DOWNSIDE OF CORPORATE PERFORMANCE MANAGEMENT PRACTICES IN LOW-INCOME MARKETS

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Abstract

Based on theoretical literature review, the paper demonstrates the misgiving of market economy corporate performance management practices when applied in poor markets. Western developed management practices are incongruent to serve poor customers in low-income markets. The findings of the literature review are that these management systems are exclusionary and conflict with sustainable development as they reject the poor as unprofitable and worthless to pursue as customers. In addition, they are based on antiquated assumptions and contradict ideologies and cultural contexts of the poor. In recent times, corporates are under pressure to enter low-income markets as developed markets get saturated. The poor are, however, significantly different from the affluent customers obtained in higher income segments. Corporates find themselves poorly equipped to succeed. Because poor markets are only latent, firms are expected to do more in order to create value than they would do when entering developed markets. The paper provides recommendations for the firms from developed markets to adjust their performance management practices in order to be successful in emerging markets.

Keywords: Performance Measurement; Low-Income Markets; Sustainable Value Creation; Traditional Performance Management; Firm Behavior

1. INTRODUCTION

For many years corporates neglected or excluded the low-income segment because of a myriad of constraints or barriers that make it unattractive and hard to capture value (Hahn, 2009; George, et al., 2012; Davidson, 2009). However, saturation and stagnation in higher income market segments is forcing firms to search for new opportunities and innovate in these unchartered markets (Guesalaga & Marshall, 2008; Mason, et al., 2013; Seelos & Mair, 2007; Letelier, et al., 2003; Hart & Milstein, 2003; Chikweche, 2013; Davidson, 2009). For a market that has been artificially invisible to them (Mason, et al., 2013), firms are poorly prepared in terms of their comprehension of poor customers’ needs and how to configure business resources for value creation in a fashion consistent with the context of the poor (Badry, 2009; Anderson, et al., 2010; Pansera & Owen, 2014). Business simply lacks understanding of lives in deep poverty (Ansari, et al., 2012; Banerjee & Duflo, 2007). There is a tendency for business to use only income-based metrics in defining poverty and segmenting markets yet poverty is multidimensional and complex beyond income metrics (Ahmed, 2013; Jha, et al., 2016). These parochial performance management techniques have not been designed to address some of the poverty dimensions. Therefore, while the adoption of performance management systems has been observed to lever business performance in different scenarios, in this distinctive case the performance management systems should be reflective of the lived situation of the poor in order to create, deliver and capture value (GSMA, 2013; Lebas, 1995). That is what businesses approaching poor markets lack.

Most of the traditional performance management models that firms are acquainted to, prove dysfunctional when applied to low-income
markets. These performance management models, most of them either developed in the Western world or for higher income markets are producing disappointing results as the poor are diametrically dissimilar in lifestyle and habits (Badry, 2009; Frear & Faustian-Underdahl, 2011; Agnihotri, 2012; Chikweche, et al., 2012). The models are not designed to start from scratch building products around the poor’s lifestyle, if anything, they are designed to impose Western lifestyles which the poor are not comfortable with (Simanis, 2009). They either suffer the risk of oversimplification or generalization of the complex challenges inherent in low-income markets (Wagner & Faton, 2014a) or take formulaic approaches in place of informality and flexibility in responding to poor market dictates (Wilkes, et al., 2011; Frear & Faustian-Underdahl, 2011; Pulakos & O’Leary, 2011).

In the next section, the incongruences of Western-oriented corporate performance practices in low-income markets will be discussed. Thereafter, a way forward to in devising corporate performance practices responsive to the lived realities of poor people in low-income markets will be offer before conclusions are drawn. Recommendations are made for scholars within low-income markets to pursue studies that can develop performance management congruent to serving the poor in low-income market conditions.

1.1 Western-oriented corporate performance practices in low-income markets

1.1.1 Exclusionary and conflict with sustainable development

Firstly, these market economy models were designed to excluded, eliminate or reject unattractive markets and less profitable customers (Schwittay, 2011). Secondly, dysfunctionality originate from the fact that there is only a latent market at the bottom of the pyramid with no effective demand (Pitta, et al., 2008). Yet these management models are designed to guide businesses entering existing solvent markets (Simanis, 2009). The uniqueness of serving low-income markets is that firms are expected to create their own markets as opposed to simply entering and competing in existing ones (Seelos & Mair, 2007). The requirement for corporate effort to create own market in low-income markets is alien to traditional performance management models, suggesting managers tapping these markets may be equipped with wrong tools (Thompson & MacMillan, 2010). It is therefore evident that traditional performance management tools will not deliver superior performance suggesting that in these environments it is prudent to move away from formulaic approaches and develop robust performance enhancing frameworks matching the market context (Hoque, 2004; Pulakos & O’Leary, 2011).

1.1.2 Approach low-income people as consumers

Corporate performance challenges in low-income markets are further compounded by limited empirical literature that guide managers on the development and deployment of viable performance management frameworks congruent with low-income markets (Badry, 2009). Academia is too lethargic to fill the literature vacuum on strategies for successful entry into poor markets (London & Hart, 2004). Earlier studies around low-income markets have been seized by the imperatives of dismantling capitalism stereotypes and changing old perceptions about serving the poor by identifying the market as a viable place to do business profitably (Prahalad, 2005; Simanis, 2012) at the expense of how to assemble and execute robust strategies that sustainably capture value (Viswanathan, et al., 2010; Subrahmanyan & Gomez-Arias, 2008). While this approach aroused initial business interest especially by multinational corporations, Karnani (2007) vehemently refutes the notion of approaching the poor as consumers as a mirage and unsustainable. At the core of Prahalad and his protagonists is an unconvincing assumption that the poor have a minimum income to exercise effective demand. This blunt assumption is exclusionary of the poorest of the poor who barely survive and struggle to get the most basic to eke a living (Maile, 2013). Instead, Karnani offers a counter approach that is paved by Agnihotri (2012) that proposes incorporating the poor as producers or entrepreneurs in business value chains or employees as an effective way to eradicate poverty. Other scholars concur that Prahalad and Karnani’s theories are only two sides of the same coin with one agenda of ending poverty (Mason, et al., 2013).

1.1.3 Create socio-economic crisis

Today, much of the business drive to establish in poor communities is out of the realization of the realities of the unsustainable tension prone global inequalities created by excessive profit seeking capitalistic behaviour that is facing retribution in the wake of deep-rooted socio-economic and climatic crises it caused and of course the drive to create future growth frontiers (Hahn, 2009; Letelier, et al., 2003; London & Hart, 2004; Thompson & MacMillan, 2010; Hart & Milstein, 2003; Anderson, et al., 2010; Berger, et al., 2011; Simanis & Hart, 2008). The private business sector is more and more realizing the importance of responsible leadership that it is taking a prominent stand towards sustainable development including poverty reduction (Hahn, 2009; Polak & Warwick, 2013; Sesan, et al., 2013; Schuster & Holtbrugge, 2012; Schwittay, 2011; Dolan & Roll, 2013; Ansari, et al., 2012). As business actively take heed of responsible corporate citizenship, there is growing drive for partnerships between the private sector and development actors taking active roles together to find lasting solutions to extreme poverty (Pitta, et al., 2008). While this is a boon for the poor, their curse lies in the perplexing realities of the unremitting causes of their exclusion (Schwittay, 2011). The need to build ‘inclusive capitalist’ business practices is clear (Schwittay, 2011; Ansari, et al., 2012) but the question of how to serve the poor is evasive (Seelos & Mair, 2007). Western models that dominate business practice and literature cannot help either (London & Hart, 2004). The context of the poor contradicts the very foundation on which these theories were developed hence copying Western practices will not improve the poor’s situation (Hahn, 2009). It is apparent that
in such vexing scenarios, the application of responsive performance management and measurement techniques is a critical necessity. For the techniques to be synchronous with the cultures and contexts for impactful business performance they should be developed within and for the environment in which they will be applied. Faced with a limited theoretical base, wholesome localization and customization may be the only viable alternative (Lawrie & Cobbold, 2004; Pandey, 2005; Ohemeng, 2010). Though it may appeal as convenient, the major limitation of localization is the resultant patchwork that may not address all asymmetries or conflicting underpinnings between theory and the new context of its application (Nazeer-Ikeda, 2014; Simanis, 2010). For instance reorienting new organizational cultures prove difficult and time consuming (Zeng & Luo, 2013; Moray, 2004).

1.1.4 Antiquated and cultural misalignment

Cultures and contexts may hinder or elevate the application of performance management systems. Cultural values inherent in a society have profound influence on performance measurement and its associated processes (Hirschman, 2002)(more recent). Studies have shown that models that work in certain context may be rendered useless in others (Gabriel & Kirkwood, 2016). Such cultural and context conflicts are more pronounced in the individualistic Western against community-centered African value systems (Khomba, 2011). On a global scale, performance management is a daunting task even in mature markets as it is easily influenced by accelerated environmental changes in technology, globalization of markets, reduced product life cycle and frugal innovation. Continuous and in recent times rapid environmental changes have led to the development of complex performance management systems that carry trinkets that only increase confusion with little intrinsic value. The challenge is adapting to change with improved measurement tools that contribute to value creation while maintaining the flexibility and dynamism to time changes (Wilkes, et al., 2011; Pulakos & O'Leary, 2011). These challenges among others place the imperative to modify and most importantly advance the design, altogether, of performance management systems that are responsive to contemporary business environment.

1.1.5 Conflicting ideologies and context of the poor

Performance management and measurement is acknowledged for improving business performance. The application of strategic performance management models in business converts vision and corporate strategy into executable performance indicators (Chytas, et al., 2011; Niven, 2005; Cohen, et al., 2008; Bourne, et al., 2002; Saraiva, 2011; Mazambani, 2015; Brudan, 2010; Neely, 2005; Kennerley & Neely, 2002; Hoque, 2014). However, deployment of the right performance management system in a given context cannot be overemphasized (Anderson, et al., 2010; Thompson & MacMillan, 2010). The adoption and implementation of Western designed traditional performance management techniques in emerging low-income markets has been disappointing (DeBusk & Crabtree, 2006; Schneiderman, 1999; Kenny, 2003; Zeng & Luo, 2013; Norreklit, et al., 2006; Khomba, 2011). The propensity to fail of traditional Western developed performance management techniques outside America and continental Europe has been traced to conflicting ideologies (Khomba, et al., 2011; Norreklit, et al., 2006; Zeng & Luo, 2013). It is acknowledged that the foundations of performance management systems, just like any other management techniques, are embedded in the societal ideologies and corporate ecologies in which they are developed (Khomba, et al., 2011). These environmental parameters become inhibitors of these strategy tools outside the context for which they were developed (Roper & Hodari, 2015). Consequentially, managers who are accustomed to these techniques lose sight of any opportunities that do not conform to the judgement techniques and criteria they are used to (Prahalad & Hart, 2002). To this effect the ideological, socio-cultural and business environmental underpinnings under which traditional business models were developed in the market based Western world create implementation challenges in different cultural setups (Bourguignon, et al., 2004; Norreklit, et al., 2006; Zeng & Luo, 2013), more so in the largely humanistic African economies (Khomba, 2011). Barner-Rasmussen, et al. (2007) affirms that there are global practices that may clash directly with local cultures or interests.

1.1.6 Strict focus on financial performance at the expense of social performance

Furthermore, the biggest myopia of the traditional performance management models is their salient assumption of a developed, readymade and profitable customer base as manifesting in the developed world (Norreklit, 2000; Norreklit, 2003; Kirchgeorg & Winn, 2006). The models were developed with the background of a wealthy clientele (Hammond & Prahalad, 2004). They are specifically designed to capture profitable customers while alienating and screening out unprofitable ones (Kaplan & Norton, 2004, p. 112; Kaplan & Norton, 1996). Such performance management systems that over focus on financial performance may fail to hear the voices of poor customers (Stank, et al., 2012). Even in recent studies, Ahmed (2013) uses income-based market segmentation criteria that threatens the inclusion of low-income people without purchasing power into the mainstream economy by instigating that they are non-customers who should be ignored or excluded. These models brutally recommend total avoidance of unprofitable customers. The avoidance assertion is strongly propagated by other Western researchers (Haenlein & Kaplan, 2009) and their associated corporate strategies that recommend the engagement with potential markets, including marginal customers, on the strict basis of profitability (Hall & Lobina, 2007).

1.1.7 Not designed for markets with no ability to pay

Accustomed to these models, Western managers who enter low-income markets miss the greatest opportunity by exclusively targeting pockets of elite
customers that resemble the Western consumer on the basis of income segmentation at the expense of the bigger and fastest growing base of the pyramid market (Prahalad & Lieberthal, 2003; London & Hart, 2004; Cheung & Beldan, 2013; Pedrini, et al., 2016). With this kind of novice business advice, the virgin low-income markets would remain untapped on the fringes of the mainstream economy as capitalism attracts those who can pay and exclude those who lack the means (Schwittay, 2011). They discard non-loyal customers assuming they are unprofitable without qualification (Norreklit, et al., 2012). Inherently, they assume well developed production mechanisms, fluid delivery channels and a knowledgeable affluent market. Yet in contrast, low-income markets are by and large latent, unorganized, underdeveloped and illiterate markets (Ismail, et al., 2012; Prahalad & Hart, 2002; Hall, et al., 2014; Akula, 2008; Anderson, et al., 2010; Ahmed, 2013). The majority of customers have low and intermittent incomes limiting their purchasing power, loyalty and profitability hence risking being screened out. Delivery channels are inaccessible, production techniques are basic and client product knowledge rudimentary (Hammond & Prahalad, 2004). The markets require to be developed before they can sustainably support business (Prahalad & Hart, 2002). Thus implementing the traditional performance management models in low-income markets will be at the expense of less profitable poor people (Schneiderman, 1999), creating social, political, economic and moral risks that slow development (Prahalad & Hart, 2002; Rabbani, et al., 2007; Rabino, 2015).

2. POSSIBLE SOLUTIONS

Against a background of misalignment between traditional corporate performance practices and the social construction of poor markets, a zero-based approach to theory development in low-income markets is promotable as some old theoretical canvases may be too restrictive and inflexible (Polak & Warwick, 2013; Pulakos & O’leary, 2011). Local development of performance management systems increases management’s awareness of the environment and ability to develop responsive strategic options (Johri & Petison, 2008). Consensus is widespread that corporate performance management tools are better adaptable if they are developed within the cultural contexts in which they are consumed (Khomba, 2015). Surprisingly research focusing on the development of performance management tools within the low-income markets especially within the African context is meagre (Dolan & Roll, 2013).

In addition, the full development of performance is inhibited by practices perpetuated by scholars and the rigidity of the developed tools in response to changing circumstances (Epstein, et al., 2010; Frear & Paustian-Underdahl, 2011). The effectiveness of performance management frameworks is weakened by methodical reliance on qualitative studies, culture and contexts; and their complexity and adaptability to change (Burgess, et al., 2007). Methodical deficiencies result in malfunctioning of the instruments developed. Mixed method approaches are promoted in the space of performance management to counter some of the weaknesses of mono-methods. Significant studies have highlighted the benefits of using this research paradigm (Molina-Azorin, 2010). It however remains underutilized in the realm of performance management more so within corporate initiatives in low-income markets.

In counter arguments, Rosenblum, et al., (2003) view such models that instigate avoiding or eliminating unprofitable customers as counterproductive. He rather challenges corporates to design better business models that make money out of the unattractive market segment (Roper & Hodari, 2015). Gummerson’s (2004) is even more advocative and directive in dealing with unprofitable customers. He opines that eliminating unprofitable customers is wasteful, as it is unconstructive and unsustainable. Gummerson’s (2004) advocacy for full utilization of organizational intellectual capital in patienty converting unprofitable clients into profitable ones and Rosenblum, et al., (2003)’s quest for designing better business models to serve unattractive market segments resonate well with contemporary developments in responsible or sustainable development.

As benefits of adopting Western developed management systems fail to meet expectations, the suitability of wholesome importation of Western literature without customization to local context is questionable (Zeng & Luo, 2013; Chikweche, et al., 2012; Chikweche & Fletcher, 2012; Chikweche, 2013). Whilst emerging markets may lack alternative renown models to guide corporate performance, there is consensus the Western developed business performance management techniques are not an option as they carry unnecessarily high risk of failure in local contexts (Zeng & Luo, 2013). To corroborate the above view, Khanna, et al. (2005) also observed that firms that use strategies developed for the local context are likely to achieve exceptional performance in low-income markets than Western practices. Researchers further decry the dearth of evaluative research of performance management tools in emerging markets (Zeng & Luo, 2013; Hoque, 2014). Poor strategy execution continue to hinder company performance as research aimed at enhancing strategy execution is limited in general (Verweire & Van Den Berghe, 2004). Another common handicap is the absence of studies dealing with customization or integration of Western theories with models developed in low-income contexts.

Business has been recast as a social actor that can contribute towards development goals. The question of how can the market work for the poor is more relevant today as business grapple to find workable solutions to poverty. In recent times business has championed proactive solutions to poverty alleviation and other social ills through long-term changes to business practices or models, collaborations and financial market tools. The business community has always been instrumental in developmental issues albeit as an unintentional by-production of the pursuit of wealth maximization. For market-led initiatives to be effective, business must be an intentional actor in redressing social challenges by placing them as part of its strategy and performance outcomes. Indeed Blowfield & Dolan (2014) confirm that business is
aligning itself to pro-poor practices. Consciously and accountably incorporating social goals as part of the organization’s performance outcomes irrevocably places poverty alleviation at the epicentre of strategy formulation, execution and evaluation. The challenge of this pursuit is finding a corporate performance management framework that reduces the trade-off between attaining economic sustainability for the corporate and poverty alleviation for the community (George, et al., 2012).

The pathways to sustainable corporate performance and profitability in low-income markets dictates for a comprehensive customization or localization of traditional business models in order to effectuate them as barometers of performance management in low-income markets or develop from scratch new models reflective of the underpinning sociocultural environments of low-income markets. This study takes the later route in developing a new business model that focuses on the customer perspective performance dimensions critical for sustainable value creation. The approach concurs with Mahajan’s (2011, p. 61) observation in the Indian and African markets where successful businesses designed management practices that resonated with the low-income customers they served.

3. CONCLUSION

In spite of performance management being a possible reliable panacea, traditional Western performance management approaches are inappropriate and challenged in sustaining business performance while alleviating poverty in low-income markets (De Soto, 2000; Stiglitz, 2002; Badry, 2009; Simanis, 2010; Jun, et al., 2013). Context-based performance management frameworks need to be developed to attend to challenges that bedevil sustainable value creation in low-income markets. Poverty is a disequilibrium that causes instability such that management accounting literature, particularly performance management systems, should address aggressively through dynamic performance measurement systems (Gouws & Rehwinkel, 2004). Perhaps it is high time that emerging market scholars critically apply their minds towards developing performance management frameworks that work and address challenges within low-income market environments as opposed to wholesome adoption of Western practices. The African Ubuntu philosophies, for instance, are a rich value system that could be utilized to build durable inclusive markets.

The paper is only a theoretical review that only captures some of the problems of the traditional performance management systems and offering solutions based on the extent of the literature review. While this review points to a gray area in corporate performance management literature in the context of low-income markets its findings are quite generalized. Further studies could look at the evaluation of specific performance management systems in terms of what they lack and how they can be strengthened. Firms need to understand the context of the markets they enter or want to serve. Focusing on studies that unravel the real needs of the poor will help the development of products that are aligned to those needs. Deepening future academic studies to understanding the poor themselves and how business can integrate them to participate in the mainstream can unlock substantial business potential. Business-led poverty solutions require de-learning some of the mainstream economics and business theoretical concepts. This calls for the creation of grounded theory integrated with the poor. Perhaps progressive research methodologies like action research and experimentation can be used in the search for scalable solutions that can address poverty while redesigning the shape of the human society. Along that effort there is need to bring poverty curriculum into the classroom of business students to generate interest in the fight against the exclusion of the poor. The continued exclusion of the poor is totally unsustainable and the use of action research targeting at improving their capabilities can generate incisive solutions to the evade poverty problem. These studies or solutions should target the real poor not the rich of the poor as has been observed in microfinance.

REFERENCES


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