The Last Frontier: Market Creation in Conflict Zones, Deep Rural Areas and Urban Slums

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Abstract

By operating in war zones, urban slums and deep rural areas, companies could not only achieve growth and profits but could also improve the economic and social conditions of these impoverished regions. But how could a company operate in areas with unstable security, poor infrastructure and little or no formal legal frameworks in place? Our research suggests that to do so successfully, companies need to go beyond transactional alliances or legalistic business partnerships with local partners. Instead, they need to develop community buy-in and long-term personal relationships based on trust with “unorthodox” local inhabitants—the ones offering them security and protection rather than technology and business assets. Such deep social embeddedness is not cost-free. To prevent it from derailing their success, companies need to nurture and grow their local partners beyond their specific needs. We provide examples of companies who did so to highlight our points.
The Last Frontier: Market Creation in Conflict Zones, Deep Rural Areas and Urban Slums

As the world enters a period of economic instability there is a pressing need for companies to identify new horizons of growth. Previous research has proposed that the markets at the base of the economic pyramid (BOP) could serve as potential areas for growth\(^1\). As a result, a lot has been written on the strategies that would allow Western multinationals to serve profitably the poor consumers at the BOP\(^2\).

Like many others, we have also explored how companies could do business in BOP markets. In an earlier study, we identified four critical elements for success in serving low-income consumers in developing markets—what we defined as the 4As framework: Affordability, Availability, Awareness and Acceptability\(^3\). But our earlier research has alerted us to the fact that even within the BOP markets, there exists the most unlikely of markets awaiting exploration. This market has its own unique key success factors and requires unique strategies from the companies that attempt to exploit it. The market that we refer to is made up of conflict zones, urban slums and deep rural areas. These three operating environments pose unique challenges for firms. But the benefits that accrue to the local population when private firms do business in these areas are enormous, even by BOP standards.

The rest of the BOP literature explores how companies could serve the world’s poorest people in a profitable way. Urban slums and deep rural areas are taken as part of the BOP market so the existing literature already deals with the central question of our study. However, the existing literature does not consider these areas as different from other BOP markets and therefore proposes that the strategies needed to succeed in BOP markets are applicable to conflict zones, urban slums and deep rural areas. Our earlier work has alerted us to the fact that this might not be the case\(^4\). These complex operating environments are different from other BOP markets. They have different structural characteristics to other BOP markets and as a result, require different strategies from the ones needed to succeed in any BOP market.

Our present study examined several firms that strategically innovated in such complex environments. Our aim was to understand the reasons behind their success and to
explore how the success factors differed from what we and other researchers have observed about innovators in BOP markets. The focus of our research has been the mobile telecommunications sector because this is an industry that is pioneering business expansion in complex operating environments. However, we believe that the lessons from the firms that we have analyzed are readily transferable to other sectors.

**Understanding Complex Operating Environments**

An *urban slum* is an area that combines to various extents the following characteristics: inadequate access to safe water; inadequate access to sanitation and other infrastructure; poor structural quality of housing; overcrowding; and insecure residential status. Slums come about because of, and are perpetuated by, a number of forces. Among these are rapid rural-to-urban migration, increasing urban poverty and inequality. The lack of secure tenure is another important reason why slums persist. Without legal title to their land, slum dwellers have few ways and little incentive to improve their surroundings. Secure tenure is also often a precondition for access to other economic and social opportunities, including credit, public services, and livelihood opportunities.

Urban slums are typically inhabited by the economically and socially marginalized members of society and are located on land over which the local inhabitants do not hold legal title. The inhabitants migrated to the slums from rural areas in order to exploit actual or perceived economic opportunities. According to UN Habitat statistics, more than 1.1 billion people—about one out of every seven human beings—will be living in an urban slum by 2010. Some slums, such as Kibera in Nairobi, Kenya and Dharavi in Mumbai, India have populations estimated to exceed one million people.

*Deep rural areas* are found in some of the poorest regions on earth, such as the Democratic Republic of Congo (DRC), Malawi, the far reaches of northern Nigeria and certain states of India, such as Bihar and Jharkhand. These regions are typically populated by the poor, with average incomes of less than US$2 per day. But ‘deep’ rural means more than low-income levels – these isolated and underdeveloped regions often lack even the most basic infrastructure such as paved roads and electrification, posing unique challenges for firms wishing to conduct commerce. Fewer than half of
all African countries have more than 20% of their population electrified and paved roads are the exception rather than the rule. Fewer than 2% of DRC’s roadways are paved, compared to 5% in Nigeria. In India paved roads represent 30% of the total but in the rainy season the unpaved sections of some parts of the road network become all but un-trafficable to automotive transportation\(^8\).

Conflict zones are regions of war (civil or cross-border), insurgency or severe lawlessness. In 2008, GlobalSecurity, a US-based public policy organization, identified around 40 conflict zones around the world. The United Nations defines "major wars" as military conflicts inflicting 1,000 battlefield deaths per year. As of mid-2005, there were eight Major Wars under way [down from 15 at the end of 2003], with as many as two dozen "lesser" conflicts ongoing with varying degrees of intensity. Most of the conflicts around the world today are civil or "intrastate" wars, fueled as much by racial, ethnic, or religious animosities as by ideological tensions. Most victims are civilians, a feature that distinguishes modern conflicts. During World War I, civilians made up fewer than 5 percent of all casualties. Today, 75 percent or more of those killed or wounded in wars are non-combatants.

But conflict zones are not only those areas of armed conflict driven by ethnic tensions, religious conflict or ideology. Lawlessness and criminality are also reported in regions such as the Niger Delta region of Nigeria, the slums of Rio de Janeiro and Mexico City, and some parts of deep rural India. These environments pose unique challenges for firms, including very real risks of physical assault, robbery, kidnapping, blackmail, vandalism and theft.

There are significant differences across the three complex operating environments described above, but our research has identified a number of common challenges that are present across all of these new market spaces:

**Lack of Legal Frameworks:** Complex operating environments often lack functioning legal systems and can be outside the control of government institutions. In these environments it can be very difficult for firms to put in place legally enforceable contracts.
Absence of Key Infrastructure: Complex operating environments often lack critical infrastructure to underpin efficient commerce. In urban slums and deep rural areas this infrastructure can be simply absent while in conflict zones, infrastructure can be damaged, purposefully vandalized or stolen.

Shortage of Skilled People: This involves two dimensions – availability and willingness. In some complex operating environments, people cannot afford formal education or schooling systems have been severely disrupted and skilled employees are hard to find. In conflict zones, employees and business partners can be understandably reluctant to face personal risks to their safety.

Other BOP markets lack key infrastructure and skilled people. But it is only in the three environments we are examining here that such absence is accompanied by violence, lawlessness, criminality and a total absence of government institutions. It is the combination of all these shortcomings that make these markets so different from other BOP markets and so challenging for firms to operate in.

Can firms do business in such environments?

How could firms operate in such inhospitable environments? We know from earlier research on firms operating in BOP markets that with the right business model, firms have the potential not just to deliver needed products and services to underserved local communities but to also realize sustainable profit and enable local economic empowerment. But slums and conflict zones present unparalleled challenges to companies. Is it possible to operate profitably in these environments?

To answer this question, we undertook a two-year research project between 2006 and 2008, using an action-based methodology, founded on enquiry, analysis and testing. As process research, the study focused on understanding the causal dynamics of particular settings with an assumption that “causation is neither linear nor singular”. We aimed to articulate best practices as companies deal with the challenges of serving customers in conflict zones, urban slums and the deep rural areas of developing markets and in many respects explored strategies that were still evolving.
From the business press and personal contact, we first identified several companies who had been operating successfully in the three kinds of environment under study since 2005. In many cases, press articles were claiming that these companies had succeeded in developing profitable operating models for conflict zones, urban slums and deep rural areas but before approaching them for personal interviews, we also verified these claims by examining their financial results. All companies approached had reported EBITDA figures that were above the industry average for both 2005 and 2006. After contacting senior management, secondary data was reviewed and field visits were made to countries in Africa, South Asia and the Middle East and direct field observations and in-depth interviews took place with these companies.

Interviews were conducted with the CEO/Regional Managing Director and/or senior functional managers (typically the Chief Operating Officer and Marketing Director). In the first round of interviews, the questions were open-ended and the goal was to gather as much information as possible. In the second round of interviews (that followed on average after 7 months from the first interview), the questions were targeted around specific themes that the initial analysis of the data had produced. In addition, the researchers were granted access to company reports and in several cases allowed to attend team meetings where strategic and operational decisions were made. Detailed case studies were developed on firms that had been successful in serving low-income customers in the areas of interest (see Exhibit 1). The study followed directives for case-based research and was based upon multiple sources of evidence: archival data, industry publications, interviews and direct observation. The study conformed with Yin’s recommendations for developing construct validity and reliability. Multiple sources of evidence were used to achieve data triangulation, thereby reinforcing construct validity. As analysis of the companies under analysis evolved, progress was communicated to key executives and managers in the firms under analysis, thereby encouraging the early identification of possible rival explanations and ensuring internal validity.11

Put Exhibit 1 here
From the academic literature, field visits and the development of case studies, the research was refined during 2009 in a reiterative process of application, testing and adaptation. Then, feedback from our academic colleagues, classroom discussions and further interviews with executives at our sample companies allowed us to identify shared approaches to strategic innovation in complex operating environments. These were used to build theory and make the concepts generic enough so as to be useful to managers from any industry.

What follows are some of the lessons we derived from our field research on how companies could operate successfully in complex operating environments such as conflict zones, slums and deep rural areas.

**Winning Community Buy-in:**

It is well established in the literature that to succeed in doing business in BOP markets, companies must be willing to reach out beyond their own organizational boundaries and create partnerships with local companies that can provide them with missing resources and expertise\(^1\). However, what we found in our own research is that to successfully do business in the kinds of environments that we have been describing, *companies need to go beyond transactional partnerships*. Instead, they need to win community trust and community buy-in. And this required for them to:

(a) seek out non-traditional partners who:

(b) provided them with unorthodox benefits

and who:

(c) received unorthodox benefits in return.

First, consider, the issue of community buy-in. All the business leaders that we talked to emphasized the importance of going beyond building partnerships (which they considered important) to finding innovative ways to become “part of the fabric” of the local communities. Their goal was **not** to be perceived as “good foreigners” doing business in their communities but to be seen as “one of us”. This was best articulated to us by the CEO of Iraq’s Zain, Ali Al Dhawi:
“Our message has been that we are part of the Iraqi society and we are dynamically tied to Iraq and its people. We suffer what Iraq suffers and we enjoy what Iraq enjoys.”

But how was such a lofty goal achieved? For some of our sample firms (e.g. Celtel Nigeria), winning community buy-in meant working with village-chiefs and religious leaders to improve the local community; for others (e.g. the Zain in Iraq), it meant investing in local sports activities [including sponsorship of the Iraq national football team and the Iraqi Olympic Committee]; and for others (e.g. Vodafone Essar in India), it meant working with social groups and NGOs in the slums to sponsor healthcare, sporting activities and cultural events. For all, winning community buy-in involved two specific activities: (1) promoting local entrepreneurship and developing local individuals as entrepreneurs that can help build their communities in the long term; and (2) getting involved in corporate social responsibility activities in the communities.

Promoting local entrepreneurship

Consider, for example, Iraq’s Zain Group. When it was first given a licence to operate in Iraq, it was given just sixty days to build a functioning network in Basra in the south of the country. The CEO, Ali Al Dhawi, immediately realised he had a problem—no vendor was willing to send people into Iraq to support network planning or roll-out; and there was an almost complete absence of local Iraqi’s with the engineering know-how required to build and operate a mobile network. A similar situation existed for other core functions such as sales and marketing – there were simply very few Iraqi’s with commercial experience and skills.

Right away, Zain embarked on a search for local Iraqi engineers. It did not bother the company if these people had no telecoms experience at all. The company was fortunate in that Iraq had maintained a strong higher education system and the locally qualified engineers who had traditionally worked in the oil industry had a high degree of grounding in core engineering concepts. Al Dhawi and his HR team brought these people into the company and sent them outside the country for quick training courses.
on building and operating a mobile network – in effect becoming a corporate university that provided the education and skills required to run its business.

The company knew that many of them would leave the company after receiving all this free training and education—but that did not bother Al Dhawi. Developing local entrepreneurs was part of “the price” that had to be paid if they were to be seen as part of the community. Within 60 days, Zain had a functioning network. Today, it has more than 80% population coverage. And the effort that Zain put into developing highly skilled local network engineers has been replicated across functions, with the company developing a cadre of young Iraqi professionals in disciplines such as marketing and communications, distribution and customer care.

Corporate social responsibility

All of the firms in our study were engaged in corporate social responsibility (CSR) activities in the communities in which they operated. All of them saw these CSR initiatives as key activities that allowed them to engage with and learn about the communities that they served.

For example, Celtel in Nigeria shared a percentage of franchise revenues with local communities, with funds allocated in cooperation between the franchisee and local village authority figures such as tribal chiefs or religious leaders and sometimes NGOs. Vodafone Essar in India engaged with social groups and NGOs in the slums to sponsor healthcare, sporting activities and cultural events, and in turn was able to learn more about the slum communities. In Iraq, the Zain Group supported NGOs delivering child health initiatives, prenatal and pediatric care, and helped many Iraqi’s to access medical attention both inside and outside the country. Beyond its engagement with NGOs in child welfare, healthcare and emergency relief, Zain was the first private firm to significantly invest in Iraqi sports, from local sporting activities right through to sponsoring the Iraq national football team and the Iraqi Olympic Committee, including the Iraqi Handicapped Olympics team. The company also supported the re-formation of the Iraqi symphony orchestra that had been disbanded under the previous regime and sponsored the group’s first international tour. The focus of all of these efforts was to move beyond commercial partnerships.
and to demonstrate Zain’s engagement as a member of Iraqi civil society in a country in which corporate sponsorship of cultural activities were virtually unknown.

It is important to stress that almost all of the managers in firms that we interviewed in Africa, Asia and the Middle East emphasized the need to avoid paying bribes or dealing with criminal gangs, a practice that could lead to blackmail and spiralling demands. Many emphasized to us that engaging in such unethical or illegal activities was the quickest way to lose community support or destroy all the goodwill that they built over time. Instead, firms sought entrepreneurs who were willing to build legitimate commercial relationships. They commented that they expected their local partners to deal with the local “goons” and put a layer of protection between the company and criminal elements in the community.

**Unorthodox partners**

The effort to become “one of the locals” led our sample companies to develop relationships with some unorthodox “partners”. Rather than seek out local business people as partners, our sample companies sought out people who had a religious or political standing in the local community or who were eager to become entrepreneurs. What they asked from them was not technology, distribution or other business assets. Rather, they sought them out because they could influence the local population and/or offer them security, protection and a certain standing in the community. And what our sample companies offered them in return was not money or bribes. Rather, they provided them with the opportunity to build their business (and thus become a person of influence in their communities). In addition, they supported their social projects (thus helping them become more influential political and religious leaders in their regions).

Consider, for example, Vodafone Essar in India. The company operated in Mumbai’s Dharavi slum, one of the most populous shantytowns in the world, where it developed a micro-franchising model similar to what other companies in BOP markets did. The company began employing trade marketers from the local community who then set about identifying individuals who were already conducting commerce within the
alleys of slum districts. In the words of Vodafone Essar’s Mumbai Managing Director Naveen Chopra:

“The people we work with know the slum. They might be tailors or fancy good shop owners or outlets selling day-to-day consumables. We cannot simply walk into the slum as Vodafone and start doing business given the local intricacies. But these local business people already run a business in this market, and we trust their wisdom.”

Consider also the Zain Group in Iraq. After the coup against the Iraqi Royal Family in 1958, Iraq experienced several decades of repression. For more than 45 years, its market was largely closed and all major activity in the country revolved around the government. The liberation of Iraq in 2003 lifted repression across all levels of society but the foundations for private commerce were still very weak. And, of course, the security situation for any business was chaotic. Zain’s CEO, Ali Al Dhawi, quickly recognised that his start-up company could not on its own comprehend or manage the multiple levels of complexity:

“We recognised very early on that we would not be able to leverage the expertise of our distributors from other Middle East markets and that we would have to find a local solution. We discovered that although there was not a large or established merchant class in the country, there were people who had travelled outside the country and who understood modern business practices. Many of these people had become active very quickly after the liberation of the country, and we sought individuals who had entrepreneurial drive, a demonstrated competence in distribution and capital to invest in co-developing our business. We wanted people who would not just sit in the market as a trader, but who would work with us to develop the market.”

Zain’s partnership with local entrepreneurs taught the company many lessons on how to optimize operational processes in areas such as security and distribution. It also taught it some very specific measures on how to protect people from kidnapping and to ensure free passage of cash and other financial vehicles such as recharge cards. With security a key priority, Zain initially recruited the services of two international
security firms to protect its people and assets. But over time Al Dhawi recognized that security was best managed at the local level. As a result, Zain today has a more regional approach with security managed by ten local firms who are part of the communities in which they operate.

Similar to Vodafone Essar, Ali Al Dhawi recognised that experience in the mobile telecommunications industry was not a pre-requisite as the basis for a successful partnership – indeed in many developing and emerging markets this established experience is almost completely lacking. More important was basic commercial acumen, entrepreneurial spirit and a deep understanding of how to manage the local environment.

**Unorthodox benefits**

It should be obvious that the benefits that our sample companies were expecting from their local partners were not the usual benefits that we normally associate with joint ventures. Rather than partner to obtain missing business assets—such as help with distribution or consumer insights or even political connections—our sample firms sought partners that could help them navigate around local mafias and offer them security and protection against blackmail and kidnapping. Similarly, what the local partners expected was not just a business relationship. They wanted our sample firms to invest *in them* and to help them develop both as a local entrepreneur and as a local leader. In the words of Naveen Chopra, CEO of Vodafone Essar:

> “*Our slum retailer suddenly becomes the respected face in the community with poles sticking up and very fancy looking electronic equipment stuck on it. So before you know it, he becomes a fairly important person. He has enabled communications between the slums and the outside world. He has got a fairly large social responsibility to fulfil.*”

A company that highlights the importance of working with unorthodox partners in search of unorthodox benefits is Celtel Nigeria.
The Celtel Nigeria example:

In mid 2007, Celtel Nigeria was the second largest mobile telecommunications company in the Nigerian market with a 28% market share and a subscriber base of approximately 8 million. The company had experienced considerable success in serving Nigeria’s cities and larger towns but had only recently shifted its attention to serving poorer consumers in rural areas – a massive but as of yet untapped market. But this shift from urban to rural had not been easy. Although almost 50% of Nigeria’s population lived in rural regions, the challenges of reaching them seemed overwhelming. Celtel Nigeria’s Danish Chief Operating Officer Lars Stork pondered the challenges of bringing the benefits of mobile telecommunications to Nigeria’s rural poor. Despite his depth of international experience, none of Stork’s previous management responsibilities had compared to the challenges of rural Nigeria. He recognised from the start that success in serving the country’s rural poor would require a radical new approach.

Contracting mobile transmitter sites and maintaining the sites once they were built also posed unique difficulties. Village-level chiefs and religious leaders held significant power in many regions of Nigeria and Celtel needed to ensure that it respected this influence when investing in local areas. Even when approval was given by national authorities, the company needed to negotiate with tribal leaders before rolling-out its network infrastructure. This sometimes involved paying ‘tribute’, not just for approval to install equipment, but also for the entry of Celtel staff to tribal areas to maintain the network.

Many areas of Nigeria were in media ‘black spots’ which were not reached by television or radio signals. This made communicating products and services particularly challenging. Some of the traditional approaches of marketing were also difficult – billboards were quickly stolen and recycled for building materials or fencing, and it was dangerous in some regions for Celtel staff to travel for direct marketing activities at markets or other rural gatherings.

The Nigerian electricity grid was unreliable and did not reach all rural areas of the country, so generators were a necessity for virtually all of Celtel’s rural base station
sites. Every site required two diesel generators with the company using more than 70 million litres of diesel fuel per year. Access roads had to be maintained by the company with travel becoming limited during the rainy season when roads in many deep rural areas became impassable. Site security was a major concern and expense. Vandalism and theft of base-station equipment was common, requiring Celtel to install armed guards on rural sites – Celtel employed some 2200 staff in 2007 plus some 5,000 contracted security staff on payroll. Even though Celtel typically recruited these guards from the local community, this had not seemed to reduce the incidence of theft of expensive equipment.

A disturbing development during 2007 had been the emergence of highly organized gangs of thieves who were moving from one rural site to another stealing diesel generators – using heavy cranes and trucks to literally pick the generators up from their installations and ship them out of the location. In some instances, guards had been held at gunpoint. With such low-levels of mobile usage in some rural areas, downtime of telecommunications did not seem to weigh heavily against the pay-off from stealing and selling Celtel equipment. Lars Stork increasingly realised that trying to fight against the local environment was a losing proposition.

In mid 2007, Stork initiated what he called the Rural Acquisition Initiative (RAI). The RAI was based on a base station site (BTS) micro-franchising model, the first use of such an approach to serve rural consumers in Africa. Rather than trying to overcome the unique challenges of operating in rural areas, the initiative aimed to partner with local communities to dramatically increase the affordability, availability, awareness and acceptability of Celtel’s services.

Key to the RAI was the identification and recruitment of local entrepreneurs, so called Associate Distributors (AD) to act as trade partners. These entrepreneurs were identified as commercially oriented small business people with standing in the local community. They typically had no previous experience in mobile telecommunications services. The entrepreneurs acted as exclusive representatives of Celtel in their communities, marketing and distributing a relevant portfolio of Celtel products and services. They were also responsible for base-station site security and basic maintenance.
The first phase of the RAI initiative involved a pilot trial with 25 entrepreneurs in the South East, and the success of the pilot resulted in the commencement of full scale commercial roll-out. By the end of 2009, Celtel had developed a network of over 900 franchisees in the deep rural regions of Nigeria. The average franchised site provided Celtel with a 160% return on original investment within a year of launch. Recharge voucher sales by franchisees exceeded initial business case forecasts by over 120%, indicating a higher rural revenue potential than initially assumed. Airtime sales have trebled and payphone use doubled for franchised rural sites versus non-franchised sites, while at the same time incidents of vandalism and theft have all but disappeared in regions with high levels of franchisee site supervision.

Similar to Vodafone Essar and the Zain Group, Celtel built its success by building long-term relationships with locals who had no experience in the mobile telecommunications industry. What they got out of them were not the typical benefits we would expect from a business partner. Instead, they benefited from their partners’ basic commercial acumen, entrepreneurial spirit and a deep understanding of how to manage the local environment.

**Implementing new business models**

Previous research on doing business in BOP markets has already alerted us to the fact that the business model that companies already employ in their developed markets would not work well in BOP markets. As a result, this research has emphasized the importance of developing new business models for these markets.13

Our own research supported this basic finding. But what we also found was that the development of new business models was the easy part! More important than coming up with clever new business models was the need to get them implemented in inhospitable (and often dangerous) areas and then scaling them up in peaceful co-existence with the firm’s existing business model. In other words, creativity was not the issue—implementation was. We identified three implementation areas that played a key role in determining success: (a) how to compete with two business models simultaneously; (b) how to build commitment and enthusiasm for the venture
internally (so as to get key managers to agree to move to these dangerous areas!); and (c) how to use local partners to implement the new business model.

Competing with two business models

To compete in the complex environments that we have been describing, firms need to develop business models specific to the local environment. This much is well established and accepted in the literature. But the firms in question already have an established business model in operation—the one with which they compete in their main markets, such as the more affluent, “urbanised” and stable regions of cities such as Mumbai, Lagos and Manila. For example, companies such as Celtel (Nigeria), Grameen Telecom (Bangladesh), Smart Communications Inc. (Philippines) and Vodafone Essar (India) had developed business models that were well suited for serving the middle and upper income segments in “stable” urban markets. They now faced the unpleasant fact that these business models were not appropriate to address the complexities of operating in urban slums or to reach the poor living in deep rural areas. Therefore, the issue that immediately arose for these firms was how to compete with two business models at the same time¹.

This is an old “generic” strategy question. According to Porter, the challenge with attempting to manage two different business models in the same industry at the same time is that the two models (and their underlying value chains) could conflict with one another. As a result, a company that tries to compete in both positions simultaneously risks paying a huge straddling cost and degrading the value of its existing activities. The task is obviously not impossible but it is certainly difficult. This is the logic that led Michael Porter to propose more than thirty years ago that a company could find itself “stuck in the middle” if it tried to compete with both low-cost and differentiation strategies¹⁴.

The primary solution offered to solve this problem is to keep the two business models (and their underlying value chains) physically separate in two distinct organizations.

¹ The issue facing the companies was not how to manage two different businesses (like a diversified firm). The issue was how to manage two different (and often conflicting) business models in the same business.
This is the “innovator’s solution” that’s primarily associated with Christensen’s (1997) work on disruptive innovation but other academics have advocated it as well\textsuperscript{15}. And this is exactly the solution that researchers have proposed to help companies manage the business model they develop for BOP markets next to their existing business model\textsuperscript{16}.

What we found from our own research was that simply creating a separate “unit” to compete in complex markets was not enough. Doing only that meant that the separate unit did not have the opportunity to exploit any synergies that existed between itself and the parent and did not have the means to transfer knowledge, expertise or other assets from the parent to its local operations. As Day, Mang, Richter and Roberts pointed out: “…the simple injunction to cordon off new businesses is too narrow. Although ventures do need space to develop, strict separation can prevent them from obtaining invaluable resources and rob their parents of the vitality they can generate.”

Therefore, to be successful, companies had to create a separate unit but also find ways to support it with assets and expertise from the parent. The key was to find ways to let it develop as it saw fit in its own environment while at the same time finding ways to leverage synergies between the unit and the parent company. It is the firms that achieved this delicate balance that succeeded in the implementation of their business model in complex environments.

We found that our sample firms used a variety of integrating mechanisms to keep the separate unit in the complex market in close working relationship with the parent. Exhibit 2 lists some of the tactics that we observed in our sample firms. The most common tactic was to create separation in certain value-chain activities while keeping other activities integrated with those of the parent. The activities that were usually separated were those dealing with customer contact and included marketing, sales, distribution and front-line customer care. The activities that were usually kept integrated with the parent were those dealing with back-office tasks such as IT, accounting and HR. (the exception to this was Iraq where we did not witness significant differences in the organizational structures between urban and rural markets, probably because the entire market had more uniform characteristics).
The need to separate some of the value-chain activities was best-articulated to us by Lars Stork, COO of Celtel Nigeria:

“We understood that we had to develop new processes and approaches to reach out to the deep rural communities. The existing organizational processes worked well in our established urban markets in the presence of established distributors and a wide retail network but these partners were largely absent in small villages in the hinterland. We also had to rethink processes for marketing and customer care, as the mindset, literacy levels and understanding of very simple things such as using a mobile phone were at a very different stage of development. With these differences in mind, we decided to create dedicated regional teams with the responsibility to focus exclusively on developing the rural business.”

But separation was not applied across the board. Most of the organizations that we studied did not separate elements of the business in which the processes and key performance metrics remained the same for both the ‘core’ business and the business serving customers in more challenging environments. For example, activities such as network roll-out and maintenance, support systems such as IT and billing, and call centre support were all shared between the parent and the unit. While there were some unique challenges in managing these shared activities (such as coping with language diversity in call centre operations in rural India), these were usually addressed by working in partnership with the separate marketing, sales and distribution teams rather than by creating entirely dedicated resources. Vodafone Essar’s Naveen Chopra described it as follows:

“Our marketing manager who is responsible for slum marketing interfaces closely with our network engineers. She drives the necessary people and makes life miserable for the network team if they don’t meet their network roll
out in the slums for the month. She has open access to me at any given time and works with a cross-functional team who can put other things together if necessary. But she is the one main point of contact for the slums and she pushes to see that we are making the requisite progress on this initiative.”

Vodafone Essar’s slum marketing manager reported directly to Naveen Chopra. This level of senior executive sponsorship was indicative of the way that successful companies in our research sample managed their businesses in complex areas. The overall governance of the business entity serving the ‘complex’ market and the way this entity interfaced with established organizational functions such as operation management was typically in the hands of a ‘heavyweight’ executive – either the regional or national CEO or COO. This seemed to be particularly important in the early phases of growing the business in a ‘complex’ operating environment when the size of the new opportunity was not always readily apparent to the existing business and the priorities of senior functional managers were typically targeted towards acquisition and retention of high-value urban customers.

Finally, the separate unit operating in complex environments was encouraged by the parent’s senior managers to borrow abundantly from the “core” business anything that would help it succeed. This included things such as brand names, physical assets, expertise and other useful processes of the main business. But even then, borrowed assets had to be customised to the local environment where they were put to use. For example, when Bharti Airtel, India’s largest mobile network operator embarked on its expansion into rural Bihar and Jharkhand (the poorest states in India located in the isolated north-east of the country), the local Marketing Director (Mr Rajnish Kaul) recognised that Airtel’s more urban-centric approach would have to be adjusted:

“While we operated as the Airtel brand, we quickly recognized that we would have to develop new approaches to how we managed distribution and the way in which the brand was communicated in the market. So we put together a dedicated rural marketing and distribution team. The customer is typically rural, not really literate, but having a lot of common sense, so we kept our rural business extremely simple right from the word go -  simplicity is the word ingrained into the DNA of every employee, distributor, and retailer
whereas in urban areas the approach had become more complex – segmented products, multiple tariff plans and so on. In the deep rural areas we use local languages in our communications, or even if we use Hindi, it is simple Hindi which is common man’s Hindi. We also tailored our marketing promotion activities to the rural areas. We adapt depending on what the villagers would like to know. So with our dedicated rural marketing teams we align to the Airtel Brand, but we take different approaches to the rural areas than the way Airtel does things in the metro markets. We talk the language of the rural poor, we are present where they spend their time, and we provide messages and products which are relevant and simple for them to understand.”

Building internal enthusiasm

Companies that aim to compete in slums and conflict zones face two interrelated “internal” obstacles: first, how to convince the rest of the organization that there is a business opportunity there; and second, how to convince key personnel to work in and sometimes move to these areas, often with their families. Even if a business case for investment is made, it’s not easy persuading people to move into such isolated and dangerous areas. Yet, the venture needs the knowledge, expertise and skills that managers from the parent company can provide. How, then, can a firm generate the internal commitment and enthusiasm necessary for investment and for getting key people to move to these areas?

The example of Airtel is indicative of how our sample companies managed this challenge. When Airtel expanded into Bihar and Jharkhand there was considerable internal scepticism as to how an area that was considered to be one of the most economically backward in the country and one that was also affected by violent insurgency and criminality, could be a profitable business opportunity. Primary healthcare as well as primary education and poverty levels were amongst the worst in the world and the region’s telecommunications infrastructure had been badly neglected. The law and order situation was also very unstable and penetration of mobile telephony was very low. To generate support for such a venture, managers such as Rajnish Kaul followed a number of tactics:
1. **Identify quick wins:** Kaul knew that to convince his superiors he had to first run pilot projects to test the viability of the business opportunity. He also knew that quick wins are effective in building wider commitment to scaling-up new business opportunities. In Bihar and Jharkand, Airtel was successful in adding new customers at a faster rate than in any other market entry by Airtel up until that time. The speed of new additions was communicated across the company to let people know of the possible opportunities waiting in other deep rural areas.

2. **Frame the venture as both opportunity and threat:** Airtel framed the entry to these markets as both an opportunity and a threat – an opportunity to reach new customers but also a threat if competitors were to gain a first-mover advantage. Airtel was actually the fifth operator to enter Bihar and Jharkand but management convinced its staff that the other existing operators had been slow to realise the rural opportunity. Rather than attack the customer base of the existing operators in head-to-head competition, the company raced to acquire non-consuming customers – those who did not yet have a mobile phone or who depended on pay-phones. But Airtel also increased the sense of urgency internally by letting its people know that it was only a matter of time before competitors also realised the rural opportunity.

3. **Provide visibility and development opportunities for managers:** Senior management communicated that managers willing to work in these markets will have a bright career in Airtel. Rajnish Kaul, who was Marketing Director of Bihar and Jharkhan at the time of Airtel’s entry in 2005 went on to become COO of Andra Pradesh, Airtel’s most important state by revenue. He is now a regional CEO. According to Kaul: “We proved to our people that this region is not a backwater – if you manage well here, doors will open for you in other parts of Airtel India.”

4. **Emphasise soft as well as hard objectives:** To build enthusiasm for managers to take roles in these new markets, management emphasised not only the potential commercial benefits for the company but also the very important role that the company could bring in delivering economic empowerment and social
development. In the words of Rajnish Kaul: “We have continually communicated to our people about the great contribution that Airtel’s business can make to the lives of people. The passion of our team is really about spreading mobile telephony and in the process getting social and economic development in the states of Bihar and Jharkhand, which is our circle. When we see a father of a poor family or young men who are taking over as retailers and then growing into some kind of rural distributors, this gives us great satisfaction and pride. It builds a passion for the business that goes beyond market share and profit.”

5. Get the right people: Airtel recognized that managers who had acquired their experience in more stable urban markets might not be the right people for more complex markets – in terms of both mindset and functional skills. Therefore, when it sought managers to spearhead the entry into Bihar and Jharkhand, it sought entrepreneurial individuals (some would say risk takers) with cross-functional experience. Most already had direct experience of growing-up or working in the region or in similarly isolated rural areas. Given that the business was at an early stage of development, the company needed people with a track-record of adaptability and cross-functional knowledge rather than the kind of functional specialists that were often employed in larger, better-established urban businesses. For lower-level management and other positions, the company recruited people from within the communities where they operated and who were familiar with the intricacies (and dangers) of working in unstable regions. In turn, these local employees were able to educate the senior management on how best to approach the local environment.

Within three years of launching its business in Bihar and Jharkhan, Airtel had won a market share of over 40%, with more than 4.2 million subscribers – a record in Airtel and the fastest growth of any operator in India’s history. By 2009, the two states represented more than 8% of Airtel’s revenues in India, the fifth largest revenue contributor out of 23 operating regions. This success in the northeast provided the catalyst for Airtel’s push into deep rural areas across the country, and the company has become the undisputed rural market leader.
Implementing with local help

Previous researchers have emphasized the need for companies to remain open to learning from local partners and the importance of co-developing business models with local partners. The same principle applies when it comes to the implementation of these new business models.

In complex operating environments, successful companies develop a deep understanding of the local socio-cultural and business environment and focus on generating innovation from the ground-up. Managers need to value the knowledge of the local environment held by a diversity of partners and put in place resources to learn from these partners in an efficient way. By maintaining openness to learning, the organization can allow local partners, who are more familiar with both local customer behaviour and environmental risks, to innovate proactively. Perhaps most importantly, firms should avoid designing and implementing a strategy based on overcoming challenges in the local environment. Instead they should build their own in-depth understanding of the local environment, and then combine own insights with the knowledge of business partners to develop and implement operating models that fit with local realities.

Consider, for example, Celtel Nigeria. The company linked with entrepreneurs who co-developed management practices under its Rural Acquisition Initiative that were tested and refined for the deep rural regions in which the company’s franchisees managed their businesses. The first phase of the RAI involved a pilot trial with 25 entrepreneurs in the South East of the country, one of Celtel’s most challenging and unstable regions. Through this pilot program, the RAI business model design co-evolved in cooperation with franchisees.

In cooperation with the participants of the pilot project, Celtel defined the main activities of the franchisee as village level distribution of mobile start-up packs, low-cost mobile phones and low denomination recharge vouchers. The franchisee also operated a fixed-GSM payphone from a Celtel branded kiosk in a central location in the village and carried out site security and/or site surveillance and basic base station
maintenance and cleaning. Each franchisee typically recruited four to five commission driven hawkers who travelled in the local community and surrounding villages within the coverage zone (approximately 7km radius). These hawkers were recruited from the local community and promoted Celtel’s brand via word-of-mouth, explained tariffs and special offers, sold start-up packs and recharge vouchers and acted as “roving” call agents by providing access to mobile phones for consumers to make calls. This reduced the need for consumers to travel into the village.

At the suggestion of one of its pilot project franchisees, Celtel now provides four to five motorcycles to each franchised site to enable more efficient servicing of surrounding villages. Many franchisees have also started to offer instalment financing and barter trade to their local customers for low-cost handsets, simply extending local commercial practices already in existence. Celtel does not have a formal policy towards handset financing or barter trade by its rural distributors, and credit risk is the sole responsibility of the local franchisee. But the company does recognise the value of this approach in further accelerating handset penetration in deep rural areas, and is currently studying how it might support the scheme.

In Mumbai, Naveen Chopra and his team encountered a fundamental problem in serving the urban slums. So large were these highly populated shantytowns that the company struggled to deliver wireless network coverage in the deep inner reaches. The company’s initial response had been to beam into the slum from surrounding buildings with high intensity transmitters pointed down. But this did not achieve coverage deep inside the slum or inside the densely packed houses. The problem was how do put up a mobile transmitter in a place that was unauthorized, and also face the very real possibility of vandalism or theft of very expensive technical equipment if installed. Even if formal authority could be gained to put up a transmitter site in a slum, the reality was that government agencies had little real authority within slum communities. Furthermore, electricity supply was not reliable.

The established process for Vodafone had been to put up network and then build distribution to support that coverage. But that became a challenge in the slums because potential retailers were reluctant to partner in the absence of network coverage. But then one large retailer interviewed by Vodafone Essar’s slum
distribution team suggested a new approach – locate larger retail outlets in the slum as potential distributors, and then hoist mini-transmitter above the shops. Working with a network equipment manufacturer Vodafone Essar did just that – the company developed a single antenna mounted on a telescoping pole that could be powered by a small generator and elevated to 10-15 feet in height. The equipment was effectively leased to the shop owner, who was not only responsible for retail distribution, but also the security and basic maintenance of the mini-transmitter. In the words of Chopra:

“Our slum retailer suddenly becomes the respected face in the community… He also becomes a retailer, takes care of recharges and becomes your ear to the ground to the local community. He also tells you what opportunities there are, where you need to launch a particular tariff plan that will take care of the local micro segmentation that has happened between the slums because they are of different communities, and from different geographies. So he becomes a very integral part of the way you do the business.”

The success of its approach saw Vodafone Essar’s revenues from Mumbai’s urban slums increase dramatically, with average revenues per user (ARPU) far exceeding the company’s initial expectations. This was eventually understood in the context of the high value that slum dwellers place on telecommunication to conduct commerce and to find daily work outside the slum. Many slum dwellers in Mumbai engage in day labour as cooks, cleaners, drivers, construction and other informal service-sector jobs, and the mobile phone is seen as an essential tool to facilitate economic activity.

Just like Celtel Nigeria and Zain Iraq, Vodafone Essar has come to appreciate the value of learning from local business partners and to leverage their knowledge to co-develop business models for complex operating environments. Rather than arriving in a complex operating environment with pre-conceived solutions, the successful pursuit of complex operating environments appears to require learning from the ‘ground up’.

Whereas the conventional wisdom on developing and emerging economies suggests that local partners are the ones that must unlearn, our study suggests that in complex operating environments the reverse is actually the case – it is the newly entering firm that needs to unlearn. This is what London and Hart (2004) have termed ‘social
embeddedness’ or the ability to create competitive advantage based on a deep understanding of and integration with the local environment.

**Overcoming the problems of social embeddedness**

Deep social embeddedness of the kind we have been describing here is not cost-free. Uzzi warned that after a certain level, overembeddedness sets in, something that makes firms vulnerable to external shocks and insulates them from valuable information that exists outside their network. It can also make them vulnerable to “selfish” partners who abuse their newfound power to extract more than their fair share of the rents.

The CEOs that we talked to were aware of these risks and they actively tried to manage them. One of the ways they did so was by continuously reminding their partners that theirs was a long-term relationship. If they did anything “stupid” for short-term gain, it would come back and hurt them later in the day. Such talk was made credible by specific actions—such as withdrawing support to partners who “misbehaved” while rewarding partners who went out of their way to make the partnership a success. Another way used to overcome the risks of overembeddedness was by doing things aimed to build trust in the relationship. For example, this is what Naveen Chopra at Vodafone Essar had to say:

“It is about a relationship. Once the economics are right, once you have a win-win, you have a relationship that is resilient even in the absence of enforceable legal contracts. It is about respecting the fact that your slum distributor may do only a small turnover, but for that person a small turnover is a big amount and you call him for the same meetings that you call your other business partners. He gets recognition and respect and in turn this builds trust and loyalty.”

Trust in the relationship was further enhanced by investing in building the local partners’ skills continuously. In a sense, the message given was that: “if you stick with us, we will make sure you improve all the time. As a result, your business will improve all the time.” Celtel Nigeria was one of the companies that worked hard to
develop the capabilities of its business partners in the deep rural areas of Nigeria. Once recruited, franchisees are hosted to a 3-day welcome workshop hosted by the local Celtel Regional Office. The workshop consists of training modules developed by the RAI project team in Lagos covering sales and marketing techniques, accounting and financial management, retail execution, basic site maintenance, site security and human resource management skills. And once in business, franchisees are provided with regular training events organized at the regional level. In the words of Bayo Ligali, then CEO of Celtel Nigeria:

“The Rural Acquisition Initiative is a first for Nigeria, and overturns the widely held industry perception that rural areas cannot deliver real profitability. The rural poor represent a significant market in Nigeria, and Celtel is the first operator to develop a sustainable model to serve them profitably while at the same time delivering real value to local communities. Within two years, this initiative will generate more than 4,500 jobs in some of the country’s poorest regions.”

By investing to build and support the skills and capabilities of local partners, our research reveals that companies can improve their business performance in complex operating environments, while at the same time generating sustainable economic and social benefits. This is in alignment with the view that rather than focusing on those in developing and emerging markets purely as consumers, we need to view them as producers, and that the only sustainable way to alleviate poverty is to help in raising local skills and incomes.

The final strategy that we observed being used to overcome the risks of overembeddedness—especially the risk of missing out on information that exists outside the network—was an open attitude and a great willingness to listen and learn. In the face of complexity, accurate knowledge about potential consumers is not readily available and economic structures can be difficult to understand. This is not just true for foreign managers that might be entering a new market. These complex environments can be equally enigmatic for local managers who are not from the deep rural areas, slums or conflict regions that the firm chooses to enter – Ali Al Dhawi was a returning Iraqi national and Naveen Chopra is a native of India, but both men
issued declarations of ignorance when entering their respective market spaces. Before launching the RAI initiative Lars Stork commissioned a large-scale field-based market study by Globalpraxis, a consulting firm specialized in conducting customer insight and route to market research in BOP markets. Indeed, virtually all of the successful firms that we examined as part of our research took three key steps: they dedicated internal resources to understanding the complexities of the new market; they recruited local people; and they supported business partners in developing and extending their own capabilities.

One cannot assume that a well-educated urbanite from the Indian or Nigerian middle class has an intuitive grasp of the social structures present in urban slums or deep rural areas. Furthermore, every region has its own peculiarities that need careful attention. In the words of Naveen Chopra: “a slum is not a slum is not a slum.” Similarly, Vodafone Essar identified fourteen different types of slum in Mumbai alone – commercial slums, residential slums, migrant worker slums, and so on. Ali Al Dhawi described Iraq as ‘chaos within chaos’ during the early years after the fall of the previous regime, admitting that it was virtually impossible to understand the intricate and complex webs of sectarian, religious and criminal tensions that could explode at any moment. For example, not only did you see Shia fighting Sunni in some parts of the country but criminal gangs from the same sectarian groups were fighting each other for control of territory – Sunni against Sunni or Shia against Shia. This meant that keeping an open mind and listening to outside voices was a necessity, not a luxury.

We don’t mean to imply that the strategies identified above eliminated the risks and costs associated with deep embeddedness. The important point is that our sample companies recognized that such costs existed and proactively took steps to manage them.

**Conclusion**

We started out by arguing that conflict zones, urban slums and deep rural areas have different structural characteristics from other BOP markets. This led us to propose that the strategies needed to succeed in these markets will necessarily be different
from the strategies needed to succeed in other BOP market. Our results have supported this belief. For example, the existing BOP literature emphasizes the importance of entering BOP markets by using local partnerships. What we found in our own research is that to successfully do business in the kinds of environments that we have been describing, *companies need to go beyond transactional partnerships*. Instead, they need to win community trust and community buy-in. And this required for them to: (a) seek out non-traditional partners who: (b) provided them with unorthodox benefits and who: (c) received unorthodox benefits in return.

In addition, the existing BOP literature emphasizes the importance of developing new business models specific to the BOP environment. Our own research supported this basic finding. But what we also found was that the development of new business models was the easy part! More important than coming up with clever new business models was the need to get them implemented in inhospitable (and often dangerous) areas and then scaling them up in peaceful co-existence with the firm’s existing business model. In other words, creativity was not the issue—implementation was.

Our research points to an optimistic conclusion: companies that adapt to the reality of doing business in the world’s deep rural areas, urban slums and conflict zones could potentially earn significant profits. More importantly, they could use that experience to expand into similar regions in other parts of the world. For example, through its experience in the urban slums of Mumbai, the Vodafone Group is now in a strong position to leverage its accumulated learning in its operations in Africa where the firm’s subsidiaries serve major urban slum populations. Similarly, Celtel—which was eventually acquired by the Zain Group—could leverage its learning from Nigeria to strategically innovate in other complex markets where it has operations. Not only might this improve the firms’ growth and profitability but also—and perhaps more importantly—in the process of doing so, they can help these regions rejuvenate and escape poverty and lawlessness.

However, entering complex operating environments such as slums and conflict zones requires a recognition that traditional ways of doing business might not apply. To be successful, companies need to avoid reliance on ‘legacy’ operating approaches and understand the shortcomings of strategies based solely on the realities of the markets.
of the developed world. In addition to extending their own knowledge and capabilities into the new markets, companies must partner with local people who understand the intricacies of the complex environments in which they live, and work with these people to develop sustainable strategies that are ‘bottom up’ rather than top down. The task is difficult but this is a worthwhile endeavour for firms to undertake.
### Exhibit 1: The Sample Firms

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Type of Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bharti Airtel</td>
<td>India (Jammu and Kashmir)</td>
<td>Deep Rural/Conflict Zone</td>
</tr>
<tr>
<td>Bharti Airtel</td>
<td>India (Bihar and Jharkhand)</td>
<td>Deep Rural/Conflict Zone</td>
</tr>
<tr>
<td>Bharti Airtel</td>
<td>India (Uttar Pradesh)</td>
<td>Deep Rural/Conflict Zone</td>
</tr>
<tr>
<td>Celtel/Zain</td>
<td>Nigeria (North)</td>
<td>Deep Rural</td>
</tr>
<tr>
<td>Celtel/Zain</td>
<td>Nigeria (South)</td>
<td>Deep Rural/Conflict Zone</td>
</tr>
<tr>
<td>Celtel/Zain</td>
<td>Nigeria (Lagos)</td>
<td>Urban Slum</td>
</tr>
<tr>
<td>Celtel/Zain</td>
<td>Kenya (Nairobi)</td>
<td>Urban Slum</td>
</tr>
<tr>
<td>Grameen Telecom</td>
<td>Bangladesh</td>
<td>Deep Rural</td>
</tr>
<tr>
<td>MTN</td>
<td>Uganda</td>
<td>Deep Rural</td>
</tr>
<tr>
<td>Smart Comm. Inc.</td>
<td>Philippines</td>
<td>Deep Rural</td>
</tr>
<tr>
<td>Vodacom</td>
<td>South Africa</td>
<td>Urban Slum</td>
</tr>
<tr>
<td>Vodafone Essar</td>
<td>India (Mumbai)</td>
<td>Urban Slum</td>
</tr>
<tr>
<td>Vodafone Essar</td>
<td>India (Uttar Pradesh)</td>
<td>Deep Rural</td>
</tr>
<tr>
<td>Zain</td>
<td>Congo DRC</td>
<td>Deep Rural/Conflict Zone</td>
</tr>
<tr>
<td>Zain</td>
<td>Kenya (Nairobi)</td>
<td>Urban Slum</td>
</tr>
<tr>
<td>Zain</td>
<td>Iraq</td>
<td>Conflict Zone</td>
</tr>
</tbody>
</table>
Exhibit 2: How the Separate Unit was integrated with the parent firm:

- Allow the unit to differentiate itself by adopting a few of its own value-chain activities but at the same time exploit synergies by ensuring that some value-chain activities are shared.
- Give the unit operational autonomy but exercise strong central strategic control.
- Allow the unit to borrow the brand name, physical assets and expertise from the parent.
- Assign a common general manager between the main and the new business.
- Hire “outsiders” to run the unit together with a mixture of “insiders”
- Allow different cultures to develop but unite the two through a strong shared vision and strong shared values.
- Staff the unit with individuals that have cross-functional expertise
- Give the unit enough power to fight its own corner
- Appoint an active and credible integrator between the two
- Identify measurement and evaluation metrics that are specific to the unit.
Endnotes


8 International Road Federation (2006) IRF World Road Statistics


18 For example, London and Hart (2004) op.cit.

19 ibid.


21 Karnani (2007) op.cit.