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Innovation From the Inside Out

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Innovation From the Inside Out

Nurturing a new and lasting idea doesn't result from analyzing market data. Aspiring creators must act on what nonprofits already know: you get the best answers by burying yourself in the questions.

BY ERIK SIMANIS AND STUART HART

THE LEADING QUESTION

How can CEOs transform the innovation process itself — and not just the fruits of it — into a source of lasting value?

FINDINGS

- **Create demand by building a social movement, adapting the model nonprofits have used to tap purchasing power in low-income communities.**
- **Let the community pull your company into new markets or products.**
- **Humility can be learned — and must be practiced — if executives are going to be open to act on what they hear.**

BEFORE MUHAMMAD YUNUS decided to start the innovative bank that would upend conventional wisdom and deliver affordable credit to the rural poor, he didn't conduct grass-roots market research or consult a global positioning system for the best target markets. Certainly, he knew enough to compile such data; he was, after all, a highly trained economics professor. But the inspiration that led to Grameen Bank's launch in 1976 came not from the depths of an ocean of market data, but from a personal bond and shared vision built by Yunus and the Bangladeshi farmers living in the village adjacent to Yunus's home and university.

That shared vision came into focus as Yunus and the villagers spent time together as a community: in the rice fields in farming projects, in afternoon conversations at roadside tea stalls, and in late-evening dinners and debates. By working together and learning from one another, Yunus's and the villagers' unique knowledge, insights and perspectives came into creative collision, sowing the seeds for a profitable and scalable village banking model that neither could have conceived of independently. In time, Grameen Bank would profitably serve more than seven million women borrowers across some 75,000 villages of Bangladesh, with annual loan disbursement exceeding $800 million.[1]

More than two decades later, another experiment began taking root. Motivated in part by the success of Grameen Bank, several corporations began to test the theory that an untapped, multitrillion-dollar consumer market could be found at the "base of the economic pyramid" or BoP — the four billion people with annual per capita incomes below $1,500 (purchasing power parity).[2] One of the companies at the forefront of this movement has been Hindustan Unilever Ltd., formerly known as Hindustan Lever Ltd., the Indian subsidiary of the Dutch consumer products multinational Unilever N.V. In 2000, with $23 million in seed capital, HLL launched Project Shakti (translated as "sacred force" or "empowerment") to tap India's vast, geographically dispersed rural population of villagers. (See "About the Research.")

HLL's strategy consisted of a radically decentralized, door-to-door sales force for HLL's personal care products, such as soaps, lotions and detergent. The sales force was drawn from members of the thousands of small women's savings and loan groups (also known as "self-help groups") established by the Indian government and nonprofit organizations to facilitate small-scale enterprise and gender empowerment across villages. To train these "Shakti entrepreneurs" efficiently, HLL partnered with local nonprofits. Community-based Internet kiosks advertised HLL's products, and a village woman served as a social marketer, conducting demonstrations in schools and other public sites about the importance of personal hygiene practices. By 2007, HLL had expanded the project to cover more than 80,000 villages through a network of 30,000 entrepreneurs.[3]

Today, HLL's Project Shakti, like Grameen, is held up as an example of the kind of holistic business model innovation required to open up vast new markets, including those at the BoP. Familiar buzzwords like disruptive and radical are often invoked to describe the structural changes that these pioneers introduced into their industries' respective business models.

Yet while contemporary innovation frameworks train our sights on the structural similarities of the HLL and Grameen business models, they obscure a crucial dimension on which they differ: *business model intimacy*. Business model intimacy allowed Grameen successfully to overcome tremendous social tensions — and sometimes outright threats — involved in making loans to women living in predominately conservative Muslim villages. Lacking this facet, HLL's Shakti has struggled to hang onto its Shakti entrepreneurs, with turnover rates at one point reaching 50% within three months. Most new value propositions are met with consumer skepticism. But Grameen created a groundswell of demand, literally pulling the business into new villages and allowing Grameen to scale rapidly while growing revenues and profits. Lacking its predecessor's business model intimacy, HLL has followed a resource-intensive push strategy that, despite creating a distribution presence across thousands of villages, banks its profitability hopes on a long-term, general upward trend in rural consumption.

ABOUT THE RESEARCH

The BoP protocol was launched in 2004 as an action research initiative at the Center for Sustainable Global Enterprise at Cornell University's Johnson School of Management. Our partners in the initiative included University of Michigan's Stephen M. Ross School of Business, William Davidson Institute, World Resources Institute and the Johnson Foundation.

The initial protocol framework was developed in 2004 with the input of a diverse consortium that included leading social entrepreneurs, including Grameen Bank; NGOs skilled in the practice of participatory development, such as World Neighbors and Third World Network; thought leaders across academic disciplines, including business strategy, anthropology and design; and a dozen managers from the project's four corporate sponsors, DuPont, S.C. Johnson, Hewlett-Packard and TetraPak.

In 2005, CSGE partnered with S.C. Johnson to pilot-test the process in Kenya. In 2006, DuPont's Solae subsidiary worked closely with CSGE to implement the process in India. Based on more than two years of combined in-field experience by ourselves and a core team that included Duncan Duke (Cornell), Patrick Donohue (Brinq), Justin DeKoszmovszky (S.C. Johnson), Tatiana Thieme (Cambridge University), Michael Gordon (University of Michigan) and Gordon Enk (Partners for Strategic Change), we revised and adapted the protocol to reflect our learnings.

To continue deepening the theory and practice of embedded innovation, we have established a BoP Protocol Learning Network at CSGE that connects project field teams across current protocol project sites in Kenya (S.C. Johnson), India (DuPont/Solae), Mexico (TWI) and the United States (Ascension Health). In addition, we are developing a BoP Protocol Field Guide containing tools, techniques and project management templates.

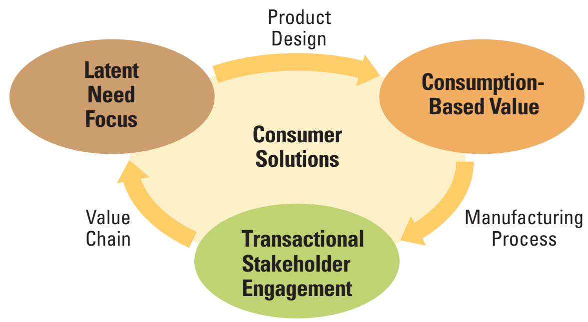
Business model intimacy also catalyzed Grameen Bank's rapid and successful diversification over the past decade into entirely new services and industries, ranging from energy and telecommunications to textiles and fisheries. HLL Shakti, on the other hand, is unlikely to grow into anything more than a new distribution channel.

At its foundation, business model intimacy is a kind of relationship in which the identity of a community is fused with that of a company. The glue that binds this shared identity is a jointly constructed vision of a better life and community — a strategic community intent — anchored around a new business. Because fulfillment of this joint vision is intertwined with the business's success, business model intimacy instills a sense of responsibility in the community for the growth and success of the new enterprise.

Creating business model intimacy requires changing the way value is understood and the manner in which innovation is practiced. It is not about getting close to the customer through "deeper" consumer research strategies, nor is it a question of mass-customizing products and services to match individual tastes. Business model intimacy is, first and foremost, about cocreating a new community from the ground up, with the company embedded in its foundation. Such vibrant ventures are built on dialogue and joint action, not data and delivery times.

STRUCTURAL INNOVATION PARADIGM

Much of today's innovation relies on the SIP that is focused on fulfilling customer needs with one goal in mind: delivering a product or service that is better, faster and cheaper than the customer can get from any competitor. That aim drives any structural changes.



For corporations to generate the long-term, sustainable growth markets of tomorrow, they require a new approach to innovation. This strategy would be based on humility and dialogue — and would ultimately bring corporations together in equal partnership with communities to nurture an embedded form of business.

Separation Anxiety: Market Versus Society

In 1944, economic historian Karl Polanyi observed in his landmark book *The Great Transformation* that the birth of industrial capitalism was based on a radical shift in how people perceived the relationship between the economy and society.[4] Prior to the 1850s, markets were seen as an important but small part of a diverse economic system that was woven into the social fabric of a community. Humans-as-consumers did not exist as a standalone identity or category of thought.

Post-1850s, Polanyi observed, the new concept of "market economy" undid this longstanding relationship: Economic life became *disembedded* from society and viewed as a self-contained system consisting of consumers and their needs awaiting fulfillment by producers. Economics as a field came into existence, borrowing its terms (like equilibrium and elasticity) and core conceptual model (supply equals demand) from physics and mechanics, which relied on a closed-system treatment of energy.

In the new market economy, people were buyers or sellers; relationships became transactions. Everything, including people and the environment, served as a production input subject to the laws of supply and demand. In this new context, social welfare was maximized by getting more goods into the hands of more people. The idea of the mass consumer market was born.

In the ongoing effort to serve this mass consumer, today's corporate growth and innovation strategies continue to reflect and reinforce this disembedded logic. Communities are framed as target markets. Ecological systems are treated as natural resources that supply raw materials. People's aspirations for a better life register as market demand. Selling more products to more people is an internal, technical challenge tackled through increasingly sophisticated forms of consumer research, business reengineering and scientific management. Despite constant advances in innovation practice, this underlying innovation paradigm — which we call "structural innovation" — has remained unchanged since its inception nearly 200 years ago.

More for Less: Structural Innovation Paradigm

The structural innovation paradigm or SIP is based on solving customer problems and needs "better, faster and cheaper" than competitors through structural changes to a company's business system. Structural changes can be incremental, radical or architectural in nature, and can affect the product design, the manufacturing process and/or the value chain. The end goal of these structural changes of the business system is to get less expensive and better-performing products into consumers' hands — the consumer nirvana of better quality at a lower price. SIP is characterized by three attributes: a latent-need focus, consumption-based value and transactional stakeholder engagement. (See "Structural Innovation Paradigm," p. 79.)

SUSTAINABLE INNOVATION

The effects of today's value-maximizing consumer are felt in another system — the earth's ecological systems. As is often noted, it would require three planet Earths to sustain the human race were all people to consume resources at the level of the United States.[i] Despite the introduction of cleaner technologies and widespread corporate greening initiatives, "better, faster, cheaper" consumers erode these gains by consuming more. Automobile fuel efficiency, for example, increased significantly in the late 1990s, but was offset by an increase in passenger miles traveled.[ii] The same rebound effect is visible in other sectors, from water to waste to energy. The gains from "green" structural innovation — while providing critical short-term relief from global warming and other negative environmental trends — will likely be submerged under a rising tide of "red ocean" consumerism. Embedded innovation practices that instill new consumer mind-sets and habits based on a long view of value are a critical complementary long-term strategy to help create the sustainable economies of tomorrow.

Latent Need Focus. SIP is driven by the underlying belief that society has unmet needs and wants — some more pressing and "basic" than others, as in the case of the BoP — that await a solution. The socially legitimate role of corporations is to scratch this constant societal itch by probing and ultimately discovering the product offering and business model that, like a skeleton key, matches up with a consumer need and unlocks the door to the latent market.

Creating this key is not always a clear-cut task, as consumer needs are often tangled up with cultural and psychological factors that make it difficult, sometimes even for consumers themselves, to articulate the problem. There are also cost/quality tradeoffs involved in the research. Anthropological approaches tackle this challenge through grass-roots ethnographic methods that, while time-consuming and costly, provide highly contextualized insights into the behavior patterns of a small group of consumers. Open innovation approaches go the opposite route, betting on the power of "crowd wisdom" to come up with the correct key.

Consumption-Based Value. With SIP, companies see themselves as competing for customers on the basis of the value contained within products and services, where value is judged by economically rational consumers as a ratio of product quality to price. Products and services are the vehicles that aggregate value generated across a company's network of operations (its value chain) in order to make it available to society. Value is released and experienced when customers consume these end products — hence, the terms customers and consumers are used interchangeably.

Conventional strategic wisdom reinforces this consumption-centric value perspective with generic strategies falling into one of two main camps: cost leadership (lowest price) or differentiation (highest perceived quality). Under a cost leadership strategy, innovation efforts target new sources of production and operational efficiency; within a differentiation strategy, a company's marketing and R&D departments drive the innovation agenda.

Transactional Stakeholder Engagement. With SIP, a company's external stakeholders are engaged for the purpose of accessing knowledge, resources and capabilities that lie outside of the company and that can enable it to create "better, faster and cheaper" customer solutions. Knowledge gaps include information and insights into consumer functionality needs. Resource gaps include tangibles such as new technologies and distribution networks, and intangibles like social capital and trust. Capability gaps can be internally oriented, such as efficient supply chain management, or externally oriented, such as managing government contracts.

The nature of the chasm to be filled shapes the nature of the stakeholder engagement. Gaps involving complex capabilities and intangible or tacit resources that are hard to separate from the stakeholder such as social capital and local trust — require intensive, face-to-face collaboration and partnerships. For example, HLL's engagement with local nongovernmental organizations in the Shakti project required close partnerships, as successfully recruiting Shakti entrepreneurs required having trust and good standing with the rural self-help groups. Gaps that involve knowledge and resources that are easily traded and separated from the stakeholder — such as consumer preferences or technology — can be acquired through more arm's-length and impersonal means, such as customer focus groups and technology licensing. Either way, the relationship with stakeholders is transactional in character — each part gives something and receives something in return.

Because of structural innovation's ruthless focus on "giving more for less," corporations have created a level of material comfort in the industrialized world unimaginable at the turn of the 19th century. Homes are bigger, computers are ubiquitous, cars and trucks proliferate. Americans considered middle class in the early 1900s would fall below the U.S. government's current poverty threshold. The producer side of the equation has also profited — structural innovation has generated tremendous corporate wealth. Producer and consumer have been in a symbiotic relationship — until now.

Where Structural Innovation Crumbles

When companies apply structural innovation — either in the BoP or in traditional consumer markets — the process leads to outcomes that push companies into short-term value capture strategies. One reason for this outcome is that all companies have reached a high level of proficiency in managing innovation, and additional efforts yield diminishing returns. As a recent editorial

opined, "The paradox about innovation is that there's nothing new about it — about the process that is. It happens in cycles, there are proven means of doing it well, and there are well-trodden ways in which to do it wrong."[5] Structural innovation is becoming a baseline capability necessary for achieving competitive parity in the marketplace.

But there is a second, more subtle force that drives this dynamic: SIP instills the same "better, faster, cheaper" mind-set in the company's stakeholders, thereby fostering rational, value-maximizing behavior that undermines commitment to the company and its products. Consider again HLL's Shakti business in which rural women villagers are recruited for door-to-door sales. Shakti represents a unique case, as the project's stakeholders — poor, rural villagers in India — are arguably "unspoiled" by companies competing for a share of their mind and wallets. But in other circumstances, stakeholders would be pushing the company to keep picking up steam.

HLL currently supplies the Shakti ladies with its products packaged in single-use servings (sachets). It would make more sense to provide bulk products that the Shakti women could repackage on site. Doing so would carry multiple benefits, including lowering the product cost to the customer; allowing the women to contribute more value to the final product and thereby command a greater share of the returns; and reducing the growing mountain of sachet packaging waste that has invaded the Indian subcontinent. (For more on the environmental impact, see "Sustainable Innovation.") Yet HLL has been unable to make this seemingly simple change to the business model out of concern that the Shakti saleswomen will adulterate the product and harm the company's brand. *But this concern exists only because there is an absence of shared commitment between HLL and the women partners.* Reciprocity extends only so far as the legal contract that defines their partnership.

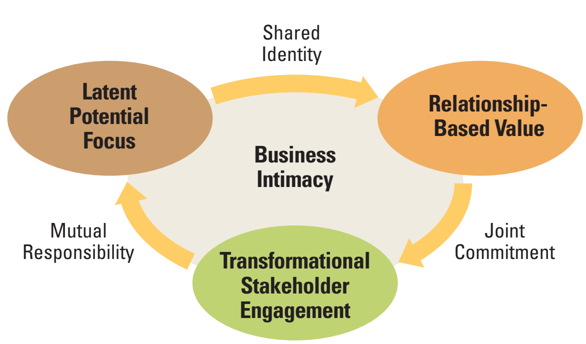
Lack of shared commitment has also made scaling up an arduous, costly process. One of the most significant challenges has been high turnover rates among the Shakti entrepreneurs — which have been as high as 50% within a few months. The problem? If the Shakti entrepreneurs cannot generate a desired income after a few months of door-to-door sales, they leave the project for other opportunities. As contractors, the Shakti saleswomen have no reason to invest any sweat equity into realizing a longer-term vision. Structural innovation has turned women into self-interested partners, focused on maximizing their own value. HLL is simply getting back what it put in.

Structural innovation causes the same dynamic at the customer level. By engaging customers as value-maximizing consumers, customers end up embodying this very trait. When a less expensive knockoff surfaces — legal or otherwise — a company can only watch powerlessly as customers switch to the other product. HLL has been on both sides of this dynamic with its detergent business in India. During the 1990s, HLL's competitor Nirma Ltd. siphoned away HLL's customers in the higher-end urban segment with a less expensive product offering. HLL promptly countered with its own structural innovation strategy: It launched a new brand, Wheel, which undercut Nirma's offering in the low end of the urban consumer market. But HLL's gains with Wheel eventually led to ongoing competition, which included a price war with Procter & Gamble Co. in 2003. Interestingly, stalled top-line growth and declining profits driven by this cutthroat competition in its core urban markets was a key factor behind HLL's decision to launch Project Shakti.

Structural innovation, then, although familiar and comfortable, sows the seeds of its own demise. Turning out the next generation of products and

EMBEDDED INNOVATION PARADIGM

By becoming embedded, companies and communities can jointly build a new, shared identity. That closeness and mutual commitment to one another constitutes business intimacy, which becomes a source of value — and a barrier to competitors.



reconfiguring business models are vital for holding onto market positions and sustaining revenues. But the company's competitive positions will remain tenuous, and the innovation treadmill will ratchet up a notch. Out of strategic necessity, the corporation's objective becomes selling as much as it can, and doing it quickly.

Embedded Innovation Paradigm

To create long-term, sustainable wellsprings of growth, companies must step outside of a structural innovation paradigm and re-embed consumers and producers back into society. With the embedded innovation paradigm or EIP, innovation entails the creation of new communities, where "community" consists of diverse people working together to create and sustain interdependent lives. Innovation isn't enabled by new relationships, it is the relationship.

EIP consists of three core attributes: latent potential focus, relationship-based value and transformational stakeholder engagement. The strategic intent is to establish a durable base of competitive advantage through business model intimacy. (See "Embedded Innovation Paradigm.")

Latent Potential Focus. EIP is driven by the underlying belief that a latent potential exists within today's diverse economies, formal and otherwise, for generating an infinite number of new varieties and forms of business enterprise and markets. The socially legitimate role of corporations is to stir the economic pot continually, creating an ever-expanding range of opportunities for people to participate in economies on terms meaningful to them. Expansion, rather than solution, is the name of the game.

Latent economic potential, like energy, infuses all parts of people's lives. Accessing and releasing this potential — much like opening new, alternative sources of energy — requires ongoing exploration, engagement and experimentation with as diverse and wide an array of people and life situations as possible. Just as new energy sources can be found in winds sweeping across the Atlantic or in the photosynthetic process in a plant cell, powerful sources of new economic potential are as likely to be found in an Indian village household as they are in university research labs.

Relationship-Based Value. With EIP, value resides in the community of relationships that give shape to people's identities and sense of belonging. Relationships between people, places and things create the context from which community members define themselves and create their aspirations.

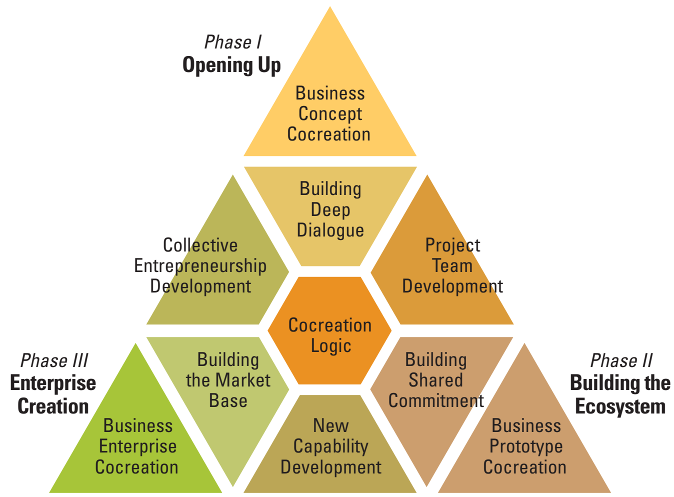
Becoming part of a new community allows people to reinvent themselves; it makes it possible for them to have a different vision of the future. A powerful example of this is found in the United States Armed Forces recruitment campaigns, which highlight that joining the military community brings more than "just a job" — it develops values of fraternity and excellence, it presents opportunities to learn and grow and experience. New communities offer new ways of life, new adventures.

Transformational Stakeholder Engagement. With EIP, stakeholder engagement is a transformative process that actively creates new stakeholder behavior, habits and identities necessary for realizing a new enterprise and strategic community intent. Engagement is a personal change process that instills responsibility and commitment in business partners, breeds dedicated customers and creates an ecosystem of people and institutions that embrace the enterprise's values. It makes a new way of thinking and acting natural and second nature.

The kind of personal change targeted in stakeholders shapes the nature of the engagement process. Changes involving people's identities and their underlying system of values require sustained

THE BoP PROTOCOL

In the base of pyramid protocol, the joint creation of a business concept is at the top, but its roots run deep. Incubation proceeds in phases that require such skills as deep listening, cocreation and codesign of a business that generates mutual value.



collaboration and action learning to allow the new identity to sink in and integrate itself into a person's life. For example, Grameen Bank's women owner/borrowers are organized in self-managed lending circles and connected to other such groups to help create sustained support for becoming successful entrepreneurs. Changes entailing habits and routines that are less consequential can be accomplished with more indirect approaches, such as social marketing strategies.

The Business Case

Consider the case of the Mondragón Corporación Cooperativa of Spain. Founded in 1956 as a small producer of cooking stoves, MCC today is a global business group comprised of approximately 264 companies with more than 100,000 employees operating in the manufacturing, retail and financial sectors.[6] MCC operates 12 applied research centers in areas like photovoltaics and nanotechnology. Its training arm includes the University of Mondragón, a prestigious private university satisfying the needs of local companies that has approximately 4,000 students seeking degrees. Revenues in 2007 for the manufacturing and retail businesses — which include the production of automobile parts, electronic components and white goods, and the retailing and distribution of consumer products, food and appliances — reached $17 billion. The company's financial division has more than $16 billion of administered assets.

Like the Grameen family of businesses, MCC emerged as an expression of a shared vision created by Father José María Arizmendiarrieta and residents of the town of Mondragón. MCC was both the catalyst for and the result of a new community.

Sent to Mondragón in 1941 by his bishop, Father José María began teaching about values and principles of cooperation at the apprentice school of a local factory. Father José María worked tirelessly with the young people of Mondragón, organizing sporting, cultural and educational activities. To serve the community more broadly (the apprentice school admitted primarily children of employees), he started a community-run training school with the active involvement and support of 600 residents. In time, a group of the school's graduates felt compelled to put into practice the cooperative vision and entrepreneurial values that had spread across the community.

Ultimately, the group appealed to and received support from more than 100 members of Mondragón's community to establish a new company. The resulting cooking stove venture, which opened with 24 worker-members in 1954, was a success. To catalyze other such cooperative ventures, Father José María helped establish in Mondragón today's equivalent of a credit union that channeled the community's savings into the development of new local businesses.

The school, the cooking stove company and the bank were all part of an embedded innovation approach that became cornerstones for a new community. The innovation process underlying MCC helped propel a social movement centered on a vision of cooperative entrepreneurship. The growth of MCC could not be held back — any more than it could be planned out.

As Grameen and Mondragón demonstrate, embedded innovation and business intimacy represent a new dimension of value creation that shifts the foundation on which competitive advantage is built. In the near term, it dissuades entry by counterfeiters and low-cost knockoffs by acting as a "Neighborhood Watch" that self-polices the community against companies entering to tap into the new market. The communities in which Grameen operates, for example, refer to the bank's workers as "sisters" and "brothers." Sisters and brothers are not likely to be replaced simply because a "better offer" comes along. Over the long term, business intimacy creates a locally responsive platform from which the business can be propagated in other communities.

Members of the communities in which Grameen operates refer to the bank's workers as "sisters" and "brothers." Sisters and brothers are not likely to be replaced when a "better offer" comes along. The community acts as a "Neighborhood Watch," dissuading entry by counterfeiters and low-cost knockoffs.

The experience of Grameenphone is instructive. A spinoff of Grameen Bank, Grameenphone manages a network of "Phone Lady" entrepreneurs in Bangladesh who sell mobile phone services in the villages. Piloted in 1997 in 950 villages, Grameenphone has revenues of nearly $1 billion and net profits approaching $200 million. Not surprisingly, most of the Phone Lady operators have been previous Grameen Bank borrowers, some with decades of experience with the bank. The business intimacy forged by Grameen Bank with communities across Bangladesh was central in propelling the growth of Grameenphone.

Bringing Embedded Innovation Down to Earth

To turn theory into practice, in 2003 we and colleagues in partnership with four corporations — S.C. Johnson, DuPont, TetraPak and Hewlett-Packard — launched an initiative to develop and test an embedded innovation process called the base of the pyramid protocol (or, simply, the protocol). As an embedded innovation process, the protocol brings a company together with a community to conceive, launch and coevolve a new business and a new market in that community. While designed with an eye toward the institutional challenges of developing countries, the process is adaptable to the developed world and is currently being used in the United States by Ascension Health, a $9 billion health care company. The Ascension Health project, launched in Flint, Michigan, in 2008, is operated out of the company's transformational development division, an R&D-style team dedicated to incubating alternative business approaches to building healthy communities.

The protocol consists of three interdependent phases of activity that take approximately three years to complete. (See "The BoP Protocol," p. 83.) The three phases include:

Phase I: Opening Up — Phase I begins with a company immersion in the community using home stays to build personal rapport and trust, and it culminates with the cocreation of a business concept together with a core team of community partners. The output is an actionable, cocreated business concept and local market "buzz."

CURRENT BoP PROTOCOL PROJECTS

S.C. Johnson (Kenya)
- Project launched in 2005
- Latrine cleaning business that integrates SCJ consumer products
- Micro-franchise business structure with approximately 35 micro-entrepreneur partners
- Business generating revenues and serving six slums across Nairobi

DuPont/Solae (India)
- Project launched in 2006
- Food and cooking businesses that integrate Solae's soy protein
- Cooperative business structure with approximately 15 women owners in each of three separate businesses
- Businesses approaching financial sustainability and serving one village cluster and two slums

The Water Initiative (Mexico)
- Project launched in 2008
- Community health and greening business concept that integrates TWI's water capabilities
- 25 community partners
- Phase II activities launched

Ascension Health (USA)
- Project launched in 2008
- Neighborhood-based "health" and community revitalization business concept
- 18 community partners
- Phase II activities launched

Phase II: Building the Ecosystem — Phase II begins formalizing a new business organization with the core partners and creates an initial brand and product/service offering through intensive action learning that engages the wider community. The output is a community-tested business prototype and local market champions.

Phase III: Enterprise Creation — In Phase III, the company and core partners reach out to an even broader community segment with action learning and small-scale tests to evolve a working business model and build local management capacity sufficient to manage and grow the business independently. The output is a locally embedded business and a committed local market.

The outputs of the process include a self-managed, financially sustainable community business; a proven business model that integrates the company's products and capabilities; and a "seed" market. Together, these form a platform for scaling the venture out to new communities.

Four companies have launched BoP protocol initiatives. (See "Current BoP Protocol Projects.") The first project was initiated in 2005 in Nairobi, Kenya, by consumer products multinational S.C. Johnson & Son Inc. In 2006, Solae LLC, an E.I. du Pont de Nemours and Co. subsidiary in the food and nutrition industry, launched initiatives in a village and an urban slum in India. In addition to Ascension's fledgling effort in Michigan, another new protocol project was launched in 2008 in Mexico by a new venture called The Water Initiative. Learnings from the first three years of the projects are reflected in a fully revised and updated process model.[7]

Rising Interest and Implications

Embedded innovation is not an innovation panacea, nor a replacement for structural innovation. Rather, it is a powerful complement with a unique value proposition. Structural innovation enables companies to stay competitive in the marketplace *today*, and to respond quickly to competitors. Better products also create important value for consumers and society. But structural innovation has limits. It tethers corporations to an ever-accelerating innovation treadmill from which it is extremely difficult to generate the growth markets of tomorrow. Furthermore, the value-maximizing consumer habits it cultivates are proving more and more environmentally problematic — overconsumption plays a big part in creating many of today's ecological challenges, from global warming to loss of biodiversity.

Embedded innovation picks up where structural innovation leaves off. While it requires more time — though not necessarily more money, as Grameen and MCC demonstrate — to build a foundation of business model intimacy, embedded innovation creates a unique platform for long-term growth and corporate renewal. These are vital components of every company's portfolio of innovation investments, particularly in today's age of shifting industry boundaries, technological discontinuities and escalating global competition.

Embedded innovation opens new horizons of opportunity for both companies and society. Seizing these new opportunities will require a new corporate practice and competence based on dialogue and facilitation, on openness to learning and experimentation, and a constant exercise of humility. As that sensibility spreads, pioneering Grameen Bank will be the one that deserves the credit.

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6. For more information on the history of Mondragón, see W.F. Whyte and K.K. Whyte, "Making Mondragón: The Growth and Dynamics of the Mondragón Cooperative Complex" (Ithaca, New York: Cornell University Press, 1988).

7. For a detailed explanation of the BoP Protocol process, along with examples from the DuPont and S.C. Johnson initiatives, see E. Simanis and S. Hart, "The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy," 2nd ed., 2008, www.johnson.cornell.edu/sge/research/bop_protocol.html. A BoP Protocol Field Guide outlining specific tools and techniques will be completed in 2009.

i. M. Wackernagel and W. Rees, "Our Ecological Footprint: Reducing Human Impact on the Earth" (Gabriola Island, British Columbia: New Society Publishers, 1996).

ii. A. Sawhney, "The New Face of Environmental Management in India" (Aldershot, United Kingdom: Ashgate Publishing, 2004).

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