An interview with Stuart L. Hart

Interview by Sarah Powell

Stuart Hart is the S.C. Johnson Chair of Sustainable Global Enterprise and Professor of Management at Cornell University's Johnson School of Management. Before joining Cornell in 2003, he was the Hans Zulliger Distinguished Professor of Sustainable Enterprise and Professor of Strategic Management at the University of North Carolina's Kenan-Flagler Business School, where he founded the Center for Sustainable Enterprise and the Base of the Pyramid Learning Laboratory.

Professor Hart is one of the world’s top authorities on the implications of sustainable development and environmentalism for business strategy. His seminal article ‘Beyond Greening: Strategies for a Sustainable World’ won the McKinsey Award for Best Article in Harvard Business Review in 1997 and helped launch the movement for corporate sustainability. With C.K. Prahalad, Hart wrote the path-breaking 2002 article ‘The Fortune at the Bottom of the Pyramid’, which provided the first articulation of how business could profitably serve the needs of the four billion people living in poverty in the developing world. His most recent book, Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World’s Most Difficult Problems, shows how companies can become the catalyst for a truly sustainable form of global development – and profit in the process.

Stuart Hart has consulted or served as management educator for numerous organizations including ABN AMRO, Abbott Laboratories, BP-Amoco, Dow Chemical, DuPont, Ford Motor Company, General Electric, Johnson & Johnson, 3M, Monsanto, Philip Morris, Procter & Gamble, S.C. Johnson & Sons, Shell, Tetra Pak, Unilever, the US Environmental Protection Agency and the World Resources Institute.

Your book Capitalism at the Crossroads highlights the failings of global capitalism and the growing gap between the richest and poorest. It urges a radical change in how multinational corporations target developing countries, proposing that they can be ‘a catalyst for a truly sustainable form of global development’, solving social and environmental problems while prospering in the process. Is business signing up to this approach and was 9/11 in any way a catalyst for this kind of thinking?

Stuart Hart:

The events of 9/11 certainly were a catalyst for the bottom of the pyramid work. I can state that factually because it was in 1998 that C.K. Prahalad and I were writing the original article that came to be called ‘The Fortune at the Bottom of the Pyramid’, and at the time there was absolutely no interest in it. We were roundly rejected by Harvard Business Review and all the other publications to which we submitted it. Consequently it became a sort of underground paper over the net; companies then began to get interested. But there’s no question that 9/11 had an impact because in the immediate aftermath we were approached by Strategy & Business which wanted to publish it in a special issue on security and sustainability. This was published in January 2002, since when interest has grown considerably.

Business-led development initiatives would suggest a very substantial learning curve for MNCs in terms of researching, understanding and adapting to developing markets to identify and respond to local needs and requirements. How are MNCs to acquire the crucial ‘native capability’ you highlight?

Stuart Hart:

This is something we could discuss for hours. It has been the focus of a project – the base of the pyramid or BOP protocol – that we’ve been working on for the past two or three years. We have been doing this through the Pyramid Learning Laboratory which we launched about six years ago. This is a consortium of large corporations, smaller entrepreneurial firms and NGOs. Members meet periodically to share...
experience and we have an applied research platform focused on the base of the pyramid.

The acquisition of ‘native capability’ is a new capability, and the need for a new business process for this is the origin of the idea of the BOP protocol. We spent about a year trying to identify all the work that could contribute, focusing on a range of techniques in different fields that had a bearing on this. We then brought in the leading proponents, developers, practitioners, academics and people from the NGO world who were active in the base of the pyramid space – groups such as the Third World Network and ApproTEC – and representatives of corporations. The four corporate sponsors are DuPont, S.C. Johnson, Hewlett Packard and Tetra Pak.

In 2004 we convened a 4½-day workshop, bringing together a group of about 40 people from all over the world including anthropologists, environmentalists, rural development experts, business people and NGO representatives. The workshop and subsequent work on its findings resulted in the design of a core structure for the pyramid protocol.

Last year, together with S.C. Johnson, we pilot-tested the protocol in Kenya in both a rural and a shantytown environment. This resulted in S.C. Johnson investing in a new venture to co-create one or more new businesses in a way that builds trust. The first phase is a non-commercial engagement. It involves immersion through homestays enabling deep listening. It is not about trying to sell anybody anything; it is about identifying and truly understanding people's real needs and aspirations, and then co-creating products and businesses and developing the business model locally. The BOP protocol is in effect an organized process for new capability development.

Harvard Business School Professor Emeritus George C. Lodge has called for a ‘world development corporation’ to help business, government and non-governmental organizations collaborate more effectively to ease global poverty. He envisages a for-profit organization that would create sustainable improvements in impoverished countries. Do you see a role for such an organization?

Stuart Hart:

Absolutely. I would say that eco-efficiency is now mainstream practice in multinationals. As I mention in my book, it all really started in the 1980s when there was a fundamental shift in mindset away from the old reactive model. The environmental movement of the 1970s, of which I was a part, had produced the somewhat pernicious side-effect of turning people off what was seen as an end-of-pipe regulatory regime which could only add cost, create liabilities and cause problems. This created a generation of business people who cringed whenever you mentioned the word ‘green’ or ‘environment’ or ‘social’. Coming to view compliance as an opportunity was a revolutionary leap.

“You have described how the greening revolution has promoted realization of the benefits of proactive rather than reactive strategies to combat waste and pollution, while simultaneously reducing costs and risks – and how, effectively, obligations can be seen as opportunities, with constraints driving innovation. Is this changed way of thinking reflected in practice?”

Stuart Hart:

Some months ago I was a participant in a conference on business and poverty sponsored by Harvard at which George gave a talk about this. He is a very thoughtful guy who has been around a long time and he should be taken seriously. There are elements of the idea of a world development corporation that I think are very good – there is nothing whatsoever wrong with the idea of trying to bring a range of companies together along with NGOs and governments to address this. But where I depart a little from George’s perspective on this is that it looks a little like yet another top-down initiative. It’s difficult for me to see how a group of executives from multinationals and government people can sit on high and decide what are the most important things to fund in the developing world. It rather smacks of the UN model which has not worked particularly well.

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The change in mindset was in fact the result of a phenomenon of the 1980s, which saw the coming together of the environmental and social movements with the quality movement. The quality revolution taught us that you can have high quality and low cost at the same time. It’s the same counter-intuitive logic that applies here, i.e. that you can reduce waste and pollution and lower costs and risk at the same time. That was the greening revolution and that’s what really made all of this legitimate in business.
If business is to take the lead in aiming to improve the lives of the world’s poorest and share the gains of globalization, should it not also have a major political role to play alongside NGOs in bringing pressure on western governments to introduce more equitable trade practices – even though this will in many cases play against its commercial interests?

Stuart Hart:

The short answer is yes, and I think we have already begun to see this happen. Some corporate leaders are speaking out, not only about trade practices, but also about public policy in general.

In the past lobbying was seen as a self-serving, self-protective activity where a bunch of lawyers spent every waking hour trying to make sure that the existing advantage that the firm enjoyed was preserved through whatever legislation or public subsidy it could secure. Of course preservation of current position is still very much involved and a core practice in the corporate world, but increasingly what we are seeing is the realization by firms that many public policies are, in the long run, detrimental to their wellbeing.

While companies still seek to preserve their current advantages, the good ones also realize that reinvention, leapfrogging, the whole idea of moving to next-generation technology is inevitable and is happening, and that to a certain extent public policies militate against this movement. We have, for example, seen GE’s Jeff Immelt coming out publicly with Eco Imagination to question the energy policy, trade practice, trade policies and so forth of the USA. That takes a lot of guts. Because many businesses, as you suggest, are indeed aided by other public policies, it becomes very much an issue of weighing the balance between ensuring that government continues to reward well-placed firms, and the danger to these firms’ long-term positions of the perpetuation of certain policies.

Probably the extreme example of that would be the oil industry. Especially in Europe, less so, at least publicly, in the USA, we are seeing the leaders of Shell and BP and others coming out publicly to urge the world’s political leaders, and particularly those of the USA and the EU, to change public policy. Their stance is that, while they will pursue next-generation renewable energy, they need governments to step up to the table and change the policy framework to enable them to get to grips with the threat of climate change.

Such actions are indicative of a trend. We haven’t yet reached the tipping point – but I think we will – and this will see enlightened corporate leaders become the major catalysts of political reform.

Your book envisages both a ‘great leap downward’ in terms of seeking to innovate, create societal value for and market to the four billion people at what you and C.K. Prahalad described as ‘the bottom of the pyramid’, and a sort of ‘leapfrogging’ to introduce disruptive innovation. Will this not in many cases entail costly maintenance and spare parts networks to ensure a new technology remains serviceable, or will these products be designed to be ‘disposable’?

Stuart Hart:

We believe it requires fundamental innovation to be successful at the base of the pyramid. In work on leapfrogging that I’ve done with Clay Christensen, his ideas about disruptive innovation are very relevant. It’s at the base of the pyramid that we’re likely to incubate tomorrow’s technology because it’s so difficult for it to take root in the established mainstream market at the top of the pyramid, which is a well-protected space: there’s considerable institutional inertia and many subsidies that perpetuate the current system, making it very difficult for disruptive technologies to penetrate. There is no such problem at the base of the pyramid.

Turning to your question about potentially costly maintenance and spare parts. You can turn this on its head. What makes the whole base of the pyramid business idea so compelling is precisely the fact that, unlike the aid regime, it requires that there be a continuous ongoing corporate presence. Unlike aid initiatives, this is not a one-off campaign. The commercial model enables establishment of an ongoing commercial presence and sales and service infrastructure. It will of course be a very different-looking one. But increasingly we have ideas as to how to do that, e.g. using micro-entrepreneurs.

When it comes to thinking about products, first-generation strategy would address packaging and here creative thinking will come into play. There might, for example, be a need for single-use purchases for people on low incomes. To avoid creating mountains of spent sachets, companies could design biodegradable packaging or consider ‘servicizing’, i.e. through micro-entrepreneurs, selling products and services without packaging. Such a combination of innovation and continuous commercial progress is what makes the base of the pyramid such a compelling market.

How feasible is it in developing countries to adopt ‘cradle-to-cradle’ life-cycle product...
You draw attention to Helena Norberg-Hodge’s book Ancient Futures: Learning from Ladakh, which documents the way of life of the people of Ladakh and how this was drastically disrupted by ‘development’. In influencing lives in developing countries, to what extent is it also the responsibility of business to monitor outcomes through the prism of natural and cultural diversity?

Stuart Hart:

I believe it’s utterly incumbent on companies to monitor outcomes. To determine the shape of these outcomes should be a joint process. Part of the BOP protocol is jointly identifying success criteria. Some of those success criteria will be issues that are important to the company. Some will be financial, obviously, but they’ll also be environmental, social and cultural. There will be criteria that the company thinks are important, even though local people may not, and that the company will want to monitor. And then there’ll be elements that local people think are important, even if the company may not see these as particularly salient. Both sets of criteria need to be monitored over time. This is very much built into our way of thinking about how to serve the base of the pyramid, so that not only do you co-create the business or the product idea, but you also co-create the criteria for success, and then track them. This enables you to identify unanticipated consequences and deal with them.

You have mentioned in your book Unilever’s substantial research facility in India. Is there a need for companies to establish on-the-ground R&D facilities in the countries they target to ensure an ‘indigenous’ as opposed to an ‘alien’ approach to product development?

Stuart Hart:

It’s a very important first step to have R&D facilities located in proximity to the place of operation. That said, you can still have an R&D facility in India and never really get out to the base of the pyramid. So while having the facility in China or India or Africa is important, this needs to be followed up with protocol-like processes to get people out into those spaces.

In discussing new strategies for profitable growth in developing countries, you propose that MNCs should ‘move past preoccupation with Western-style rule of law and intellectual property protection because these do not exist in the base of the pyramid’. One suggestion you make is that Nike could have chosen to partner with counterfeiters of its products rather than relying on its existing contract factory network when embarking on its World Shoe initiative. Have any such partnerships been forged?

Stuart Hart:

Unconventional partnerships are key to the process in all the companies that we work with. While Nike has not yet partnered with counterfeiters, it has learned a great deal from the World Shoe failure and it is now launching another base of the pyramid venture – with an unconventional partner. The new venture will produce athletic apparel for Muslim women. The only way to make this BOP idea work is to find the right partners on the ground – people who are locally embedded, who really understand, who are trusted and are visible in the space that you’re trying to reach. It will not work if you just go with the ‘usual suspect’ partners from the top of the pyramid. So whether it is the counterfeiters or not probably isn’t that important – what’s important is discovering who the real players are.

In the project we were doing with S.C. Johnson in Kenya, the company had some university relationships and it started with these, but the process is discovery-based. You can’t really know who the appropriate partners are until you get there and spend some time on the ground. What you can say, consistently, is that in whatever country you are talking about, the network or ecosystem of partners that you put together is not
going to look anything like the partnerships that you have been accustomed to dealing with at the top of the pyramid. Whether you’re in India or Kenya or China doesn’t matter – it’s a completely different approach to partnership.

In your book you mention problems of corruption in developing countries. To what extent is it possible for business to bypass officiandom and the need for official sanction to work directly with local entrepreneurs and communities, and what are the problems of corporate governance?

Stuart Hart:

You certainly can go direct and that’s what we’re doing. The protocol work in Kenya was exactly that, as is the protocol work in India with DuPont. We’re on the ground in rural areas and in the slums, and the logic is that you build these businesses from the ground up.

So, are these companies working with government? Yes, sure, but with local government. As the business ramps up and begins to scale out, then of course you may need to deal with governments at provincial, state or national level, but by then you already have considerable momentum. It’s the reverse of the logic of the top of the pyramid where you would typically come in at a large scale to build your manufacturing plant, pipeline or a dam, and have to deal from the outset with higher government bodies. That’s where I think you really fall prey to conventional corruption issues.

In terms of corporate governance, when you’re working in countries where there may be different values, norms of behaviour and practices, it’s a very human process. You treat each other with mutual respect but you don’t compromise. If you’re the company person or one of several company people on the ground working to develop or co-develop with local people, then you never compromise who you are or what your values are. Nor do you expect them to. So it’s a matter of figuring out where there’s shared space to create something of mutual benefit.

If business is seen as singularly equipped to lead Third World development through a new, inclusive capitalism, what should be the role of governmental and non-governmental organizations and private and corporate philanthropy?

Stuart Hart:

It could be a huge role. Until now when talking primarily about government aid agendas, and then how corporations spend their philanthropic dollars, we could sum up by saying that aid money has gone to national governments with the expectation that these governments will exercise their judgement in how they spend this. We know this hasn’t always worked very well and that a large amount of money has disappeared over the years.

NGOs are very important. I agree with George Soros that we ought to be working increasingly with trusted civil society organizations on the ground. That’s where more of this kind of money should go. In this sense government aid could dramatically change the way that it goes about its business, both to empower these NGOs and also to take some of the risk away at the front end for private enterprise. Aid money could make it easier for corporations to do front-end exploratory work.

This kind of work is very new. Only the really innovative companies are willing to take the plunge on this, so governments clearly could help to create incentives for corporations to move in this direction. Some governments are already making moves in this direction. The Dutch government, for example, is very interested in figuring out how it can allocate a significant portion of its $4 billion per annum aid money in a way that best leverages the private sector.

I believe the same is happening in terms of corporate philanthropy. Increasing numbers of large corporations are seeking to move away from the old-fashioned habit of putting money in a foundation and then spending it on things completely unrelated to the company, e.g. supporting a local orchestra or similar. While there is nothing wrong with such initiatives, there is a growing trend for corporate foundations to engage in what we might describe as strategic philanthropy, where what they do is fund activity on the ground. This is not a direct subsidy of the company – that would be illegal – but over time funding activity on the ground could be beneficial to the company, opening up opportunities that it might not otherwise engage in.

A corporate foundation could, for example, fund a protocol-like effort, sponsoring some of its people and local partners such as universities and NGOs to spend time together on the ground. That is bridge-building, relationship-building, getting people out into spaces that they’re unfamiliar with. While it benefits its partners and the NGOs, it also broadens the ‘bandwidth’ of the company people so that when they come back to their ‘day jobs’ they may think a little differently – and it opens up the potential for them to engage in this in a commercial manner.

You have written about initiatives launched by numerous companies including DuPont, Unilever, S.C. Johnson, Grameen Telecom and
Arvind Mills. Are there any examples which closely encapsulate your ideals?

Stuart Hart:

I don’t think there are, but that’s probably only to be expected. This is such new territory that it’s hard to point to an iconic example – all of them have failings on one dimension or another, and all have interesting aspects of success. I look at it as a kind of giant jigsaw puzzle and each one of these cases gives us a few pieces to the puzzle, and plenty to learn from. Things just aren’t that far along yet – especially in the multinationals. You would find the real innovation in some of the most interesting local companies and NGOs – and the multinationals are doing their best to try to learn from them.

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