a larger social benefit; (2) gain economies of scale; and (3) acquire a greater understanding of and presence in the undeveloped markets.

Rapid growth within and across BOP markets allows economies of scale, which can offset the thinner margins in BOP markets and the costs associated with having to create wholly new or redesigned products/services to accommodate lower price points (Prahalad, 2006). While MNEs may acquire some knowledge during the pilot study, BOP markets are quite diverse. As discussed above, intra-institutional distance within a set of BOP markets (Peng, 2001) undermines a multinational's ability to apply knowledge from one BOP market to the next, thereby hindering growth.

Many development-oriented NGOs possess extensive and wide-reaching networks globally. While the networks often are resources of large, multinational NGOs, the NGOs can also draw upon a multitude of networks of smaller, local NGOs with whom they have coordinated previously to complete one or more projects. The NGOs' broader presence and/or locally embedded networks allow them to continue to be valuable partners in providing knowledge on how to adapt opportunities effectively to meet local needs. The existence of broad geographical networks allows for quick and efficient scaling from pilot stage to large-scale rollout. While involvement in the pilot project leads to a great deal of learning on the part of the MNE, the partnership activities also result in increased project-specific knowledge within the NGO, as well as the building of routines, processes, and most importantly, trust between the two organizations. Therefore, MNEs often maintain or expand their alliances with NGOs through the growth stage of the entrepreneurship process.

Returning to the WWF/ABB example, ABB was able to work with the WWF to quickly scale up their project from 1 to 10 communities within Tanzania, and are in the process of expanding to Senegal and Uganda. While part of what facilitated this rapid growth was the vast geographic network of the WWF, it was also the inclusion of representatives from both ABB's and the WWF's head offices from the early stages of the project that enabled the skills and capabilities acquired through the pilot phase to be leveraged and redeployed to other geographical divisions of both organizations.

The Grameen–Danone alliance also illustrates how leveraging an existing NGO brand can accelerate the expansion process for MNEs. Within Bangladesh, and indeed throughout the world, Grameen is viewed as a trusted brand by all sectors, including firms, NGOs, and governments. The roots of the Grameen organization date to 1976, and have involved multiple projects resulting in tremendous brand awareness. As a result, Danone was able to overcome not only the logistical challenges involved in expansion within BOP markets, with which Grameen assisted, but also the challenge of achieving positive brand recognition within a context of distrust for developed-economy MNEs and limited media infrastructure for changing such impressions. Together, Grameen–Danone has aggressive growth plans to establish nearly 50 production plants by 2016 in the BOP markets of Bangladesh. This growth is also expected to provide significant job growth in the local communities through farming and distribution.

In sum, NGOs can offset the negative effects of intra-institutional distance within and across BOP markets for MNEs during the growth stage of the entrepreneurship process. As a result, MNEs are able to recognize and exploit opportunities in broader BOP markets, allowing economies of scale to be achieved in a shorter period of time. Therefore, we propose that when multinationals operate in BOP markets:

> **Proposition 6:** Alliances with NGOs embedded in broad geographic networks across BOP markets will reduce the negative effects of intra-institutional distance on the relationship between opportunity exploitation and growth for MNEs.

While we have drawn upon the examples of Grameen/Danone and WWF/ABB throughout the paper, the opportunities and contexts of NGO–MNE alliances in such undeveloped markets are diverse, and each alliance may be characterized by unique features. As such, in Table 2, we present additional examples to illustrate nuances of these alliances at each stage of the entrepreneurship process.

Discussion

Our theoretical arguments have, we believe, implications for scholars and managers. For entrepreneurship scholars, examining opportunities and the entrepreneurship process in BOP markets requires a shift in how scholars think about success. The dominant perspective is that entrepreneurial activities allow firms to create wealth. While financial considerations underlie the activities of many MNEs in BOP markets, they must be thought of as a longer-term goal that is considered simultaneously with concerns for

Table 2

Examples of NGO–MNE Alliances at Each Stage of the Entrepreneurship Process

MNE	NGO	Stage of the entrepreneurship process	Details of alliance	Cite
ABB	World Wildlife Federation (WWF)	*Alertness to Opportunity Recognition*	Over 1.3 billion people live without electricity in BOP markets. ABB, a Swiss energy firm, partnered with WWF in Tanzania to bring off-the-grid energy systems to poor rural and semi-urban regions. Given its decades of experience in Tanzania with its deforestation and health-care efforts, WWF was able to provide detailed knowledge of local norms and beliefs, including information regarding affordability, consumption/spending patterns, and so on. ABB was able to integrate this local knowledge with its own technical knowledge to recognize a valuable, tailored opportunity.	Information regarding the example was obtained from ABB's corporate website, a case titled "ABB: Providing 'Access to Electricity'," ICMR, Case #BECG052, a case study titled, "ABB: Access to Electricity program eases poverty" WBCSD (2005), and a white paper for "ABB's initiative for Access to Electricity" produced by ABB in 2005.
MAP Agro	Waste Concern		The capital of Bangladesh, Dhaka, suffered from severe buildup of solid waste throughout the city due to dramatic increases in population growth without corresponding trash collection by the public works department. Waste Concern, a local NGO start-up, began pilot testing a process of collecting and transporting waste into organic compost. In partnership with Map Agro, a subisdiary of Alpha Agro located in Pakistan, an idea was developed to market and distribute the compost as a substitute to chemical fertilizer for farmers within the region. An integration of Waste Concern's technical knowledge, coupled with Map Agro's distribution and client knowledge, resulted in the creation of a financially feasible opportunity.	Thurner, Seelos, and Mair (2006)—IESE Case Study
ABN AMRO	ACCION		ABN AMRO, a Dutch-based financial services firm, sought to introduce microcredit operations in Brazilian urban shantytowns to stimulate economic development. In other BOP markets, such as in Bangladesh, microcredit operations relied on a socially governed "group solidarity" system. However, through the knowledge provided by ACCION, ABN AMRO recognized that an approach using door-to-door selling, a 48-hour approval process, and a much more personalized customer relationship management process would be deemed more legitimate given local norms and beliefs in the Brazilian BOP market.	Information regarding the example obtained from a case study titled "ABN AMRO's Real Microcredito: A multinational bank's entry into the micro-credit market," produced by UNC Kenan-Flagler.

Procter & Gamble (P&G)	Population Services International (PSI)	*Opportunity Recognition to Opportunity Exploitation*	Many of those individuals living in BOP markets face having to drink unsafe water, which has been attributed to high infant mortality and disease. Numerous MNEs have sought to exploit this opportunity and failed. P&G had developed the PuR water filtration system, but their attempts to commercialize the product failed. Because water-borne bacteria is not visible to the naked eye, local individuals did not see the need to pay to drink what was otherwise free water and did not immediately make the connection between such bacteria and the resulting illnesses which led to time off work or large medical expenses at the local clinics. Thus, P&G enlisted PSI and others to help in exploiting this opportunity, first in Pakistan. The venture would require education and brand awareness campaigns to tout the benefits of the PuR product. However, the lack of mass media to communicate these benefits meant that PuR would need to be promoted via community-based educational programs. "PSI had valuable experience and networks from employing social marketing strategies to facilitate the uptake of other health products in developing countries, like condoms, mosquito nets, and nutritional supplements" (Hanson & Powell, 2006, p. 4). PSI undertook its own community-level campaigns to promote PuR and also trained local health workers through demonstrations. PSI also drew upon its local networks and partners, which included other NGOs such as Management Sciences for Health and Cooperative for Assistance and Relief Everywhere (CARE), to aid in the distribution of the PuR sachets.	Information regarding the example was drawn from Hanson and Powell (2006).
Shell Renewables Lanka Limited	SEEDS (Sarvodaya Economic Enterprise Development Services)		There are approximately 20 million people living in Sri Lanka, and nearly 50% of them, primarily located in rural areas, do not have access to electricity. Shell Renewables had identified an opportunity to use solar technology at the household level given that the infrastructure costs of creating large-scale grids were enormous. However, the solar units developed were still too expensive for many of these households to purcahse without unsecured credit. As a result, Shell partnered with SEEDS to set up a financing and loan collection process which fit the needs of the local consumers in that payments were arranged bianually to coincide with crop harvesting. By paying Shell upon delivery of the solar unit, and collecting the funds over a 5-year period, SEEDS acted to fill the institutional void of weak legal regimes by leveraging its own social network and microlending processes. SEEDS also played a key role in validating the new technology to local communities, thereby legitimizing the large investment.	http://www.wbcsd.com

Table 2

Continued

MNE	NGO	Stage of the entrepreneurship process	Details of alliance	Cite
Holcim	Ceylinico Grameen		Holcim, one of the world's largest cement companies, looked to exploit opportunities in the Sri Lankan market. The firm partnered with Ceylinico Grameen for its "House for Life" program. The purchase of a well-structured dwelling by members of Sri Lanka's rural citizens required a long-term mortgage facility to be feasible. The microfinance activities of Ceylinico Grameen represented established systems for managing these credit services, which in Sri Lanka rely much more on informal norms, such as personal relationships and group lending philosophies.	"Holcim: Offering low-cost housing solutions—*Sri Lanka*," found at http://vaibhav.typepad.com/WBCSD.HouseforLife..pdf
P&G	PSI	*Opportunity Exploitation to Growth*	While P&G and PSI faced hurdles in Pakistan, the value of PuR water products became exponentially clear during the tsunami disasters in Southeast Asia in 2004. As such, P&G and PSI decided to grow their venture to broader BOP markets. In developing a plan for expansion, P&G and PSI provided separate criteria for target countries. P&G focused on key indicators of social and health needs, external financing options, and affordability for customers. PSI provided criteria, such as infrastructure for water access, presence of existing water safety products/services, the presence of local partners, and access to media and distribution outlets. Each of the criteria signifies the partners' unique perceptions regarding what is important to ensuring the PuR opportunity is value creating in both financial and social respects. The criteria led to P&G and PSI entering Haiti, the Dominican Republic, Uganda, Kenya, and other parts of Africa in the next couple years. While Procter & Gamble continued to manufacture the PuR sachets and provide technical assistance, PSI's role remained focused on the marketing side. In Haiti, PSI introduced a microfinancing feature, in which over 700 local women were educated and trained to sell PuR sachets. In Pakistan, PSI was planning a social marketing campaign in coordination with a local NGO. In Africa, where competing, yet less effective chlorine-based products existed, PSI relied on interactive product demonstrations to differentiate PuR.	Information for this example was drawn from Hanson and Powell (2006).

Freeplay Energy	CARE Rwanda	Within Rwanda, only 5% of the population has access to electricity. Given the recent boom in information technologies, especially cell phones, a scaleable solution was required to provide a means of recharging such devices. Freeplay Energy had developed a foot-powered generator called "Weza," which was a result of years of modifications to traditional hand-crank technologies in flashlights and radios. After pilot testing, CARE Rwanda provided the distribution network for the rollout across the country by leveraging its existing savings and loan associations. These 40 groups served not only as sales forces for the product, but also leveraged its microfinance expertise to improve the affordability of the product. After a successful rollout to the rural regions of Rwanda, plans are now underway to expand quickly into Zambia, Tanzania, Sierra Leone, and Angola using CARE and other local NGOs as ongoing partners.	http://www.freeplayenergy.com
Royal Phillips Electronics	Development of Humane Action (DHAN)	Royal Philips Electronics established an alliance with DHAN to serve the medical needs of the poor living in rural India where medical care is typically unaffordable. Having experienced positive results in a test market, Royal Phillips Electronics, DHAN, and other partners expanded its health-care services via a mobile teleclinical truck to six more regions within India. DHAN's local presence throughout the country provides significant knowledge and resources to facilitate this growth. More specifically, NGO teams have undertaken various actions to screen and identify those localities most in need. In doing so, DHAN provides valuable knowledge for discerning where the most pertinent and valuable opportunities exist. The NGO also is expected to play a vital role in interfacing with the local communities. DHAN will directly provide counseling or will train counselors for in-home, follow-up visits to discuss nutrients and hygiene with patients. By drawing on DHAN's local presence, Philips is able to quickly expand throughout India without investing heavily in establishing its own presence.	Information regarding the example drawn from the case study "Royal Phillips Electronics: Bringing healthcare services to rural communities," published by World Business Council for Sustainable Development, 2005, http://www.wbcsd.org.

MNE, multinational enterprises; NGO, nongovernment organization.

immediate social benefits and reputational gains. Indeed, failing to consider the longer-term potential of intangible gains, such as those associated with contributions to local societies and enhancements to the quality of a firm's reputation, may prevent scholars from fully assessing the success of the entrepreneurship processes an MNE is using in BOP markets.

While the stages of the entrepreneurship process remain fundamentally the same across contexts (i.e., alertness, recognition, exploitation, and growth), the activities through which MNEs move from stage to stage are seemingly quite different when entering BOP markets versus markets in more developed regions. Because of the unique challenges of BOP markets (i.e., high inter- and intra-institutional distance and formal institutional voids), MNEs use much more iterative activities to move between each stage. In other words, MNEs entering BOP markets do not discover opportunities but rather create them (Alvarez & Barney, 2007) as they exploit ideas, incorporate feedback, learn, and transform ideas into opportunities through what can be a lengthy, iterative process. Moreover, opportunity creation often occurs through activities of co-creation, or with the involvement of local individuals and entities (London, 2008). As discussed throughout the paper, NGOs serve a vital role in connecting MNEs with these local individuals and entities.

Vodafone's activities to facilitate financial transactions in Kenya via a mobile, handheld device provide an example of co-creation. Vodafone partnered with Faulu, a microfinance company owned by Food for the Hungry International, to facilitate financial transactions in Kenya to stimulate economic activity, job creation, and other social benefits.[4] The idea began with the realization that there was a need for fast and secure access to financial services. From there, a commercial bank was brought into the fold, and the idea began to solidify around customers being able to make small transactions via a handheld device. The next major question concerned whether to buy or build the software for the device, but after gathering information regarding the various software options available for purchase and information concerning the local BOP market, Vodafone realized that they would need to build the software. Upon reconciling this question, as well as questions concerning agents, agent device features, and others, Vodafone then leveraged Faulu's local market network to pilot test its device. Faulu's local ties were valuable in identifying locations to pilot the device and groups of individuals who were most likely to understand the use of the device and service. Moreover, Faulu could draw upon the trust it had developed in the region to encourage locals to break from their institutionalized practices (i.e., each week forming a group of 20 individuals, paying a group treasurer who takes the money to the bank accompanied by group member bodyguards, and long bus rides) to test Vodafone's solution. With the feedback from the pilot test, Vodafone continued to modify numerous features of the opportunity, including hardware and software characteristics, the customer interface, and back-office routines. The process undertaken by Vodafone occurred over 2 years, as it iteratively developed and refined its initial idea into an opportunity. The extended duration of the pilot testing, co-creation, and other activities highlights another unique characteristic of MNE entrepreneurship in BOP markets.

As discussed previously, the markets within emerging and developing economies differ significantly from developed regions to the undeveloped regions with BOP markets.

4. Information regarding the example was drawn from the following article: Hughes, N., and Lonie, S. (2007). M-Pesa: Mobile money for the "unbanked": Turning cellphones into 24-hour tellers in Kenya. *Innovations*, *Winter & Spring*, 63–81.

Most local firms focus on serving only the top of their domestic economic pyramids. However, even some local firms are recognizing the potential value of BOP markets. Despite being "native" to their country, these local firms often have very little knowledge concerning how to operate efficiently and effectively in their country's BOP markets (London, 2008). As such, when local firms enter their country's BOP markets, they may also leverage NGO ties. For example, the Commercial Bank of Zimbabwe (CMZ), the largest domestic bank within the country, formed a partnership with CARE Zimbabwe, a local operation of a global NGO, to establish microlending products to serve the rural regions of the country. CARE initially worked with CMZ to identify target client profiles and develop a new microlending process that was significantly different from their traditional lending practices, but still able to leverage the firm's existing infrastructure. Subsequently, CARE and CMZ initiated four pilot projects in different rural regions throughout the country, and continued to refine the microlending and client segmenting process over a period of 6 years. Subsequently, CMZ, through its partnership with CARE, was able to establish significant trust and social capital among the local citizens, and expand its operations into new product lines, such as insurance and savings, as well as into other towns and villages in Zimbabwe.

The complexity and variation across NGO–MNE alliances may lead to difficulties for scholars attempting to generalize findings across contexts. The alliances represent a relatively new phenomenon, and NGOs and MNEs are themselves still trying to figure out the normative standards for how to organize their alliances. In various instances, NGO–MNE partners may also be accompanied by governmental entities, other NGOs, or other local actors. NGOs sometimes take the lead role in recognizing and exploiting opportunities as opposed to our primary focus, in which MNEs have taken the lead role. Perhaps the interorganizational differences can be attributed to the complexity and variation that exist across BOP markets or to the proportion of social to financial benefits perceived in BOP opportunities. Scholars investigating NGO–MNE alliances need to account for these issues when designing studies and discussing the generalizability of their findings.

In terms of theoretical implications, the application of other lenses to examine NGO–MNE alliances can complement our approach (Ireland & Webb, 2007). For example, transaction cost economics could provide insight regarding the nature of governance in the NGO–MNE alliances (King, 2007). After decades of mistrust, only recently have NGOs and MNEs realized the value of working together. Research using a transaction costs approach to NGO–MNE alliances could identify governance mechanisms that minimize any lingering distrust, promote effective interactions, and facilitate entrepreneurial activities. Offering yet another complementary theoretical perspective, an integration of identity and institutional theories could provide more detailed insight regarding the NGOs' roles as intermediaries. NGOs straddle the institutions of developed and BOP markets. While perhaps not embracing either of these institutions completely, NGOs can come to understand them and craft an identity that is appealing to both MNEs and developing economies. Under some circumstances, NGOs may need to present slightly nuanced identities to MNEs and those within BOP markets in order to appeal to each.

As a final implication for scholarly research, we suggest that studying formal institutional voids and how firms adapt by leveraging networks can extend institutional theory and network theory. A common view of institutions is that they are relatively stable and efficient structures that coordinate activity within society (Clemens & Cook, 1999). A burgeoning stream of research has begun to examine how networks can form their own "proto-institutions" to substitute for and/or complement the broader society's institutions in both developed and developing economies (e.g., Jones et al., 1997; Lawrence et al., 2002). In essence, this line of research is based upon the premise that institutions are not as efficient in many cases as was once assumed. Further research may seek to identify the specific characteristics of institutions that make them more or less efficient. In this context, opportunities for research may lie in developing economies to examine sources of institutional inefficiency, how these sources differ across societies, and the different organizational forms that individuals and firms leverage to adapt to these sources of inefficiency.

For managers, BOP markets in particular and developing economies in general present enormous opportunities, especially with regard to long-term financial potential. Some MNEs appear to be entering BOP markets with the understanding that financial gains may be negligible for extended periods in hopes of establishing local brands for when these markets begin to emerge. Nevertheless, significant costs and risks remain. If the costs become overwhelming, managers may decide the best course of action is to withdraw and cut their losses. However, withdrawing from BOP markets can lead to reputational losses not only in the BOP markets, but globally, as well if NGOs perceive broken promises. Thus, financial tools such as cost/benefit analysis, breakeven analysis, and net present value perhaps need to be adjusted to fit the BOP market context.

The ideas we present herein highlight the crucial role of NGOs in facilitating multinationals' entrepreneurial activities in BOP markets. However, the NGO–MNE partnership is a complex relationship that also involves governance, strategy, and ethics. Given NGOs' nonprofit status, these aspects may differ as compared with those in traditional alliances, suggesting that managers need to undertake appropriate due diligence prior to entering the relationships. Incompatible goals are a frequent cause of alliance failure, suggesting that each side must be confident about the other's aspirations. Moreover, while NGOs have a central role in these relationships, governmental and other local entities sometimes also facilitate MNEs' entrepreneurial activities in BOP markets. The complexity of these inter-organizational networks can quickly become overwhelming, especially when also considering that the large distances between many BOP markets and the MNE's home market makes monitoring activities very difficult. Therefore, due diligence again serves as a valuable tool for managers deciding whether to enter a BOP market.

Conclusion

There is growing recognition that BOP markets represent important growth opportunities despite presenting significant challenges. We have used entrepreneurship, institutional, and network theories to frame arguments for how NGOs can facilitate multinationals' entrepreneurship processes in BOP markets. Because NGOs are familiar with institutions of both developed economy and BOP markets, they serve as effective intermediaries between MNEs and the local markets. As intermediaries, NGOs provide knowledge, resources, and legitimacy to support MNEs' entrepreneurship processes.

We believe that our discussion of institutional environments and NGO–MNE alliances in BOP markets yields several theoretical contributions. We contribute to an emerging entrepreneurship theory (Phan, 2004) by discussing how the institutional environment and network-level proto-institutions influence the MNEs' entrepreneurship process. Multinationals face significant institutional barriers to implementing their entrepreneurship processes in BOP markets. High inter-institutional distance deters opportunity recognition, formal institutional voids undermine opportunity exploitation, and high intra-institutional distance creates significant obstacles as MNEs seek to grow their ventures from one BOP market to the next. Our discussion focuses on partnerships with NGOs leveraged by *foreign* MNEs to overcome the institutional barriers at each stage of the entrepreneurship process. We hope that this discussion stimulates further research into entrepreneurial activities in BOP markets, the economic role of NGOs, and the intersection of networks and institutions.

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