

Social Intermediation in Base-of-the-Pyramid Markets

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ABSTRACT Our study explores the structuring decisions made by intermediaries seeking to alleviate poverty by connecting base-of-the-pyramid markets with more developed markets. Using intermediation theory to ground our study, we collected qualitative data on 29 social intermediation projects located within Latin America, Africa, and Asia. Our findings suggest that ‘socializing’ intermediation theory to more accurately explain and predict structural outcomes across more diverse contexts requires three key modifications: (1) the attenuation of opportunism, which creates an *internalizing* social force; (2) the accommodation of non-monetary objectives, which creates an *externalizing* social force; and (3) the perception of transaction capabilities as tractable, which serves as a guidepost for reconciling these two opposing social forces.

Keywords: base-of-the-pyramid, intermediation, poverty alleviation, social enterprise, structuring

INTRODUCTION

Base-of-the-pyramid (BOP) markets are comprised of the nearly 4 billion people worldwide that live on less than two dollars per day (Prahalad and Hart, 2002). Much of the trade that currently exists within BOP markets occurs only on a very small, local level. The absence of strong formal institutions to facilitate trade beyond informal networks, as well as poor transportation and communication infrastructures, significantly impedes transacting larger volumes across farther distances (de Soto, 2000; Kistruck and Beamish, 2010). The overall limited number of trade linkages between BOP markets and more developed markets results in depressed prices paid to BOP producers for their wares, and more inflated prices paid by BOP consumers for the provision of goods and services (London et al., 2010).

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Organizations collectively referred to as social enterprises have begun efforts at building new and more efficient trading channels through the process of intermediation. Social enterprises can be defined as organizations that ‘combine the pursuit of financial objectives with the pursuit and promotion of substantive and terminal values’ (Cho, 2006, p. 36) and are driven primarily by social goals, but seek to accomplish such goals in a manner that is, at least in part, financially self-sustaining rather than relying exclusively upon ongoing donations or government grants. An intermediary is defined as ‘an economic agent that purchases from suppliers for resale to buyers or that helps buyers and sellers meet and transact’ (Spulber, 1999, p. 135). Thus, the objectives of ‘social intermediaries’ are to engage in a set of activities that will allow BOP producers or consumers to reduce problems of adverse selection and moral hazard that currently plague transactional arrangements, and to redistribute the resulting economic rents in a more equitable manner.

In pursuing their goals, social intermediaries must decide specifically the scope of their involvement in orchestrating trade between buyers and sellers. Specifically, they must decide the extent to which they will undertake the transaction functions of search, negotiation, monitoring, and enforcement internally using a hierarchical arrangement versus requiring buyers and sellers to transact directly in the market. To better understand how social intermediaries make such structuring decisions within BOP markets, we grounded our exploratory study within the theory of intermediation (Spulber, 1996, 1999). As an integration of transaction cost economics and the resource-based view, intermediation theory predicts that the extent to which a transactional activity will be structured internally versus externally depends on the given capabilities of an intermediary vis-à-vis those of the buyers and sellers to minimize the costs of transacting. However, much like transaction cost economics upon which it is partially based, the behavioural assumptions underlying intermediation theory are those of bounded rationality and opportunism, and the objective function of an organization is assumed to be the maximization of financial efficiency (Williamson, 1975). Such assumptions are more likely ‘variables’ rather than ‘constants’ in cases of social intermediation, and thus may alter the predicted structural outcomes of existing theory (George et al., 2012; Valentinov, 2008). Thus our study sought to address two particular research questions: (1) how do organizations currently seeking to alleviate poverty by connecting base-of-the-pyramid (BOP) markets with more developed markets elect to structure their activities; and (2) what additions or modifications are required to existing intermediation theory to adequately explain and predict structuring decisions made by social intermediaries?

To address such questions, we undertook a multi-phase qualitative study involving 29 social intermediation projects located in Latin America, Africa, and South Asia, and subsequently analysed our data using NVivo 8 to code the most pertinent themes. Our data suggest that social intermediaries are willing to absorb the financial losses that often come with transacting in BOP environments if it means greater financial benefits for those parties whom they see as disadvantaged. The ultimate effect of this modification is that it creates an *internalizing* social force in which the intermediary is more likely to assume responsibility for those transaction functions which are unprofitable. Second, our data suggest that the pursuit of social objectives such as the empowerment of disadvantaged populations requires that social intermediaries not only look at the relative finan-

cial efficiency of markets versus hierarchies, but also at the relative efficacy of each institutional arrangement to accomplish such social objectives. While internalizing a particular transaction activity may be a more financially efficient means of governance when the social intermediary possesses superior transaction capabilities, they may nevertheless elect not to internalize the transaction as doing so would be associated with the use of fiat and control rather than the empowerment of the disadvantaged populations they are seeking to help. Thus, the pursuit of social objectives can create an opposing *externalizing* force in which intermediaries are willing to allow buyers and sellers to transact directly, even if doing so creates comparatively greater financial inefficiencies.

Finally, our data suggest that as part of the process of attempting to reconcile these two opposing structural forces, social intermediaries evaluate the tractability of transaction capabilities prior to making structuring decisions. Specifically, intermediaries attempt to balance their desire to create self-sustaining direct relationships between buyers and sellers (*externalizing* social force) with the financial constraint that profitable trade would often not occur without their willingness to assume responsibility for less profitable transaction functions (*internalizing* social force) by first analysing the degree of difficulty in improving the capability of BOP producers and consumers to search, negotiate, monitor, and enforce transactions. As opposed to internalizing all transaction functions for which an intermediary possesses superior *a priori* transaction capabilities in order to leverage their comparative advantage, social intermediaries analyse each function individually to determine the time and investment required to raise the functional capability of BOP buyers or sellers to minimally acceptable levels. Thus, social intermediaries undertake a much more dynamic and active approach, as opposed to the static and passive approach assumed within current intermediation theory, to evaluating relative transactional capabilities.

We believe such insights not only inform intermediation theory specifically, but economic-based theories of inter-organizational structuring more broadly (i.e. transaction cost economics, agency theory, incomplete contract theory). Existing economic theories view financially *inefficient* structural outcomes as a result of bounded rationality and ‘satisficing’ on the part of decision makers (March, 1991; Simon, 1957). Thus, such theories presume that it is the cognitive limits on the part of individuals to identify and weigh all options within a given choice set that leads to inefficient organization (Williamson, 1985). However, we argue that organizations that altruistically pursue both financial and social goals often make very rational and purposeful decisions to be inefficient in order to maximize their overall utility function. Furthermore, we assert that such ‘*socialficing*’ by organizations is not only likely to occur within social enterprises or non-profit organizations whose formal or informal legitimacy rests upon the explicit pursuit of socially-oriented goals, but also in crown corporations and even for-profit corporations who, despite the prescriptive notion of profit-maximization as a sole utility function, often make structuring decisions based upon goals that are much broader (Campbell, 2007; Margolis and Walsh, 2003).

We begin our discussion by describing the phenomenon of social intermediation in BOP markets, including its comparison to prior poverty alleviation approaches. We then outline the key arguments and assumptions underlying current intermediation theory to provide a framework for explaining and predicting structural outcomes in general. After

detailing our methodological approach and analytical techniques, we present our findings and formal propositions. We conclude by discussing both the theoretical and practical implications of our study and suggest potential avenues of future research.

SOCIAL INTERMEDIATION IN BOP MARKETS

BOP markets are characterized by a reliance on informal rather than formal institutions (London, 2009). As a result, a number of specific barriers exist that limit the existence or efficiency of transactions within such environments. For instance, in the absence of strong legal institutions, buyers and sellers are faced with the strong possibility of unfair dealings and moral hazard which force them to limit the number of people with whom they transact to only those that reside within their informal networks (de Soto, 2000). This, in turn, also results in a significant problem of adverse selection, or an inefficient matching of buyers and sellers. Also, in the absence of strong financial institutions, producers and buyers are often forced to transact using spot markets rather than credit which creates a coincidence of wants problem in which individuals are forced to limit the people with whom they transact to only those with the financial capability to do so at a particular point in time (Starr, 1972; Webb et al., 2010). Transactional impediments such as these significantly limit the extent of trade within BOP markets as well as between BOP markets and more developed markets.

To the extent that trade does exist across greater distances, and outside of informal networks, it typically funnels through a very small number of third-party middlemen (Vachani and Smith, 2008; Varadarajan, 1984). While such middlemen do in some ways serve to facilitate economic development by connecting or aggregating fragmented suppliers and buyers who would not otherwise transact, in the absence of significant competition they also extort the vast majority of economic rents (Hall et al., 2012). While the appeal of such exorbitant profits would typically attract other intermediaries as competitors, or incentivize the supplier and buyer to transact directly, intermediaries within BOP markets are often adept at maintaining control over information where communication and other infrastructures are weak (Ansari et al., 2012; Vachani, 2008).

In a direct response to such challenges, a transaction-focused intermediation approach has garnered increased interest by social enterprises as a development strategy for poverty alleviation. As compared to the prior waves of development assistance, the mantra of the intermediation approach is ‘not to give people fish, it’s not to teach them how to fish, it’s to build new and better fishing industries’ (Drayton, 2006). While other causes of poverty such as weak property-rights protection, colonization, poor natural resource endowments, etc. continue to be significant macro-level impediments to efficient market formation, through intermediation, social enterprises attempt to actively shape current market forces by directly intervening into the trade of goods and services at a very micro level. Thus, social intermediaries attempt to act as organizational substitutes for the absence of more formal, macro-level institutions within BOP markets (Ellis, 2003).

An example of a social intermediation project might involve a social enterprise making contact with a small rural coffee producer cooperative within the BOP. Through discussions with the BOP producers, the social enterprise comes to realize that virtually all

of the cooperatives' coffee is currently sold to a local middleman who in turns sells it within the urban centre. The cooperative members possess neither the information nor logistical means to bypass the middleman to sell their products directly to the urban market. Furthermore, the cooperative members must borrow money during the planting season from the middleman at high interest rates due to the lack of alternative sources of capital, and must agree to sell their entire crop at discounted prices as part of the agreement. In response, the social enterprise makes contact with a multinational buyer within Europe who agrees to buy coffee from the small cooperative as part of their CSR efforts on the condition that the social enterprise will financially guarantee its quality. As a result, the social enterprise acts as a go-between in assisting the cooperative in their ongoing negotiations with the European buyer, and continues to offer a financial guarantee to the buyer to allay their concerns regarding their inability to adequately monitor quality or enforce international contracts with producers in BOP markets. The social intermediary also provides the up-front financing required by the producer cooperative during the planting season at low interest rates. While the social intermediary charges a small percentage of the transaction as a fee to cover its costs, the majority of the increase in profits goes directly to the cooperative members.

Despite the prescriptive appeal of this new social intermediation approach, very little theoretically-grounded work has been undertaken to deconstruct the more specific structural issues surrounding the process of intermediating. At its roots, intermediation by a social enterprise requires decisions regarding the redress of specific transaction costs in a resource-constrained environment. These resource constraints, often amplified within BOP markets, pose a series of pressing questions to organizations such as which specific transaction costs are in most need of attention, by what mechanisms can such transaction costs be most efficiently overcome, and which entity within the producer–intermediary–consumer transactional arrangement is best suited to undertake each specific transactional activity in order to deliver a long-term development solution. We turn now to discussing the key tenets of intermediation theory as a potential framework for providing guidance to answering such questions.

THE THEORY OF INTERMEDIATION

Based largely on earlier work by Townsend (1978), but more fully articulated later by Spulber (1996), the theory of intermediation evolved out of neo-institutional economics to explain third party involvement as a structural 'anomaly' to traditional economic models that assumed suppliers and buyers transacted directly with one another. Intermediation theory draws primarily upon transaction cost economics for its base logic. As such, it shares the core behavioural assumptions of bounded rationality and opportunism, and a focus on the costs of transacting rather than the costs of producing as its primary focus for predicting structural outcomes (Spulber, 2009; Williamson, 1985). Bounded rationality is defined as 'limited foresight, imprecise language, the costs of calculating solutions, and the costs of writing down a plan' (Milgrom and Roberts, 1992, p. 128), and assumes that while individuals are intendedly rational, they are limitedly so due to cognitive constraints related to information processing and other resource limitations (Hart and Moore, 1990; Simon, 1957). Opportunism is defined by Williamson

(1975, p. 26) as 'self-interest seeking with guile', and assumes that individuals will seek to take advantage of other individuals in order to improve their own position.

However, intermediation theory differs from transaction cost economics in several key ways, the first of which is its unit of analysis. While transaction cost economics focuses primarily on characteristics of the transaction in predicting structural outcomes – namely asset specificity, frequency, and uncertainty – the unit of analysis for intermediation theory is the firm (Spulber, 2009). Specifically, in predicting structural outcomes, intermediation theory focuses on the relative transactional capabilities of an intermediary vis-à-vis those of the buyers and suppliers in predicting when trade will occur directly versus indirectly through an intermediary. As such, intermediation theory combines the logics of both transaction cost economics as well as resource based theory (Barney, 1991) which rests on the premise that the capabilities and resources of firms are heterogeneous.

The second adaptation of intermediation theory to traditional transaction cost economics arises out of its triadic rather than dyadic focus. In taking a triadic perspective, structural outcomes within intermediation theory are predicated upon *aggregate* transaction costs (Spulber, 2009). As compared to transaction cost economics which predicts that as dyadic transaction costs between a supplier and a potential outsourcer increase, the supplier will be more likely to internalize its transaction functions (Williamson, 1985), intermediation theory looks more broadly at not only the transaction costs between the supplier and the potential outsourcer but also the transaction costs between the potential outsourcer and ultimate buyers.

While similar in underlying logic, the broader triadic, firm-level focus of intermediation theory can result in different predictions for structural outcomes compared to traditional transaction cost economics. Assume for instance that a supplier has an opportunity cost C for supplying a particular product, while a buyer has a willingness to pay V for that particular product. (This example is adapted from Spulber 2009, pp. xiv–xv.) However, for a transaction to occur, a set of *ex ante* and *ex post* activities must also take place related to matching, bargaining, etc. Assume the sum of such costs to be T . Thus we would expect a transaction to occur when $V - C - T > 0$. In predicting how such a transaction would occur, transaction cost economics would traditionally assume that when T is comparatively lower when using a hierarchical arrangement as compared to markets, the supplier would internalize the transaction of the product. However, intermediation theory suggests third-party firms as alternative institutional arrangements. Specifically, intermediation theory predicts that when the transaction costs K incurred by an intermediary to facilitate trade are $< T$, the supplier and buyer will choose to transact indirectly through the intermediary rather than directly.

Much in the same way that early stage transaction cost economics research progressed from a dichotomous choice between markets and hierarchies to a greater consideration of hybrid structures (i.e. joint ventures, alliances), research on intermediation theory has begun to move beyond the dichotomous choice of 'intermediation' versus 'no intermediation' towards a more nuanced consideration of 'partial intermediation' (Bello and Williamson, 1985). The degree of partial intermediation can be deconstructed theoretically by examining the four major transaction functions of interest: search, negotiation, monitoring, and enforcement (Wu, 2004). Thus, for any given transactional arrangement, an intermediary may assume responsibility for all, some, or none of the four major

transaction functions in dealing with clients depending on their relative capabilities vis-à-vis the supplier within each functional category, and their ability to deliver net transaction cost savings as a result of those capabilities (Spulber, 2003). When any of the intermediary's capabilities to search, negotiate, monitor, or enforce are such that $K < T$, the intermediary is expected to undertake that particular function internally as part of the trade facilitation process between the supplier and buyer.

With its focus on explaining and predicting the degree to which intermediaries will undertake transaction functions internally as compared to leaving the buyer and seller to transact directly in the markets, intermediation theory represents a seemingly pertinent theoretical foundation for exploring research questions related to how structuring activities occur in the context of intermediation within BOP markets. However, some of the economic-based assumptions underpinning intermediation theory regarding human behaviour and the singularity of organizational goals differ when applied to the context of *social* intermediation. Thus, we undertook an exploratory study to better understand how the pertinent attributes of social intermediation within BOP markets can improve our understanding of the range of considerations that are undertaken by organizations in structuring transactional arrangements.

METHODOLOGY

Data Collection and Analysis

We undertook a multi-stage qualitative approach to the design of our study. Qualitative methodologies have been shown to be particularly useful when the research questions involved are more exploratory than confirmatory in nature (Eisenhardt and Graebner, 2007). Given that the focus of our study was to explore potential modifications to intermediation theory to better explain and predict structural outcomes when applied to the context of social intermediation in BOP markets, an inductive approach permitted us with the flexibility to explore a wide scope of potential adaptations to existing theory rather than attempt to hypothesize specific effects *a priori* (Gephart, 2004).

Drawing upon published case studies, information from development-oriented websites, and direct assistance from a number of nongovernmental organizations such as CARE, the Inter-American Foundation, and The World Bank, we identified a total of 29 social intermediary projects in Latin America, Africa, and South Asia that were willing to participate within our study. These projects represented a host of different regions, products, duration, and transactional scope (see Table I for a brief summary of each project). The projects also differed a great deal in the degree to which they were experiencing success in attempting to efficiently bridge BOP with more developed markets. Success, for social intermediaries, consists of not only achieving a sufficient scale of social benefits, but also an ability to be largely financially self-sustaining in the long term.

From these projects, a total of 152 in-depth interviews were conducted. Because the purpose of the study was to understand structuring decisions from multiple standpoints, interviews were conducted not only with management and operational staff of the social enterprise acting as the intermediary, but also the producers and buyers who transacted

Table I. Summary characteristics of social intermediation projects

<i>Project</i>	<i>Location</i>	<i>Age (years)</i>	<i>Scope of clients</i>	<i>Scope of suppliers</i>	<i>Product</i>
Microfinance	Zimbabwe	10	5,000 borrowers and 7,000 jobs	1 large domestic bank	Small, short-term loans of \$1,000–25,000
Tableware	Swaziland	15	1 local retail store and 550 stores internationally	660 women from 14 villages	Tablemats, napkins, bowls
Palm hearts	Brazil	3	1 large local distributor	346 co-op members	Palm hearts
Organic grains	Bolivia	20	14 franchises, 3 supermarkets, foreign clients	100 co-op members	77 different products in total
Coffee	Honduras	6	1 large Canadian distributor	5 co-ops with a total of 324 members	High-grown coffee beans
Handicrafts	Brazil	2	1 large local buyer with several small buyers and 1 small retail outlet	9 co-ops with a total of 450 members	Baskets primarily, but also brooms, honey, eggs, vegetables, etc.
Pastoralists	Western Kenya	4	1 large local buyer with several small ones	9 co-ops with a total of 561 members	Primarily cattle but also sheep
Shrimp farm	El Salvador	5	Many small local middlemen	20 co-ops with a total of 600 members	Only shrimp
Fish farm	Brazil	4	2 large local buyers	1 co-op with 48 members	Only fish – experimenting with oysters
Horticulturalists	Eastern Kenya	7	2 large local buyers with several small ones	16 co-ops with 500 members	Asian vegetables
Health products	Guatemala	6	63 sales agents within 6 rural regions	6 large producers	Eye glasses, water purifiers, eye drops, solar lamps
Pharmaceuticals	Rwanda and Kenya	14	85 medical clinics within urban and rural areas	Several large drug manufacturers	Malaria medication, respiratory medication, basic health care
Sanitation	Kenya	6	120 microentrepreneurs	1 large multinational corporation	Toilet cleaning, public restroom management
Dried fruits	Nicaragua	3	1 large US distributor and several small US and Nicaraguan retailers	33 independent farmers	Solar dried fruits, nuts, and coffee
Organic jam	Nicaragua	9	1 local distributor and several Central American small purchasers	4 local co-ops	Jams, pickles, herbs
Dairy products	Nicaragua	4	1 large domestic buyer	1,800 local dairy farmers	High quality milk, cheese
Vegetables	Nicaragua	3	60 small clients in Nicaragua and Panama	3 co-ops with 20 members	Sliced ready to eat fruits and salads
Community poultry	India	10	Many local and regional retailers	1 co-operative with 600 members spread in 38 villages	Live birds

Livelihood	India	13	Several hundred thousand borrowers and 5,000 jobs to rural poor	Several domestic banks, 2 insurance companies, 3 agro-companies	Short term loans of \$200–\$1,000, micro-insurance, agri- and dairy consultancy
Short-term lenders	India	13	Several hundred thousand borrowers	Several domestic and international financial institutions	Short term loans of \$150–\$1,000
Computer	India	7	Low income group people aged 8–35 spread in 307 villages and towns	394 Franchise centres, suppliers of essential agri-related products	Computer courses, fertilizers, pesticides, seeds, other agriculture inputs
Artisan group	India	11	Many domestic and international retailers	400 artisans	Handcrafted footwear
Homemade food	India	50	Direct sell, several domestic and international retailers	43,000 women from 80 cities and towns	Variety of processed and packed food
Textile	India	49	128 domestic and 3 international retail stores	39,000 rural craftspeople	Traditional textile, organic food, and personal care products
Fair Trade	India	7	3 international retailers and several domestic retailers	8,000 tribal cultivators	Fairtrade and Organic Coffee
Fabrics	India	38	21 retail stores in 14 Indian cities, 15 retailers abroad	300 craftspeople	Printed fabric
Drinking water	India	8	Villagers in 60 villages	Various govt, departments, district and village institutions	Drinking water
Tech outsource	India	2	2 multinational corporations based in India, 5 domestic firms	3 business process outsourcing centres (BPO), employment to 350 poor rural youths	Voice and non-voice outsourcing services
Commodities	India	3	20 locations serving 8,000 farmers	Several agri-business companies	Information on commodity prices and their future movements; fertilizers, pesticides, seeds, other agriculture inputs

in varying degrees through the social enterprise. Interviews with additional third-party stakeholders such as government representatives, donors, and community members were also conducted to garner an even wider perspective. Existing third-party middlemen were also interviewed where possible. The interviews were open-ended in nature and approximately 45 minutes in length on average, though they ranged from 15 minutes to several hours. Due to the heterogeneity of languages within these regions, translators were used where necessary to conduct the interviews.

A set of interview questions were initially developed based upon the key constructs contained within intermediation theory. Such questions focused upon understanding the reasons why a social intermediary had either assumed responsibility for each step in the transaction creation process (search, negotiation, monitoring, and enforcement) or left such functions to suppliers and buyers to carry out directly. Questions were also posed about the relative strength of each of the parties' transaction capabilities, and how the specific financial and social objectives of each project factored into structuring decisions. However, while the interview guide was used to initiate episodic descriptions of the step-by-step structuring decision making process, more tangential avenues of interest were actively pursued when initiated by the interviewee (Rubin and Rubin, 2005).

Additionally, for the purpose of triangulation of data sources (Scandura and Williams, 2000), the study also included over five months of non-participant observation in aggregate by the co-authors within the BOP markets where the projects were located. In addition to observing transactions between producers, intermediaries, and buyers within any given project, such observations also included public presentations, facilities and plant tours, and visits to retail sites (Ostrower, 1998). Such observatory information provided unique insight into the complex underlying rationale and attitudes involved in the structuring of the social intermediation projects (Adler and Adler, 1994).

A multitude of archival documents were also obtained, such as transaction agreements, minutes of meetings, internal memos, and email correspondence involving the producers, the social intermediary, and/or the buyers for further triangulation. Information gleaned from direct observation and archival documents served not only to provide a more complete picture of both the historical and present-day transactional concerns that were most salient in each project, but also helped contextualize the questions posed within the interviews. Specifically, the ability to question interviewees about behaviours that had been observed first-hand, or verbal statements of which there was a record, was especially useful in minimizing potential social desirability bias associated with the interviewees' responses (Fisher, 1993).

The data collection process itself occurred in five separate stages: Stage 1 involved a one-month data collection trip by Researcher 1 within Africa; Stage 2, a one-month trip within South America by Researcher 1; Stage 3, a two-week trip to Kenya by Researchers 1 and 4; Stage 4, a two-week trip to Central America by Researchers 1 and 4; and Stage 5, a two-month trip to India by Researcher 3. At the conclusion of Stage 3, all of the data collected to that point (interviews, archival documents, observation notes) were translated, transcribed, and analysed using NVivo 8 (Lofland and Lofland, 1984). Separate case nodes were first created for all 29 social intermediation projects and their respective attributes inputted. Two of the authors were then responsible for coding the initial data into free nodes. Because the analytical approach was not one of grounded

theory, but rather the exploration of a particular set of research questions, free nodes involving themes such as opportunism, self-interest, or bounded rationality were pre-assigned for sorting data, as were nodes labelling the transaction functions of search, negotiation, monitoring, and enforcement as key constructs within intermediation theory. Subsequently, the data for each case were coded to these pre-existing nodes, or used to create new free nodes to reflect unanticipated themes that emerged relating to structuring decisions. In total, approximately 60 free nodes existed at the conclusion of the initial coding of the data.

Subsequently, overarching tree nodes were created when a set of free nodes could be grouped together with other free nodes that shared a similar theme. As part of this process, the researchers individually reviewed the data and then collectively decided upon which were the most pertinent tree nodes through a process of consensus (Armstrong et al., 1997). While a more divorced approach to qualitative analysis involving multiple raters is sometimes recommended when the purpose of the study is one of developing a set of statistics through content analysis (Morris, 1994), quantifying text (Bansal and Kistruck, 2006), or establishing scale and construct validity (Scandura and Williams, 2000), the process of consensus building is often more applicable when seeking out broader comparisons between a phenomenon and existing theory (Bryman and Burgess, 1994). In total, the researchers reached consensus on four overarching tree nodes which represented themes that had been prominent in at least two-thirds of the cases examined to that point. Prominence was both of function of prevalence across cases, as well as prevalence across multiple sources within cases (interviews, observation, archival documents). Subsequently, discussions took place regarding potential linkages between one or more of the newly created tree nodes as predictors, and the internal or external structuring of search, negotiation, monitoring, and enforcement transaction functions as structural outcomes.

Using an abductive approach, additional academic literature was sought out that focused on one or more of the four key themes that had arisen from the data. Specifically, this led us to explore more deeply individual-level research from the field of behavioural economics (Camerer et al., 2004). Reviewing such work provided us with an improved understanding of how some of our key themes could be framed within the context existing literature but at the organizational level of analysis. Based upon these insights, the interview guide was also subsequently appended to include additional questions to more deeply probe some of the underlying non-economic reasons why social intermediaries might have selected specific institutional arrangements. Stages 4 and 5 of the data collection process were then undertaken to further evaluate the key themes that had been previously developed, but through an expanded theoretical lens that included both intermediation theory and behavioural economics.

Following the physical collection of data in Stages 4 and 5, the additional data were again translated, transcribed, and inputted into NVivo by Researcher 3. Where applicable, the new data were coded into one of the four thematic tree nodes created subsequent to Stage 3. In instances where the new data did not appear to fit within one of the four existing tree nodes, it was subsequently coded into one of the other 60 original free nodes or, in some instances, a new code was created. At this point, the researchers again extensively discussed the pervasiveness of the original four key themes within the

data, as well as if any new or previously underrepresented themes had achieved greater prominence. Much in the same way that the triangulation of interview sources is sought and subsequently combined to gain a more effective picture of a studied phenomenon, we created and refined a coding scheme through triangulation of active multi-researcher discussion (Bryman and Burgess, 1994). Through this process of consensus, the number of tree nodes that were considered to be most pervasive across our overall dataset was reduced from four to three. The pervasiveness of such themes across the 29 case studies is illustrated within Table II and will be discussed more fully within the presentation of our findings.

FINDINGS

Internalizing Social Forces

As compared to current intermediation models that assume intermediaries will behave in a way that maximizes the organization's financial gain at the expense of other parties within the transaction (Spulber, 1996), our data strongly suggested that social intermediaries are often willing to forego financial profits, and even incur modest losses, if doing so creates greater financial benefits for other parties within the transaction whom they see as disadvantaged. As representatives from several social intermediaries within our study described:

We're not just a business interested in earning money. If you go to the market, they're not going to teach you anything – they just want to sell. We don't. We want to sell but only if the people have a need. We're not just interested in generating more profit. (General Manager, Health Products Social Intermediary)

We are not just there to make profit from the villagers. In fact, many of our rural centers are cross-subsidized. We provide support to our village center franchisee at much lower fee, which is lower than our breakeven cost. (Head of Operations, Computer Training Social Intermediary)

I don't think someone who is profit driven would be willing to take such a risk. You know, in this type of activities you are never certain of making profits. In fact, profit is never your primary concern. What all you expect to do is help these poor and socially outcast people to earn livelihood. (Production Advisor, Artisan Group Social Intermediary)

Thus, explaining the structural choices undertaken by social intermediaries appears to require a sort of 'attenuation' of the underlying behavioural economic assumption of 'self-interest seeking with guile' (Williamson, 1985, p. 47).

There have been previous challenges to the traditional economic notion that humans are inherently opportunistic in that they will fully exploit opportunities to the detriment of others. In addition to several key pieces within the management field (i.e. Ghoshal and Moran, 1996), behavioural economics has focused primarily on alternative

Table II. Structuring impact of attenuated opportunism and social objectives

<i>Project</i>	<i>P1: Examples of internalization social force</i>	<i>P2: Examples of externalization social force</i>
Microfinance	Intermediary assumed responsibility for seeking out low risk uncollateralized rural Zimbabwean clients at no charge Intermediary representatives at no charge, accompanied bank representative to weekly visits to borrowers' houses	N/A
Tableware	Intermediary assumed responsibility for monitoring raw material usage. Very costly as BOP producers were selling off unused grasses on the side rather than returning it Intermediary assumed responsibility for guaranteeing Swaziland producers that even defective products would be purchased. To fulfil this commitment, the intermediary opened up a small retail outlet to sell off such inventory which consistently lost money	Would have been more efficient for intermediary to hire women in-house as employees to achieve greater control and product standardization. Didn't do so because they didn't want to remove creativity and independence
Palm hearts	Intermediary assumed responsibility for seeking out and negotiating with international buyers. Convincing international buyers to purchase small volumes was extremely difficult and often costly, but there was very little domestic consumption of palm hearts	N/A
Organic grains	Intermediary willing to assume costs associated with undergoing organic certification process of grains and vegetables to make it easier for Bolivian producers to attract attention from buyers in European markets	Intermediary set up franchised retail chains even though it would have been more efficient to have company-owned stores. However, used franchising in order to create formal business ownership for Bolivians who typically operate in the informally economy
Coffee	Intermediary assumed responsibility for contractual risk by setting a floor price which BOP producers were guaranteed to get paid for their coffee beans. Again, very costly Intermediary put up a non-interest bearing financial bond to guarantee that Canadian buyer would not take financial loss	The intermediary created a 'super cooperative' in order to have the buyer and sellers negotiate directly with one another. Created a lot of costly problems of coordination rather than having the social enterprise do it, but they wanted to build this capability into the BOP producers

Table II. *Continued*

<i>Project</i>	<i>P1: Examples of internalization social force</i>	<i>P2: Examples of externalization social force</i>
Handicrafts	Intermediary assumed responsibility for finding clients for a product that was in low demand, but had been selected as part of the project because it leveraged the rural Brazilian women's cultural heritage	As opposed to selective hiring most productive individuals, the intermediary helped to create cooperatives from all rural villages within a very culturally diverse region. Social goal was to create a greater sense of unity within the region. End result was a lot of in-fighting and failed delivery of orders
Pastoralists	N/A	The intermediary did in fact choose to do a lot of the transaction functions internally within a hierarchy in a new intermediary corporation they had established. However, the intermediary then turned over ownership of the entire company to producer cooperatives once operating
Shrimp farm	Intermediary incurred up front financial losses for purchasing bicycles and cell phones for a group of rural cooperatives so they could both coordinate on the prices they were demanding of existing intermediaries, and follow the intermediaries to see where their shrimp was ultimately being sold, and at what price	As opposed to selectively hiring a cohesive group of individuals, the intermediary formed cooperatives that consisted of people who had actively fought against one another within the El Salvadoran civil war as a way of restoring unity. Caused a lot of friction that reduced efficiencies, but social goal was important
Fish farm	Intermediary assumed negotiation risk, often at a loss. The typical way to purchase fisher from Brazilian producers was by estimating size, yet the way buyers in more developed markets purchased was by exact weight. However, the intermediary was reluctant to change the way rural producers sold their fish to avoid changing cultural tradition	The intermediary chose to let the producers themselves be responsible for the delivery of the fish to some of the larger buyers. This was very inefficient initially as the producers were not aware of the need for refrigeration, logistics of delivery, etc. However, this was a capability the social intermediary wanted the producers to build themselves
Horticulturalists	N/A	Intermediary elected to allow producers to self-monitor even though the persons they put in charge would reject very little produce to ensure not to anger community members. However, intermediary was very careful not to create a 'colonial-like' atmosphere

Table II. *Continued*

<i>Project</i>	<i>P1: Examples of internalization social force</i>	<i>P2: Examples of externalization social force</i>
Health products	Intermediary continued to assume legal responsibility for products even after they had been placed in the hands of rural Guatemalan salespeople. This was often costly as products would frequently get damaged or 'stolen', but the intermediary was trying to help them sell more products and they couldn't afford to pay for them up front	N/A
Pharmaceuticals	Intermediary assumed responsibility for monitoring for the sale of competing counterfeit drugs. This was incredibly expensive given rural nature of outlets and lack of technological or transportation infrastructure, but the large pharmaceutical supplier was unwilling to conduct business without someone assuming this function	Intermediary elected a franchise model over company owned stores to build human capital within rural Kenyan population. Sacrificed a great deal of efficiency as a result of not standardizing and controlling operations to a greater degree, but social goal was important
Sanitation	N/A	It would have been more efficient for the intermediary to go with an internal sales force using a hierarchy, but again, wanted to create more of a sense of independence despite the large diseconomies of scale that resulted
Dried fruits	Intermediary willing to buy products from rural Nicaraguan producers whenever they wanted to sell them regardless of existing demand. This created huge costs associated with carrying inventory, but would save the producers on having to continually seek out alternative buyers	N/A
Organic jam	N/A	Intermediary elected to both employ individuals on its own farm as well as source from local producers despite the fact that there was sufficient quantity grown on the company-owned farm, and it was of higher quality
Dairy products	Assumed negotiation risk by performing only basic test for bacteria counts at point of purchase from Nicaraguan dairy farmers before loading it in the milk truck. Often forced to forego the entire revenue of the shipment if even one of the samples deposited caused the batch to fail buyer tests	Maintained purchasing from a bunch of small independent farms rather than aggregating the cattle into one large farm which is what the most profitable large farms in Nicaragua have done. Did this though because the intermediary wanted farmers to maintain a traditional way of life
Vegetables	N/A	N/A

Table II. *Continued*

<i>Project</i>	<i>P1: Examples of internalization social force</i>	<i>P2: Examples of externalization social force</i>
Community poultry	Intermediary assumed responsibility for finding international buyers for all producer surplus of chickens. Often lost money, but it ensured domestic Indian market was not oversaturated, thereby depressing chicken prices	Outsourced the responsibility for monitoring to rural youths as opposed to undertaking such functions internally. Although fairly costly and inefficient, goal was to build the entrepreneurial capacity of unemployed youths
Livelihood	Intermediary assumed enormous costs associated with physically tagging each of the cattle that had been insured. However, insurance provider was unwilling to underwrite the business without having some way to prevent against fraudulent claims	Intermediary elected to purchase different product lines from producers rather than hire them and dictate the particular product each producer should focus on. However, important to the intermediary that the work producers were doing was intrinsically satisfying
Short-term lenders	N/A	Allowed women to seek out what they deemed 'suitable business partners' independently. Although this created more mistakes than if the intermediary had vetted who was not a suitable business partner, creating a sense of confidence and empowerment was an important goal
Computer	Intermediary assumed responsibility for negotiating discounted rates on fertilizers and other products but passed all of these savings along to rural Indian buyers	N/A
Artisan group	Intermediary assumed responsibility for contracting with buyers in urban Indian centres at no charge. The artisans were unable to undertake these functions due to high levels of illiteracy and a lack of numerical ability	Intermediary permitted producers to continue to seek out potential buyers independently, even though doing so often hurt their ability to meet the volume levels they had guaranteed to large buyers. However, it was important to the intermediary that the producers not become completely dependent upon them for their livelihood
Homemade food	Intermediary assumed responsibility for price and inventory risk by guaranteeing 'bonuses' for producers delivering greater quantities. This often meant spoiled inventory and unprofitable transactions when demand was fluctuating or constantly low	Allowed producers with the most significant production experience to monitor other producers. Because of cultural pressures, such monitors were often reluctant to chastise their peers. However, it was important to the intermediary that the producer groups feel a strong sense of ownership

Table II. *Continued*

<i>Project</i>	<i>P1: Examples of internalization social force</i>	<i>P2: Examples of externalization social force</i>
Textile	Intermediary assumed responsibility for seeking out international clients for a small number of producers of traditional royal clothing. Domestic demand was essentially at zero and thus the process was extremely costly	The producers were actively involved with the intermediary in the negotiation process. Although this was very time consuming given that producers were unfamiliar with dealing with international clients, the intermediary wanted to empower them with this capability
Fair Trade	Intermediary assumed high costs of undergoing the process of receiving Fair Trade certification Intermediary also agreed to assume responsibility for price of shipment to international buyers if quality was insufficient	Intermediary helped create a producer cooperative to monitor and enforce the transactions of its members although this caused excessive delays and disagreements as opposed to structuring such activities hierarchically
Fabrics	N/A	N/A
Drinking water	Intermediary assumed losses associated with price fluctuations. Was willing to guarantee minimum price which was often at a loss at low volumes	The responsibility for ensuring water quality was left to the villagers to undertake. Although this initially led to a focus on short-term profits at the expense of establishing a strong reputation, over time this improved as the villagers gained a greater sense of ownership
Tech outsource	N/A	Intermediary allowed village youths to assume responsibility for searching out clients. Although this resulted in a number of instances of mismatching, it did achieve the social goal of preventing the youths from migrating to the more urban centres
Commodities	Willing to incur enormous costs associated with building technological infrastructure within rural Indian villages so producers can gain information to fair prices for their products	N/A

social-psychological drivers of human action at the individual level of analysis (Kahneman and Tversky, 1979). One particular stream of research within this field that has sought to dig deeper into the idea of non-opportunistic behaviour has been that of altruism. Altruism can be defined as benefiting fellow group members at a cost to oneself (Choi and Bowles, 2007). Incorporating notions of altruism into existing economic models suggests the need to consider that an individual's utility function may also include a positive association with the consumption of others (Levine, 1998). As such, individuals behaving altruistically may be willing to decrease their own personal

financial gain, or even sacrifice their own financial resources, for the financial benefit of others (Fehr and Schmidt, 2006).

But what is the specific effect of such attenuated opportunism upon the decision of whether a social intermediary elects to internalize certain transaction functions or leaves them to producers and buyers to undertake directly in the market? Intermediation theory assumes that intermediaries will only internalize those transaction activities which have the potential for delivering an economic return on investment equivalent to the risk-adjusted opportunity cost of capital (Spulber, 2009). However, because the utility function of social intermediaries is in part 'other-interested' the social intermediaries within our study were often willing to internalize certain transaction functions even when they did not produce substantial positive economic returns for the organization.

This idea that attenuated opportunism can create a stronger *internalization* force was prevalent within many of our case studies (see Table II for a case-by-case description). For instance, the social intermediary in the Rwandan/Kenyan pharmaceuticals case agreed to assume all responsibility for monitoring individual rural pharmacies for counterfeit drugs despite the enormous time and investment required to traverse across such large distances on underdeveloped transportation structures that made such an activity extremely costly and ultimately unprofitable. Similarly, within the Brazilian palm hearts case, the social intermediary assumed the search and negotiation responsibilities associated with creating new transactional linkages. Because palm hearts are generally not consumed by Brazilians, the intermediary was forced to incur enormous costs associated with seeking out international buyers, and ensuring all appropriate trade documentation and other regulations were met. Thus, the altruistic nature of social intermediaries often caused them to assume responsibility for a host of transaction activities which produced little to no profit. As the Director of the Community Poultry intermediary in India stated:

We take care of all the market linkages. We arrange all the inputs. These inputs include one-day chicks, feeds, medicines and other such things. We arrange to sell the grown-up birds. Producers need not worry about these things. There is not much money to make [with these activities] but you see in your beneficiaries' eye and feel their happiness.

Current intermediation models predict that trade between buyers and sellers will only occur when there are positive net gains from trade for each of the two parties directly ($V - C - T > 0$ where V is the supplier's opportunity cost, C is the consumer's willingness, T is the costs of transaction dyadically). However, much of the reason why trade does not occur within BOP markets is precisely because $V - C - T < 0$ as a result of T being inordinately high due to the nature of the institutional environment (Kistruck et al., 2011). Furthermore, in keeping with current intermediation models, indirect trade would only be expected to occur when the costs of transacting through the intermediary K are less than T , and $V - C - K > 0$. However, within BOP markets, even when the transaction capabilities of a third-party intermediary are able to reduce K so that it is lower than T , it often remains that $V - C - K < 0$ and thus trade does not occur. However, whereas

current theory assumes that an intermediary will only undertake those transaction functions for which their marginal economic rents M are greater than the sum of their production costs P plus their transaction costs K , the altruistic tendencies of social intermediaries suggest that they are willing to assume transaction functions even where $M - (P + K) < 0$.

The ultimate implications of this modification are that social intermediaries seeking to build new trade linkages for the benefit of others are willing to internalize whatever transaction functions are necessary such that $V - K - T > 0$ even when $M - (P + K) < 0$. Due to their broader utility functions, social intermediaries are thus willing to altruistically endure financial losses in order to ensure positive financial gains for disadvantaged populations. In the context of BOP markets where transaction functions of search, negotiation, monitoring, and enforcement are typically extremely costly, especially in the early stages of transaction development, this means that social intermediaries are more likely to internalize a greater number of these activities. Therefore, we propose the following:

Proposition 1: The more attenuated the level of intermediary opportunism, the greater the number of transaction functions the intermediary is likely to internalize in BOP markets.

Externalizing Social Forces

At a basic level, current intermediation theory predicts that the degree of intermediation will depend on the relative transactional capabilities of an intermediary vis-à-vis those of the suppliers and buyers (Spulber, 1999). For transaction functions in which intermediaries possess superior transaction capabilities, and thus an ability to deliver correspondingly lower transaction costs, such functions will be undertaken internally by the intermediary (Spulber, 2009). However, our findings indicate that this logic is incomplete for predicting structural outcomes of social intermediation projects in BOP markets.

First, it is important to note that our data did suggest that social intermediaries often possessed superior abilities to search, negotiate, monitor, and enforce transactions as compared to buyers and sellers in BOP markets so that $K < T$. For instance, in many of the cases involved in our study, the social intermediaries had multiple ties across country borders to governments, businesses, and non-governmental organizations that decreased search costs when seeking out potential buyers or supporters for products originating from BOP suppliers. Many of the social intermediaries also possessed a relatively unique ability to understand the cultural orientation of both BOP and developed markets, and to translate the intentions of parties from both contexts which could significantly reduce the costs of negotiation. In terms of monitoring costs, a number of the social intermediaries were highly embedded within the BOP villages which allowed for less costly observation as well as reliance upon informal bilateral governance mechanisms. Similarly, the institutional form of social enterprises – being focused primarily on social rather than economic goals – portrayed a level of implicit trust to potential buyers and sellers which could substantially lower enforcement related costs within BOP markets where legal institutions are often particularly weak (de Soto, 2000).

However, our data also indicated that despite having superior transaction capabilities, social intermediaries often *externalized* the functions of search, negotiation, monitoring, and enforcement. For example, in the Honduran Coffee case, the social intermediary helped BOP producers to create a super-cooperative in order develop financial and legal skills that would allow them to negotiate directly with international buyers despite the fact that doing so internally would have avoided a host of costly delays in the transaction process. Similarly, within the Indian computer case, the social intermediary elected to go with a franchise rather than employer–employee structure as a means of preparing franchisees to transact directly with buyers, and likewise, experienced a host of agency-related inefficiencies by their reluctance to use fiat and other hierarchical mechanisms of governance (see Table II for a complete case-by-case description).

While increasing financial efficiency within the overall supply chain did remain a key consideration of social intermediaries in our study as a means of generating greater shared economic rents, the intermediaries' social objective often significantly affected their desire to structure such transactional activities within the bounds of their organizations. Specifically, the social intermediaries were acutely focused on empowering impoverished individuals residing in BOP markets to be more self-sufficient. Empowerment, in a development sense, can be defined as, 'a party . . . gaining new awareness and understanding of (1) its goals (including underlying values, norms, fears), (2) its options, (3) its skills, (4) its resources, and (5) its decision-making (Baruch et al., 1994, p. 86). As a result, social intermediaries often preferred to encourage producers and buyers to transact directly to avoid creating an enduring wedge, even if internalizing would have resulted in improved financial efficiency:

If you are purely traditional for-profit without a social mission, you would bring people in and have them work like in a factory, and that would minimize your overhead and that was it. You would take a look at the company's value chain where you have product development or marketing, sales, procurement, production; there is a lot of production and this is going to be with the rural outsource production. If you were exclusively for-profit, you would get rid of this. It has a big impact in costs and it's not adding that much value in terms of the pragmatics so the main difference for this company is you take into account the social issues and management decisions. (General Manager, Tableware Social Intermediary)

We feel that if we hired them as employees we would lose the initial purpose for why we started [the cleaning organization]. We started this business looking for a way to eventually pass on the company to them, so we do not want to lose that spirit. We don't want to have staff, we want to empower people. (Regional Coordinator, Sanitation Social Intermediary)

If there's another person it's going to change the main thing that is giving profits for the community. We need to help to get them to give power for this community. They need to learn how to do it. I can give you a real example. First thing that came was the fish from [the producers]. We were in a really big rush and we were waiting, and [the producers] didn't know a lot of the laws and how to do fees. When the truck came,

everything was wrong. It took two days to get everything right, and when they opened the truck, everything was spoiled because the truck was broken and nobody had known . . . it was not freezing temperature inside. But if you put somebody to do everything for them, you're not giving power, you're taking power that they have. (Manager, Fish Farm Buyer)

Thus, in addition to considering the financial costs of alternative institutional arrangements, the social intermediaries within our study simultaneously considered the social costs associated with internalizing transaction functions within its internal hierarchy.

The study of how social objectives impact individual-level decision making has also received a great amount of attention by behavioural economics in their attempt to better understand 'non-rational' decisions (Bazerman et al., 1992). The achievement of social objectives is said to produce a 'warm glow' effect and positive feelings of accomplishment despite failing to achieve any financial gains (Andreoni, 1989). Using complex logic models coupled with experimentations, behavioural economists have argued that human choices are frequently infused with non-monetary objectives (Camerer and Thaler, 1995; Loewenstein et al., 1989). Such objectives might include the desire for greater equality, fairness, or freedom (Fehr and Schmidt, 2006), and these more socially-oriented goals are often pursued at the expense of maximizing financial gains (Charness and Rabin, 2002).

In the case of social intermediation in BOP markets, the inclusion of social objectives in addition to financial objectives within the broader utility function of intermediaries serves as an *externalizing* force in their structuring decision process. Specifically, comparative institutional arrangements of transacting (i.e. firms versus markets) not only come with their well-defined set of attributes for addressing financial costs, but also imply certain social costs that must also be considered. Thus, social intermediaries choose to consider not only their impact on transaction costs K associated with the extent of their involvement within a given transactional arrangement, but also the social costs S which result from their internalization of a particular transaction function. Thus intermediaries pursuing social objectives such as empowerment, *ceteris paribus*, prefer to externalize transaction functions even when dyadic transaction costs $T > K$, if doing so minimizes S as compared to intermediated exchange. Therefore, we propose the following:

Proposition 2: The greater the desire for empowerment as a social objective, the higher the number of transaction functions the intermediary is likely to externalize in BOP markets.

The Tractability of Transaction Capabilities

As argued above, the broader utility function that social intermediaries in BOP markets possess creates both *internalizing* and *externalizing* forces on structural outcomes. Social intermediaries, with their focus on creating new transactional linkages in such a way that produces not only increased financial gains for BOP producers and consumers, but also greater social benefits, are often forced to reconcile these two opposing forces. Essentially, while social intermediaries would prefer to internalize as few transaction activities

as possible so that BOP producers and consumers can develop a capability to independently build self-sustaining long-term direct relationships, they must often internalize at least some transaction activities when the capabilities of BOP producers and consumers to search, negotiate, monitor, and enforce are such that without the social intermediary's involvement, trade would not occur.

From an internalizing perspective, social intermediaries are expected to assume whatever transaction functions are necessary such that $V - C - K > 0$ in order to foster new trade linkages. While social intermediaries, with their more altruistic tendencies, may be willing to engage in unprofitable transaction activities, the suppliers and buyers that are also parties to the transaction are not. However, from an externalizing perspective, social intermediaries are expected to minimize S by seeking direct linkages between buyers and sellers. Taken together, these opposing forces suggest a 'middle ground' in which a social intermediary will choose to internalize only those transaction functions in which $V - C - T < 0$, but elect to externalize those functions where $V - C - T > 0$ even when the financial gains to all parties in the transaction of doing so are less than $V - C - K$. In this way, the social intermediary can balance its altruistic financial objectives with its broader social objective to empower individuals residing within BOP markets.

Our data suggested that as part of this decision process of finding the middle ground, social intermediaries first evaluate the degree of difficulty to change existing exchange conditions prior to making structuring decisions. In other words, they do not passively perceive exchange conditions as a given, but rather assume agency in their ability to shape them. As the President of the Coffee Social Intermediary stated:

We have experience here to go diagnose – to find out the talents of the people from each community. We do that research . . . the diagnostic . . . to identify what kind of capability they have, what they know, how they know, what they have to learn. Then we fix that gap . . . we put a bridge and then they can jump.

While intermediation theory, and indeed most economic-based theories related to structuring decisions, take a snapshot of existing exchange conditions and predict structural outcomes accordingly (Spulber, 1996; Williamson, 1985), our data suggest that, rather than deciding which transaction functions – search, negotiation, monitoring, and enforcement – should be internalized or externalized by an intermediary based solely upon *a priori* differences, social intermediaries evaluate the tractability of strengthening the transaction capabilities of BOP producers and buyers. This, in turn, leads to a much more nuanced perspective of long-term intermediation, short-term intermediation, or no intermediation when undertaking structuring decisions. Thus, the tractability of transaction capabilities was perceived as a function of both the particular transaction cost in need of redress as well as the level of difficulty in improving that particular transaction capability. We turn now to discussing examples of each of these combinations in our data.

Search costs. Search costs represent the transaction costs involved in seeking out potential buyers or clients, as well as obtaining information about consumer or buyer preferences (Williamson, 1985). When the difficulty of reducing search costs such that $V - C - T > 0$

was low, the social enterprises were able to refrain from actively intermediating by gifting a resource to BOP producers or consumers that allowed them to transact directly with buyers or producers in more developed markets. For instance, providing BOP producers with a truck or bicycle could significantly reduce search costs as the producers were able to gain access to seek out more distant trading partners and garner more information about client preferences. As a project manager for the Shrimp Farm social intermediary explained:

With the bicycle we had one person go to where the middleman sold to find out how many persons, what pounds, and what price. We got this data and the project improved . . . Per pound, they are paying more.

However, when the difficulty of reducing search costs was moderate, the social enterprises took a more active but short-term intermediary role in facilitating trade. For example, such activities might include providing suppliers with internet access to gain a better understanding of buyer preferences and pricing. However, as compared to basic resources such as bicycles, simply providing suppliers with physical access to complex resources such as the internet can be insufficient to overcome search costs without the time required to transfer computer-related competencies from the intermediary to the BOP producers:

We think about the interest of the small producer. We have access to the internet, we have access to information, we know the requirements of the client – this is very complicated for the producer. (President, Organic Jam Social Intermediary)

Assisting producers with obtaining certifications such as Fair Trade or organic also involved an active but more temporary involvement on the part of the social enterprise. Such certifications had the potential to significantly reduce search costs by opening up access to more developed market environments with accompanying higher profit margins.

First of all they are improving their crops, they're getting the certification. That's how [the social intermediary] is helping – to get that. After that, they will consider selling directly. What they want to do is improve, to get a better certification and then they will go on. (Technician, Organic Grains Social Intermediary)

Finally, when the difficulty of lowering search costs was very high for reasons of complexity, idiosyncrasy, or time compression diseconomies, the social enterprises typically assumed a more long-term role in which they undertook the majority of search functions internally. For instance gaining access to new clients, and particularly international clients, often required an extensive amount of time to build a brand:

In the coffee world, to establish a brand and a position will take you like 20 years. Some brands like Blue Mountain took 20 years to gain a reputation. (Technician, Coffee Social Intermediary)

In such instances, social enterprises were often required to assume search functions internally to leverage their own existing brand in seeking out clients. In some instances, social intermediation required the construction and operation of retail outlets on the part of the social intermediary for reasons of inaccessible credit terms by existing buyers in the market, infrequent and sporadic product supply which made existing buyers reluctant to purchase from BOP producers, as well as the need for more immediate consumer feedback.

Thus the degree to which social intermediaries will elect to internalize or externalize search functions depends significantly on the degree of tractability of the exchange conditions. Specifically, in instances where search capabilities in BOP suppliers and sellers can be quickly modified such that $V - C - T > 0$, social intermediaries will choose to externalize such functions. Comparatively, in instances where there is greater difficulty in improving the search capabilities of BOP suppliers and buyers to the level where $V - C - T > 0$, social intermediaries will choose to internalize such functions on a short-term or long-term basis. Therefore, we propose the following:

Proposition 3a: The extent to which an intermediary will internalize or externalize search functions depends on whether the degree of difficulty to build minimally acceptable search capabilities in BOP suppliers or buyers is low, medium, or high.

Negotiation costs. Negotiation costs, similar to search costs, are incurred as a result of overcoming adverse selection in which sellers and buyers are inefficiently matched (Williamson, 1975). Much in the same way that social intermediaries viewed search capabilities as tractable rather than fixed when making structuring decisions, our data suggest that negotiation capabilities can also differ greatly in their ease of development within BOP markets.

Again, our data suggested that often basic resources such as cellular telephones and blackboards were a low-involvement solution for overcoming high negotiation costs. The gifting of such resources provided a mechanism by which BOP producers and consumers could track and share information about prices that buyers and existing middlemen were willing to pay. As the President of the Producer Cooperative in the Shrimp Farm Project stated:

Many coyotes [middlemen] come and say, 'do you have shrimp, do you have shrimp?' One coyote say, 'I only can pay this per pound', and the other say, 'I can give you one cent more'. When coyote says, 'I go to another cooperative', we communicate with the other cooperative about that price, the price that we have here.

However, overcoming high negotiation costs often required more active but short-term involvement on the part of the intermediary than simply gifting a basic resource. Many such instances within our data were associated with the problem of 'coincidence of wants'. In essence, the 'coincidence of wants' problem refers to the challenge of arranging transactions between producers and buyers in such a way that their respective needs occur at the same point in time (Jones, 1976). To overcome this problem, social

intermediaries typically used two moderately complex techniques: forward contracting and warehousing. Forward contracts negotiated by social intermediaries allowed price levels to be smoothed throughout the year for BOP producers and consumers, and allowed producers to more accurately budget their production cycles. Similarly, the building and maintaining of product warehouses by social intermediaries allowed BOP producers to effectively store their products in an attempt to maximize pricing by selling more during periods of high demand:

Poor farmers cannot afford to wait too long for selling their harvest. They have loans to pay back. They have other accumulated expenses. So, the normal tendency is to sell as quickly as they can. That is how they get exploited. To encourage storage, we plan to pay farmers 70% of current market price, when they store in our warehouse. They can return that amount when they finally sell their produce. (Project Manager, Commodities Social Intermediary)

However, over a relatively short period of time, BOP producers and buyers were able to develop the capability to negotiate forward contracts using templates and maintain warehouses with minimal ongoing involvement on the part of the social intermediary.

There were, however a number of other projects in which the social intermediary assumed complete responsibility for the negotiation of transactions for a long period of time. One of the primary reasons for this was the high rate of illiteracy amongst BOP producers and consumers. Such illiteracy was frequently often basic language illiteracy but often this was accompanied with business and financial illiteracy:

You see, I am an illiterate person. I have no formal education. I did not know how to do business. Most [of the artisans] are the same. We do not have any skills or idea about pricing our product. Most of the time we were cheated by the [local rich businessmen]. When they used pressure tactics, we used to submit to their pressure, sometimes even not recovering our cost of production. (Producer, Artisan Group Social Intermediation Project)

It's not only about literacy. If they were literate they will still not be able to negotiate. Business transactions were not their skills. Most of them are still not comfortable speaking business. (Project Officer, Fair Trade Social Intermediation)

The difficulty and time it would take for such individuals to develop these literacy skills necessary for effective negotiation meant that social intermediaries were often forced to assume responsibility for such functions on a long-term basis within their organizations. Therefore, we propose the following:

Proposition 3b: The extent to which an intermediary will internalize or externalize negotiation functions depends on whether the degree of difficulty to build minimally acceptable negotiation capabilities in BOP suppliers or buyers is low, medium, or high.

Monitoring costs. In examining the *ex post* costs of transacting associated with addressing problems of moral hazard, our data again suggested that social intermediaries were similarly presented with a range of difficulties for changing existing exchange conditions rather than accepting them as a constant. Monitoring costs involve the set of activities in which one party attempts to ascertain the extent to which the agreed upon transaction is faithfully executed (Williamson, 1985).

From a low difficulty perspective, there was a consistent theme across many cases that monitoring costs could be significantly lowered if BOP producers and consumers were gifted an accurate weigh scale. Many of the existing trade linkages that were established between impoverished individuals and the buyers or commercial intermediaries with whom they transacted either did not use a scale or relied upon the use of the other party's scale in determining the amount producers were paid:

Intermediaries used to cheat these guys. [Producers] were really, really, surprised when they used to send five big bags [of quinoa] to the organic grains intermediary, and they would pay for five big bags and 20 pounds. Since then, [the producers] are learning to say to other intermediaries, 'yeah, you can use that [scale] but I have mine too . . . so let's try with mine now'. (Manager, Organic Grains Social Intermediation Project)

In terms of more moderate levels of difficulty, several social enterprises established 'testing facilities' which were often makeshift rooms or areas where basic product testing using simple technology could be conducted. These testing labs were especially important where adherence to quality was important for continued transactions with buyers and sellers:

Villagers had no means of checking about quality of water. They could distinguish between clean water and very bad quality by foul smell or visible turbidity. But what they thought as clean may not be really clean water. We suggested they establish a lab which will undertake regular quality checks. We also asked them to allow villagers to take samples of water for instant check. (Government Director, Drinking Water Social Intermediation Project)

So . . . with organic they wait two days to get the money until after quality checks. In [the village] there is now a lab that checks the quality of the grain to say, 'OK . . . it is organic'. (Technician, Organic Grains Social Intermediation Project)

Such basic testing facilities typically required an active assumption of responsibility by the social intermediary but the responsibility for conducting ongoing testing could be transferred to BOP consumers and producers in a relatively short period of time.

Our data indicated that one of the most complex resources to build to overcome monitoring costs was trust. Because BOP markets are often fraught with weak legal institutions, many large local organizations that had the capability to deliver economies of scale were uncomfortable with engaging directly with BOP producers and consumers. This perceived importance of trust was exacerbated when transactions were structured

with international clients. In many such cases, the international buyers would only transact through the social intermediary which trusted the social intermediary because of their primarily social rather than financial objectives.

With international clients, trust becomes more important . . . the trust between the market and the producers. They don't have a reputation, so to remedy that is hard for the buyer . . . especially if these are international buyers. To import it, it will take time to gain that trust in [the producers]. (Consultant, Palm Hearts Social Intermediation Project)

Similarly, BOP producers were reluctant to deal directly with international buyers for fear that they will be taken advantage of, and thus required the social intermediary's direct involvement in order to engage in such transactions:

We had, last year, one international experience and it wasn't very good. We sell piacava to Germany people and they just paid 50 percent [of what was owing] . . . the other 50 percent they didn't pay. (Sales Manager, Organic Grains Social Intermediary)

Therefore, in the absence of a pre-existing relationship directly between BOP producers or consumers and potential domestic and especially international clients, a high degree of long-term involvement was required on the part of the social intermediary in their efforts at building more efficient market linkages. Therefore, we propose the following:

Proposition 3c: The extent to which an intermediary will internalize or externalize monitoring functions depends on whether the degree of difficulty to build minimally acceptable monitoring capabilities in BOP suppliers or buyers is low, medium, or high.

Enforcement costs. Enforcement costs refer to the transaction costs involved in rectifying a transaction that does not conclude as agreed upon *ex ante*. Similar to monitoring costs, the transactional risks that require the need for enforcement costs within inefficient markets is caused by the potential for opportunistic behaviour by one or more of the parties involved (Williamson, 1985). Again, given the weak legal institutions that characterize BOP markets, the opportunity for recourse in the event of breach is highly problematic, and thus parties are forced to deal more with private rather than public ordering of their disputes.

As opposed to simple resource-based solutions to search, negotiation, and monitoring costs such as bicycles, cell phones, and weight scales, our data did not reveal many similar basic resources for overcoming high enforcement costs. In almost all of the cases, the capabilities required for lowering enforcement costs represented moderate to high degrees of difficulty to change. However, it was noted in the coffee social intermediation project within Honduras that the social intermediary had sought out an international lawyer to structure international trade agreements. By creating a templated agreement that required both parties to sign the contract under a developed

country jurisdiction in which contract law was highly enforceable, the BOP producers were able to use a similar instrument themselves to protect against non-compliance in similar future transactions.

In terms of a moderate degree of difficulty, a common theme that emerged was the use of loan guarantees held by a third-party on the part of the intermediary during the early stages of the project's development. Loan guarantees provided producers and clients with the confidence to engage in what was perceived as new, risky models of engagement. Such guarantees were often on a diminishing percentage over time at which point the intermediary's involvement in enforcement activities would no longer be required:

In the beginning, we can guarantee [the client] 60% of the value of the transaction. Next season we will go to 40%, and in the next three or four years they'll be able to do it by themselves. We will no longer have to carry support. (Vice-President, Handicrafts Social Intermediation Project)

To meet the transaction costs initially we knew very well that to profit two thousand dollars [from microfinance], you had to loan a lot of money. So we had to find somebody to help us through a loan guarantee until we reached a level where we break even – then they can go. (Senior Product Manager, Microfinance Social Intermediation Project)

But often it was necessary for the social intermediary to assume responsibility for enforcement internally on a long-term basis due to the high degree of difficulty required for BOP producers and consumers to build such capabilities. For instance, a number of the social enterprises acting as intermediaries were subunits of large recognizable social-purpose entities. As such, they possessed the 'clout' and ability to rally public support or protest in the event a large multinational producer or buyer failed to fulfil its agreement to transact with BOP producers and buyers. Similarly, because social intermediaries and other social-purpose organizations within their social networks often provided a much broader array of social benefits within the communities in which they were attempting to intermediate such as water purification, education, etc., the social intermediaries similarly possessed the 'clout' to threaten BOP producers and consumers with suspending such ancillary services until the dispute was resolved.

[The producers] fulfill their deal with us because they know they get other services here – they get fertilizers, inputs, and other kind of benefits. So they fulfill their deal in order to maintain their benefits. (Vice-Chair, Coffee Social Intermediary)

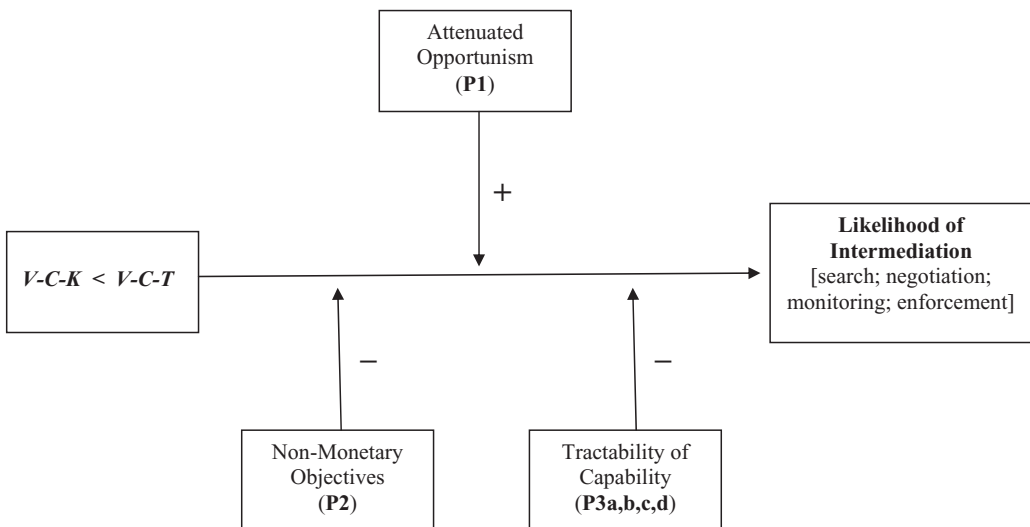
It's written in the statute. He can buy or get in or get out any time he wants, but if he sells on the side to the middleman, he will be kicked out and not seen by the support team that goes out there to the fields and teach them how to plant some other food, some things for sustenance, agriculture. (President, Palm Hearts Social Intermediary)

Therefore we propose the following:

Proposition 3d: The extent to which an intermediary will internalize or externalize enforcement functions depends on whether the degree of difficulty to build minimally acceptable enforcement capabilities in BOP suppliers or buyers is low, medium, or high.

DISCUSSION

Social intermediaries possess a number of the same characteristics of intermediaries that underlie current theory – unique abilities to match suppliers and buyers who otherwise would not have transacted, and a desire to generate greater value through their participation than if buyers and suppliers had transacted directly. However, social intermediaries tend to have an orientation more towards altruism than opportunism, possess significant non-monetary objectives in addition to financial efficiency as part of their utility function, and have a fluid vision of capability development when considering how best to assist disadvantaged populations. Such differences suggest a number of modifications to existing predictive models of intermediation theory which we have attempted to outline in Figure 1. Failing to incorporate such modifications not only limits the explanatory and predictive power of intermediation theory to diverse forms of organization in a broader range of contexts, but also risks a resulting misalignment of structure with organizational objectives. Dyadic exchange versus intermediated exchange repre-



Where;

V = Buyer Willingness to Pay
 C = Supplier Opportunity Cost
 T = Dyadic Transaction Cost
 K = Intermediated Transaction Cost

Figure 1. Modifications to existing theoretical predictions for social intermediation in BOP markets

sent comparative institutional arrangements for structuring transactions. Without considering both the financial and social implications of each institutional arrangement, inefficient or ineffective structures may arise that produce consequences detrimental to the organization's goals.

While existing theory would predict, based upon assumptions of opportunism, that intermediaries would choose to only structure activities internally when doing so would allow them to capture positive economic rents, social intermediaries operating within BOP markets, with their 'other-interested' perspective are willing to assume responsibility for a broader set of unprofitable transaction functions given their altruistic intentions. Similarly, while current theory would suggest that intermediaries would internalize all transaction activities for which they possess superior capabilities to drive greater efficiencies, social intermediaries operating within BOP markets possess a concern for empowerment that increases the likelihood of externalization – even at the expense of financial efficiency. And finally, as a means of resolving this structuring tension, while current theory would view relative *ex ante* transaction capabilities as static, social intermediaries consider the tractability of such capabilities in determining which transaction activities must be internalized and which activities can be externalized with minimal time or investment.

We believe that the findings of our study do more than simply create a boundary condition for existing theory. Rather, the insights gained from our study can serve to improve the predictive power of other economic theories of inter-organizational structuring that share similar underlying behavioural assumptions. Both transaction cost economics (Williamson, 1975) and agency theory (Jensen and Meckling, 1976), for example, share the assumptions of bounded rationality as those underlying intermediation theory when predicting organizational-level outcomes. From a bounded rationality perspective, existing economic-based theories presume that financially inefficient structuring decisions are a result of cognitive limitations on the part of individuals (Simon, 1957). As such, individuals often arrive at sub-optimal decisions because their initial choice set only consisted of a limited number of alternatives rather than all possible options (Newell and Simon, 1972). Within the bounds of such constraints, individuals often elect to engage in a process of 'satisficing' where they cease to search for additional options once they have located one that is 'good enough' (Simon, 1979). Thus, it follows from a theoretical perspective, that if individuals were not cognitively constrained in their ability to seek out all available options, financially inefficient structural outcomes would cease to exist.

However, we posit that even in the absence of such cognitive constraints, individuals would often continue to make choices deemed by traditional economic theories as 'inefficient'. The reason is that economic-based theories related to firm boundary decisions continue to exhibit an extremely myopic view of utility functions (Ghoshal and Moran, 1996). Our data suggest organizational decision makers often follow a very rational and comprehensive process of examining the trade-offs between financial efficiency and social effectiveness when designing transaction arrangements. The resulting structures are thus a result of '*socialficing*' – which we define as the purposeful pursuit of social objectives at the expense of financial efficiency – as compared to satisficing. While satisficing equates rationality with financial efficiency maximization, socialficing equates

rationality with taking actions that best further what are often complex social and financial organizational objectives.

While social intermediaries, by their very hybrid nature, are likely to exhibit high levels of socialficing in their structural decisions, it is expected that some degree of socialficing likely occurs within other prominent organizational forms such as governments, crown-corporations, and public-private partnerships (Husted, 2003; Rufin and Rivera-Santos, 2012). We would further argue that, despite the prescriptive notion that for-profit organizations *should* maximize financial efficiency, from a normative perspective, firms often pursue non-financial objectives in their decision making process (Margolis and Walsh, 2003). While prior explanations for such organizational behaviour have tended to favour coercive or mimetic explanation in which managers are forced to pursue social objectives as a result of stakeholder pressures (Campbell, 2007), we argue that such organizational outcomes may instead be a reflection of individual-level socialficing on the part of corporate decision makers. Behavioural economics has repeatedly demonstrated that individuals purposefully and rationally weigh potential financial gains against personal morals and beliefs (Bazerman et al., 1992; Camerer and Thaler, 1995), and thus it would seem prudent for economic theories of organizations to incorporate such findings rather than continue to rely upon 'economic man' as an underlying individual-level behavioural assumption.

Many economic-based theories of structuring similarly assume opportunism as an underlying behavioural trait in predicting alternative transactional arrangements (i.e. incomplete contract theory, transaction cost economics, etc.). Again we would argue, based on similar logic, that treating opportunism as an 'attenuated' variable rather than as a constant would be useful in explaining structural outcomes across a more diverse range of contexts. Of course, there always exists a trade-off between parsimony and accuracy in theory development, but with the dramatically expanded role of socially-oriented forms of organization within the economic landscape (Borzaga and Defourney, 2004) combined with the social role that for-profit organizations are increasingly asked to play (McWilliams and Siegel, 2001), such a trade-off may be warranted at this point.

From a practical perspective, we feel that our study provides a number of insights that can greatly benefit social intermediaries as they attempt to navigate the complex transactional environment that characterizes BOP markets. The process of social intermediation, as a development approach, is relatively new, and thus there exists very little systematic analyses of such projects at the present time (Kistruck, 2008). However, our results suggest that social intermediaries, by their more altruistic nature, offer the potential for significantly lowering transaction costs associated with moral hazard, and thus can serve to make markets even more efficient despite having non-financial goals. While our study has also noted several drawbacks to the blanket application of intermediation theory to the context of social intermediation within BOP markets, our findings also suggest that the theory can still prove highly useful with several modifications in helping align financial and social objectives to alternative transactional arrangements.

We also hope that the study serves as evidence that exploring phenomena such as social intermediation in BOP markets allows us, as management scholars, to have greater voice in solving some of the world's most pressing social ills, while still maintaining a focus on empirical rigour and strong theoretical development. Much of the prior involve-

ment of academe in providing solutions to international development has come out of the disciplines of political science, sociology, and particularly economics (Long, 2001; Ray, 1998). However, with the current wave of poverty alleviation shifting towards a more business-like, micro-level approach to building markets, our increased attention to this topic can provide meaningful insights not only to organizations undertaking such activities, but also to our existing theories of organization.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Despite the contributions that we believe our study makes to both theory and practice, it is not without its limitations. First and foremost, the sample of 29 social intermediation projects researched within this study was purposefully rather than randomly selected. While we attempted to draw social intermediaries from multiple industries and geographic settings into our sample in order to get a highly diverse viewpoint, their inclusion within our study was still based upon their ultimate willingness to participate within the study. It could certainly be argued that those social intermediaries who elected to participate in the study were in some ways unique in terms of their success levels at achieving their social and financial objectives, or in the approaches they took to build trade linkages. Similarly, while efforts were made to minimize problems associated with social desirability bias by way of episodic interviewing and data triangulation, there remains the potential that our data are positively weighted given the ethically sensitive nature of the phenomenon that was explored. Given the exploratory nature of our study and limited number of participating organizations, it is also plausible that there are other important factors at play within structuring decisions other than those highlighted herein that we failed to capture.

However we feel that our study provides a number of suggestions for future research that can address some of these empirical shortcomings, as well as continue to push the boundaries of current theory. For instance, we hope that our findings related to the 'social' adjective in the phenomenon of social intermediation will spurn even greater debate within the field of social entrepreneurship. Similar to social intermediaries, the objective of social entrepreneurs is not purely to privately capture economic rents but rather to generate broader social value. Recent reviews of the field have suggested that the outcomes of social entrepreneurship can be explained by existing theories (Dacin et al., 2010; Short et al., 2009). Our findings suggest that while existing theories may indeed be able to provide a useful framework for studying 'social' phenomena, a number of important differences exist that affect the predictive outcomes of existing theories. Thus, the differences between 'social' and 'commercial' may be sufficiently similar to be grounded within existing theories, but also sufficiently different to warrant unique study.

Similarly, we urge future management scholars to draw more upon the integrative 'socialization' work that is already underway within other academic disciplines. As we have attempted to draw upon within our study, the field of behavioural economics has already undertaken substantial strides to infuse traditional economic-based thinking with a more psychological orientation at the individual level of analysis (Kahneman and Tversky, 1979; Shleifer, 2000). However, such integration at the organizational level of analysis is lagging. That being said, there is a body of work that already exists within the

field of economic sociology that explores more broadly how group norms, and society at large, shape economic action (Meyer et al., 1997; Smelser and Swedberg, 2005). Specifically, the field examines how the concept of 'self-interest' is much more socially constructed than assumed within current economic-based theories (Swedberg, 2004). Such work may serve as a useful stepping stone for bridging some of the individual-level insights of behavioural economics to a higher organizational-level of analysis.

From a more practical perspective, although the examples of transactional resources and capabilities supporting Proposition 3 are presented as addressing a singular transaction cost, we should note that particular resources or capabilities can often address multiple types of transaction costs. For instance, although a truck may be a useful resource for significantly reducing search costs as depicted, it can potentially also improve the ability to monitor by allowing for 'spot check' visits with buyers or suppliers. Similarly, improved literacy may not only decrease negotiation costs but may also improve the producers' ability to access directories or other buyer listings that may be helpful in reducing search costs. Such 'multi-purpose' transactional resources and capabilities may therefore be particularly valuable for social intermediaries when designing structural solutions given their multiplicative return on investment. Further research into the nuances of such multi-purpose resources may shed further light on the importance of this dimension when considering structuring decisions.

Future research linking structural choices to both social and financial performance outcomes would certainly strengthen our contribution as management scholars to existing development efforts. Additionally, seeking out key moderating environmental and institutional factors to other applicable management theories related to strategic diversification, knowledge transfer, and organizational change may similarly shed light on such theories. Regardless of the theoretical foundation employed, we feel that the engagement of management scholars in addressing research questions that extend beyond the borders of traditional profit-maximizing forms of organization present a win-win scenario for both theory and practice.

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