STARTUPS’ RISK MANAGEMENT IN BOP MARKETS

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Tutkimuksessa tavoitteena on tarkastella ilmiöä BOP startupien riskienhallinnan näkökulmasta. Tutkimus hakee vastausta kysymykseen ”kuinka startupit pienentävät riskejä BOP markkinoilla?” Pientäminen on riskienhallintakeinoista vastaus riskeihin, joita on mahdollista kontrolloida tasolle, joka on hyväksyttävä liiketoiminnalle.


Avainsanat: Riskienhallinta, startup, base of the pyramid
The purpose of this thesis is to research the phenomenon of BOP from startups’ risk management point of view. The thesis was discovering an answer to the research question: "How do startups minimize risks in the BOP markets?" Mitigation is a risk treatment that controls the risk in the level that is acceptable for the business.

This thesis is an exploratory research. The theory material was collected from literature and internet sources to find explanations, models, and rules. The theory part includes three parts: the concept of BOP, startup and risk management. BOP market includes almost 4 billion people that live on less than $2 a day. A startup is a young firm whose aim is to grow fast. A business model that fits for the startup makes it possible to reach that aim. The research was focusing on startups that are operating or have operated in the BOP marketplaces. In the risk management section, the thesis studied general risk management and focused more on risk treatment and responses. Material for the empirical research have been collected by qualitative thematic semi-structured interviews in inquiry form. To the research inquiry answered two startups and one organization. Extra material is collected by existing narrative case research, one from the startup and one from the organization.

The results of the empirical research were analyzed by using thematic analyses, and by comparing to the theory part. The themes are the same in the inquiry: risk management and risk treatment. In conclusion, the experience was a significant feature in the BOP marketplaces. A planned risk management strategy has not been considered a priority. For risk treatment, startups have used logical thinking and experience rather than tools and methods to respond to risks. Network, partners and connection to locals were also in a key role when startups are operating in the BOP marketplaces.

Keywords Risk management, startup, base of the pyramid
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# INTRODUCTION

Risks and challenges appear everywhere, whether we are talking about everyday life or the business world (Suominen 2003, 7–9). For example, risk can be related to electricity. A household can face the risk of the rising cost of the electricity, that affects the budget if the household does not have a rising income at the same time. The risk can also be extreme weather, that can be a cause of power breaks. In other cases, the household might live in a country where electricity is available only for a few hours during the day. Or there is no electricity at all. Companies are facing similar risks, focusing more on how the risks affect the business and the safety of the employees when the household considers risks’ effects to themselves (Suominen 2003, 7, 9). Sometimes the risk is necessary to take so that the business can operate. In the electricity example, the electricity might be required for business to run, even if there is a risk that it might break. This can be in the level that it is not every day, or there are ways to reduce the risk when the risk is in the level of acceptance (Hopkin 2012, 224–225). Businesses tend to have a need to consider different kinds of risks. In this thesis the research focuses on the phenomenon of Base of the Pyramid, and startups’ risk management there.

The theory of Base of the Pyramid (later BOP) is based on consumers that live of less than USS2 a day. These consumers are located often in low-income and developing countries (Prahalad 2005, 4). Hence, the BOP market offers a segment to create new products and services with good quality and still an affordable price. This asks new ways of thinking and using limited resources in a sustainable way. The first generation of “finding a fortune” has changed to the second generation of “creating a fortune” mindset when the firms are operating in the BOP (Hart and London 2010). Enterprises in the BOP are expected to offer opportunities to locals as jobs, not only purchased goods (Halme & Kandachar 2017).

Innovation and new ways to do business are familiar characteristics for startups too. Startups aim to select a business model that creates rapid growth. This aim asks to identify a solution, as a product or service or a mix, that is a market-fit (Feinleib 2011; Helaniemi, Kuronen & Väkeväinen 2018, 16–17). The BOP is one segment that can provide opportunities to create ideal business models. However, difficulties and uncertainty can be barriers for entrepreneurs to enter the BOP market. This thesis researches the problem, if a risk management strategy is used by startups to face risks. The theory shows that one of
the keys to success for startups is calculated risks. The focus of the thesis is on risk treatment and methods that firms have found to treat risks in the BOP market. The aim is not to analyze risks but to analyze the output of the risk treatment by searching how entrepreneurs have been treating their risks; and whether they found solutions with or without the planned risk management strategy.

1.1 Background of Research

“The poor are paying more for the everyday products.” This argument started motivating this research idea in 2017. The argument was presented in the materials of a summer course “Business opportunities in developing markets” that viewed the theory of Base of the Pyramid (Prahalad 2005). Prahalad (2005, 11) states that in India, a poorer neighborhood’s citizens tend to pay more for products and services, from rice to credit comparing to the wealthier neighborhood. Mulky (2011, 11) also states in marketing issues of pricing, that “Several studies point out that the poor pay more for the same products which are available at lower prices to consumers in other segments.” While the theory of BOP formed place in the researches, it has had visibility also in news articles and different programs.

According to C. K. Prahalad’s (2005, xiii–xiv) theory of BOP, the BOP market includes people who live of less than $2 per day. When he and Stuart Hart together wrote a working paper “The Strategies for the Bottom of the Pyramid” around 1997, it was found too radical for journals to publish at the time. Nonetheless, Prahalad used several platforms to push the BOP idea, and in 2002, Prahalad published two articles about BOP; “The Fortune at the Bottom of the Pyramid” with Hart in Strategy + Business and “Serve the World’s Poor, Profitably” with Allen Hammond in Harvard Business Review. Also, in 2002, students from UMBS came to Prahalad to offer to work with him with the issues of BOP. Prahalad’s book “The Fortune at the Bottom of the Pyramid; Eradicating poverty through profit” is looking at poverty as a problem to be solved. The book is discovering about NGOs, MNCs large domestic firms, governance agencies, and the people from BOP. After that, BOP has been taken into topics in books, researchers, and publications.

Kolk, Rivera-Santos, and Rufín (2013) view the concept of BOP by researching 104 articles and literature between 1999 and 2009. In their research is shown that most of the articles were focusing on advising companies on strategy and marketing. Some of the
articles criticize the BOP ideas, particularly Aneel Karnani’s work. One group of articles also focused on describing the characteristics of BOP markets. The review showed that articles were found mostly in English, but also in other languages, such as in Portuguese, German, Spanish, and Chinese. About the methods of the articles, researchers found conceptual articles and some numbers with an empirical part. Case studies have been done too. About the countries, most of the articles were coming from a small set of countries, India as a majority. It is noted in the review that industries that are researched were mostly information technologies and communication technologies. Even if the concept of BOP was developed with MNEs in mind, MNEs were not often mentioned in the articles. About the business models, the review points out that people in BOP markets are regarded as consumers.

Multinational corporations are also researched by Omar and Williams (2009). Their research showed the implementation of BOP and Blue Ocean theory to offer opportunities for corporations in the emerging markets. One of the keys to gain opportunities are manageable risks by the researchers. Goyal, Sergi, and Kapoor (2014) wrote an article about strategies to implement socially embedded business models in BOP as a qualitative multi-case based analysis to have a conceptual framework to have a positive socio-economic impact. They implicated the perspectives of theory, management, and policy. A closer look at startups in BOP researched Maley, Mehta, and Perez (2013) in a conference paper, by researching a structured framework for ventures to handle challenges for example, how to design and develop business models. They stated models such make different price products or bait and hook as offering some parts free. Paula Linna’s (2017) dissertation used articles in a case study to search innovating and innovators in BOP. Her study highlights the effect of resource-scarcity and innovators creating opportunities. The dissertation discovered lack of experiences and challenges to adapt unfamiliar environment for western companies more than local entrepreneurs, who have experiences of the BOP.

In Finland, the theory of BOP has been considered in various news articles and programs also. For example, the Business with Impact (BEAM) program is nowadays Business Finland’s program that helps export Finnish solutions to developing countries (Business Finland 2019). Finland Chamber of Commerce reported in 2012 that Finnish businesses lack utilization of the BOP concept (Hyvärinte, 2012). One of the examples of startups that are operating with BOP is Finnish-Kenyan Fuzu. In 2017, the magazine
Tekniikka&Talous published an article about Fuzu, who was selected to the Disrupt 100 list that has the most potential influence to change or create a new global market. Fuzu was in 2017 number 52\textsuperscript{nd} on the list (Lehto, 2017).

Risk management is not often used in the term “risk management” with the BOP concept and startups in the BOP marketplaces. By looking for risk mitigation and risk assessment, researches have found better results. Using a case study, Anupindi, London and Sheth (2010) identify constraints that BOP producers are facing. They highlight the constraints of productivity as raw material, financial and production resources, and transactional constraints as market access, power of market, and market security. Their research focuses on 11 of 64 ventures. The sustainable aspect of solutions in BOP has been researched by Halme and Kandachar (2017) in their book “Sustainability Challenges and Solutions at the Base of the Pyramid: Business, Technology, and the Poor.” They state the goal of sustainable use of natural resources with BOP development by having three approaches: eco-effectiveness, eco-efficiency, and sufficiency. Hart and London (2010) state in their book “Next Generation Business Strategies for the Base of the Pyramid” to change the mindset of “finding fortune at BOP” to “creating a fortune with BOP.” Gupta and Khilji (2013) research in their paper both views: finding fortune at the BOP and creating fortune at the BOP using conventional purchasing power. They also note a long history of the BOP concept, when Franklin D. Roosevelt (1932) talked about “forgotten man at the bottom of the economic pyramid” referring the US’ rural areas’ population as the BOP. In the discussion, they argue NGOs’ ability to prove how to redesign products and services and reach distribution channels. Also, their research is observed MNCs. Munro (2011) researches a case study of Energy for Opportunity Community Charging Station model. The research paper research partnership of for-profit and not-for-profit in the energy field in BOP markets. Munro argues that BOP is one of the challenging markets in the world, with high risk but potential rewards.

The importance of this thesis comes from its topicality. Poverty has decreased worldwide, but almost half of the world population still lives on less than $5.50 a day, and that reflects the poverty line in upper-middle-income groups by the World Bank. $3.20 a day reflects the poverty line in lower-middle-income regions, and $1.90 is considered as extreme poverty. The world’s population is growing and will be over nine billion by 2050, mostly in developing countries. For example, Sub-Saharan countries have the highest number of
people living in extreme poverty and Sub-Saharan Africa is expected to double its population by 2050 (United Nation 2019; World Bank 2018A). The Baseline report of Solutions for Youth Employment Coalition (2015) highlights that 85 percent of the world’s youth are living in lower-income regions and youth is near fourth times more likely to be unemployed than adults (S4YE 2015, 43). The BOP theory is implemented to do business and at the same time alleviate poverty by offering affordable products and services and creating job opportunities.

1.2 Methodology

This thesis is an exploratory research that aims to understand the phenomenon of BOP in the startups’ risk management point of view. According to Hirsjärvi, Remes, and Sajavaara (2013, 138), the purpose of exploratory research is to observe new perspectives to a little-known phenomenon. The aim of the thesis is not to collect numerical data as in quantitative research (Bell, Bryman & Harley 2019, 164), but to describe real-life events through qualitative research (Hirsjärvi, Remes & Sajavaara 2013, 161). The research strategy in the theoretical part of the research is qualitative by reviewing models and explanations of startup, BOP, and risk management. Empirical research aims to qualitatively discover real-life cases of startups’ risk management in BOP marketplaces.

The materials of the theoretical part are collected from literature and published articles. Empirical research materials are collected by using two methods; qualitative semi-structured interviews by research inquiry form and existing documents. According to Holland and Edwards (2013, 29), qualitative interviews are often semi-structured or unstructured to give space for discussion and flexibility. More about empirical research data collecting in chapter 5.

This research is using qualitative thematic analysis (Bernand & Ryan 2000, 780) to analyze and compare results. Identified themes are risk management and risk treatment. The inquiries’ questions are also in the themes, and the same themes continue in the analysis part. The analysis is at the end of chapter 6 Results and Analysis.

1.3 Research Question

The phenomenon of BOP is researched in the thesis from startups’ risk management point of view. The research question for the research problem is:
How do startups minimize risks in BOP markets?

More questions to observe in the thesis are: Do startups use risk management? What kind of treatments have startups found? How do different organizations help startups in BOP?

1.4 Structure of the Thesis

The theory part of the thesis is a review of the literature of a definition of startups, a base of the pyramid market, and risk management. The startup section defines differences between startups, growth firms, and the maturity of the company. The goal for startups is to find fast a solution for a discovered problem and make growth for the firm. Based on the Merriam-Webster Dictionary, a word startup can be spelled “startup” or “start-up.” In this thesis, the used word is spelled “startup.”

The theory of BOP follows the author C. K. Prahalad’s book the Fortune of the Bottom of the Pyramid; Eradicating poverty through profit (2005) to define the theory of the BOP marketplace as it was explained by the author. In this thesis, consumers in the BOP are profiled as people in low-income and developing countries, where the BOP market theoretically exists. The consumers in BOP live on an average of US$2 a day. Also, in a section is observed some frequently appearing risks and challenges that firms are facing in the BOP. The BOP term is used for Base of the Pyramid, but in the literature, BOP is also used for the Bottom of the Pyramid. The list of abbreviations is attached in the thesis (Appendix 3).

The theory of risk management is generally written to build a basic knowledge of risk management by using ISO 31000:2018 Risk Management guideline (ISO 2018) and risk management theories mostly from Hopkin (2012), Chapman (2011), and Suominen (2003). The main focus is on risk treatment and the outputs of the risk treatment process. One of the outputs is risk response, that is explained by reviewing mostly Hopkin’s (2012) published book “Fundamentals of Risk Management: understanding, evaluating and implementing effective risk management” to explain control types to hazard risks, uncertainty risks, and opportunity risks. In the thesis, a closer look for risk management in the BOP market is also taken.

Empirical research includes two different parts: primary and secondary data (Eriksson & Kovalainen 2008, 77). Primary data is collected by inquiries to startups and organizations,
and secondary data is selected from articles of the topic. Results and analysis are shown after the empirical research part. Primary data and secondary data are separated in the results, but analysed together and compared to the theory part. The conclusion includes follow-up questions, validity, reliability, and ethical consideration of this thesis.
The starting point of startups is commonly similar regardless of business sectors. Usually, startups might only have an idea, not a product or service to sell when they are starting. Thus, the startup might be one person with a laptop. The aim is to discover a solution for an existing problem and select a business model, where the solution fits and which makes fast growth possible. Entrepreneurs create something new, which might be information, a product, new ways to deliver a product or service to the consumers. In the end, the startup, that finds the solution for the existing problem the fastest, will be the startup who will win the competition. (Helaniemi, Kuronen & Väkeväinen 2018, 16–18, 24; Ready 2011).

In a way, startups attempt to change some underlying industry assumptions, usually by scaling. Scaling means that entrepreneurs seek growth based on demand without raising the costs for a startup. This frequently signifies a technology or a business model, that allows for reproducibility without recruiting more people or establishing more stores when the product is produced. (Helaniemi, Kuronen & Väkeväinen 2018, 19).

The suitable business model might not be clear at the start. Startups need to endeavor with different models, and in the end, the outcome will manifest if the selected business model worked or not (Helaniemi, Kuronen & Väkeväinen 2018, 79). Startups are required to seek product-market fit, and after that, the step for startups is scaling (Feinleib 2011). DeBaise (2018) states that to succeed, the entrepreneurs in startups commonly have the inspiration to act, risks calculated, and simply a hard-working attitude.

2.1 Startup, Growth, Maturity

Churchill’s and Lewis’s growth model shows the stages of business growth; existence, survival, the success that lead to growth, take-off, and maturity. Management style, the organization itself, and the formality of systems differ in each stage. If the firm decides to leave the business, it usually occurs before or on the success stage (Burns 2016, 296). Entrepreneurs can also choose to sell the company instead of growing by themselves (Kelley & Marram 2010).
When a startup has discovered a business model that the created product or service fits, scaling is usually the next step. The scaling is the stage when the startup starts quickly to grow and become a growth company (Helaniemi, Kuronen & Väkeväinen 2018, 20). Helaniemi, Kuronen & Väkeväinen (2018, 20) cite OECD that growth company has at least ten employees, and in the next three years, employees increase over 20 percent per year. However, the needed number of employees is still less than in traditional firms with the same growth (Helaniemi, Kuronen & Väkeväinen 2018, 20–21).

Different data measures a growth rate in firms, for example, growth of turnover, revenues, employees, customers, or assets. Frequently when the firm cannot grow over ten percent a year, it can be called a maturity company. Thus, over ten percent growth yearly is rare for listed companies. (Hampton 2014; Helaniemi, Kuronen & Väkeväinen 2018, 20–21).

2.2 People

People, as consumers and employees, are usually the key in business. The effective team can be an essential feature in a well-working startup. A highly risky way of working might still make it hard to find potential and skilled employees to start in startups. (Burns 2016, 198–200).

The business needs customers to become successful and acquire growth. The stages for startups customers are launch, take-off, growth, and maturity. In a launching stage, the customer becomes aware of the product or service that the startup offers. In a taking-off
stage, customers consider if the firm’s product/service has delivered the value as promised. The third stage, growth, occur if the values meet customers’ expectations, and they buy again. This stage might need some encouragement. When consumers keep coming back, the startup is reached the fourth stage, maturity. (Burns 2016, 204–205).

2.3 Funding

Capital is required to start and run the business. Entrepreneurs can face unexpected issues that cost money to solve, or the production takes longer, or materials have a higher cost than planned (Ready 2011). The invested money from investors makes it possible for startups to build their business, product, or service, for years without any income (Helaniemi, Kuronen & Väkeväinen 2018, 24).

Helaniemi, Kuronen, and Väkeväinen (2018, 26–27) cite both local and international financier options. In Finland exist publicly founded operator that fund startups’ business, for example, Business Finland and Finnvera. Other possible options for startups to obtain funding are, for instance: venture capital, angel investors, bootstrappeing, pitching, and also some crowdfunding.

2.4 Risks of Startups

Startups have a high failure rate (Burns 2016, 295). In the first five years, even half of the startups fail (Gumbel 2014). Usually, the era for startups is one year; in one year the startup should establish something like a product or service, or enough proof that something is coming, showing possible future growth, or investors might not continue investing in the startup. This pushes startups to establish something fast. Frequently startups update their product or service many times after the start (Helaniemi, Kuronen & Väkeväinen 2018, 25).

Risks for startups might be a lack of customers, not enough revenue to cover costs, competitors with a similar idea (Gumbel 2014). Ready (2011) argues that the hard part of the business is not the building, opening or inventing, but how to connect with customers, communicate out the startup’s values so, in the end, customers buy the offered product or service. The changing world gives the same challenges to startups as traditional firms, too (Helaniemi, Kuronen & Väkeväinen 2018, 120).
The key features of startups to success mostly is time, and who is the fastest team to seek solutions. However, while fast growth is the goal, it can turn against the startup itself. For example, the startup might be able to grow but cannot find the right people to do work when it is needed (Helaniemi, Kuronen & Väkeväinen 2018, 124–125). Ready (2011) states in his guide to “hope for the best but plan for the worst” for startups. Thus, entrepreneurs should plan for positive outcomes for the business, but to be aware of worst-case scenarios. Almost every project and business have events that are known, unknown and unanticipated, or unknown but anticipated.
3 BASE OF THE PYRAMID

This thesis analyzes the marketplace of the Base of the Pyramid, also known as the Bottom of the Pyramid. According to Prahalad (2005, 4), the BOP market is more than 4 billion people, that live less than $2 per day. Hammond, Katz, Kramer, Tran, and Walker (2007, 3) describe that people in BOP have income below $3,000 in purchasing power parity. Hart and London (2010) state that the BOP is challenging to identify precisely because of different characteristics of the countries where BOP exist or has created. The difficulties also appear of discussion of the poverty line, and in PPP’s limitations when it is used as a definition to show the market size. Hart and London (2010) combine works of literature to define that the BOP is “… the low-income socioeconomic segment that is not well-integrated into the formal economy.”

The first focus on BOP was on larger companies and multinational corporations (later MNCs), that have been pioneers in the process of selling products in the BOP market (Hammond et al. 2007, 7; Hart & Prahalad 2002; Karnani 2007). Nowadays, the discussion includes market-based and entrepreneurial activities (Halme & Kandachar 2017). Hart and London (2010) argue that the idea of “finding a fortune” in BOP should be changed to “creating a fortune” with BOP after the first wave of business to emerge to BOP market. This thesis analyzes in empirical research, small foreign enterprises, and startups that are operating or have operated in the BOP market.

When firms are operating in the BOP market, the target is to get a win-win situation by offering opportunities to getaway from poverty for people in BOP markets, and income for the entrepreneurs. One way is to provide jobs for locals, and co-operation with locals when starting a business in the BOP market (Halme & Kandachar 2017). Prahalad (2005, 1) argues that by recognizing people, who live in BOP, as entrepreneurs and value-conscious consumers, not as victims, the business world can find new and innovative opportunities. Most of the BOP consumers appear in developing countries or low-income countries, and the population is growing in these countries (Prahalad 2005, 10; UN 2017; Deveshwar 2010). However, poverty in the world is decreasing (The World Bank 2018B), when at the same time the gap between poor and rich is increasing (Hart & Prahalad 2002; Kennedy & Novogratz 2010).
Figure 2. The economic pyramid in 2005. Source: Prahalad 2005, 4.

For example, nine countries, China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand, that are home to about 3 billion people, in PPP terms this group’s GDP is $12.5 trillion, that is 90 percent of the developing countries (Prahalad 2005, 10). PPP stands for purchasing power parity, and it compares countries’ currencies with the economic theory of “a basket of goods.” PPP calculates, how much currency units are needed to fill a basket of the same goods in different countries. This is based on the theory of “law of the same price” (Hall 2019; International Comparison Program 2017).

Non-governmental organizations (later NGOs) have experience from a grassroots level of BOP markets. Co-Operating between networks can generate a supporting business ecosystem. Business network and NGOs are usually motivated to assist firms in BOP areas. The successful collaboration between different organizations and NGOs and firms commonly gains value. (Prahalad 2005, 32, 41; Hammond 2010).
3.1 BOP Market Consumers

According to Prahalad (2005, 21), the BOP markets’ potential is huge, 4 to 5 billion consumers, who are mostly brand-conscious and value-conscious. The expectation is to receive high quality with the price the potential BOP consumers can afford. This is a challenge for entrepreneurs to produce products that are good quality with low cost (Prahalad 2005, 14). However, the theory of BOP has obtained criticism too. Karnani (2007) argues that the BOP market is smaller than Prahalad has stated and unlikely to be profitable. Companies tend to fail when they are overestimating the BOP market and purchasing power in there.

BOP consumers encounter similar features, for example, unmet needs, livelihood problems and many of BOP consumers pay more for a basic, but lower quality goods than maybe wealthier consumers (Hammond et al. 2007, 4–5). Prahalad (2005, 18) describes the capacity of BOP to consume with three As: affordability, access, and availability. The quality should not deteriorate with a lower price or being as a single-serve package to the consumers. Also, consumers in the BOP market usually have to work from very early of the day to very late, so the stores should not close too early that the potential consumers cannot access them after their work. Frequently the BOP consumers’ decision to buy is based on the money that is on hand at that moment. Availability is one of the critical factors when serving the BOP potential consumers.

One factor when doing business in the BOP market is to educate the customers. Prahalad (2005, 40–41) gives an example of a soap. The product is in a market, but the barrier might be, that consumers do not know the benefit of using soap. Therefore, the firm itself is in a pivotal position to educate potential consumers to understand why and how to use their products. Also, in addition to offering fitting services and products to BOP consumers, the option to decrease poverty is to provide jobs with reasonable wages. However, many people work and are still under the poverty line (Karnani 2007).

3.2 Innovation in BOP

Marketplaces in BOP differ from the Top of the Pyramid. Kennedy and Novogratz (2010) underline five different factors of BOP: many needs that are unaddressed, such as clean water or health care, deficient infrastructures, corruption, lower purchasing power, and lower equity capital. The BOP offers an opportunity for growth, but it needs innovation.
Traditional processes, products, and services usually do not work in the BOP market. Furthermore, BOP marketplaces also can be a lack of facilities what is needed to manufacture traditional products (Prahalad 2005, 21, 23).

People in the BOP market often lives near ecosystems and get livelihoods from forests and seas. They are also groups that face adverse effects of changes in climate, like floods and hurricanes, and often, they do not have enough protection (Halme & Kandachar 2017). Innovations should be eco-friendly, to be sustainable with a large number of consumers. If all countries could waste the same as developed countries, it will cause more problems, for example, with garbage and pollutions (Prahalad 2005, 33). However, Halme and Kandachar (2017) state that there has not been much evaluation of the environmental impact of firms that are operating in BOP markets.

Kennedy and Novogratz (2010) give four examples of innovations that they have discovered to be keys to ventures to success in BOP:

“Introducing radical cost reduction in some value activity
Building a BoP-centric management team […]
Implementing human-centric design thinking to products and services
Establishing trust with the BoP in order to create and grow the market”

Kim and Mauborgne’s theory of Blue Ocean Strategy (later BOS) could be implemented to innovations and new ways of thinking in the BOP market. BOS stands to identify new marketplaces, exploit new demands, and the idea of low cost as well as differentiation in products (Dr. Bates & McGrath 2017). Kim and Mauborgne (2005, 12–13) state that blue ocean creators do not use competition as a benchmark. Instead, the focus is to create value to company and buyers. So-called value innovation, that occurs when companies innovate positions of utility, cost, and price. Like any strategy, BOS is not riskless. Thus, risk minimization should be an interest in BOS. The challenge can be creating blue oceans and recognition of the possibilities that exist. (Kim & Mauborgne 2005, 19, 23, 47).

3.3 BOP Challenges

By comparing urban and rural areas, the urban areas in developing countries are growing fast and gather the poor in the cities. Nonetheless, BOP markets usually appear in a rural area (Hammond et al. 2007, 3) and the challenges in the rural areas are often different
than in urban areas. Most of the rural areas do not have access to radio and television signals, distribution is problematic, with a lack of knowing where to find or how to use new technology. BOP markets also face challenges of corruption and low education (Boxenbaum & Olsen 2009; Prahalad 2005, 12–13; Smith & Vachani 2010, 269–276). Smith and Vachani (2010, 269) argue that rural markets in developing countries are mostly disregarded.

Faivre-Tavignot (2015, 35) list external and internal threats that occur when MNCs are operating in the BOP. External threats can be, for example, failure in infrastructures like roads and communication, lack of property rights, rapid changes in legislation, the rareness of statistical data. Some internal threats can be the managerial way to do business, that does not fit the country where the firm is operating. Consumers’ habits and culture can differ radically from the state of the firm’s origin. Organizations’ internal barriers can be a challenge to bring ideas to action in the BOP market (Boxenbaum & Olsen 2009).

Traditionally the BOP consumers and larger firms have not trusted each other (Prahalad 2005, 20). Local social norms and family links tend to be tight, and MNCs do not have control of it (Faivre-Tavignot 2015, 35). Holtbrügge and Schuster (2011) found in their research, that to face the challenges in the BOP market, a selected company Allianz searched partners, that already had experiences of BOP market and consumers. Education showed to be one way to build trust between the company and its partners. Also, the second company that Holtbrügge and Schuster (2011) observed, Unilever, faced challenges as expensive products and distribution in the BOP market. As a solution, Unilever created new strategies of marketing for the BOP market, including the size of the products.

Challenges in BOP can also occur in collaboration with NGOs. NGOs have competition between different NGOs just as for-profit businesses. The competition is often about resources and reputation. Moreover, enterprises should understand the differences between NGOs; when one NGO can present connections, then the other NGO might have the resources that are required. (London 2015, 171–172).

London (2010) offers a “roadmap” and three stages for ventures in the BOP to success: designing, piloting and scaling. Managers should start with designing based on creating market opportunities within the BOP, that will follow by piloting experiments and failure
management. The last stage, scaling, includes steps to create co-mingled competitive advantage and social embeddedness, leverage, and also transfer. However, the roadmap is not always linear, but it is possible to go a different direction.

**Figure 3.** A roadmap and seven key principles. Source: London 2010.

The piloting stage includes failure management. In different cases, failure might cause more knowledge than success. London (2010) suggests venture teams develop metrics to support the trial-and-error process in the business. Thus, it is needed to invest, that allows a learning experience (London 2015, 35).
4 RISK MANAGEMENT

There are many theories of risk management, usually based on what risk the risk management is focused on, for examples risk management for financial risks, for enterprise risks, supply chain risks, and project risks. According to Hopkin (2012, 38), it is difficult to provide a definition of risk management that could be universally accepted. In this thesis, definitions and processes are used to help understand the fundamentals of risk management, by following some selected existing theories and standards of risk management, and more focus on risk treatment from the risk management process.

Risk management signifies organizations’ activities with different risks (ISO 2009). Traditionally, risk management has meant a process to reduce risks and to minimize the cost of the damage. Risks were commonly existing as hazard risks. Modern risk management is not only a practice to discover and manage risks in a firm, but also a way to learn to take calculated risks (Hopkin 2012, 37–38; Suominen 2003, 27). The taken risk should be in a level and type that it is an advantage for the firm rather than a disadvantage (Crouhy, Galai & Mark 2013). Risk management aims to deliver values to organizations by reaching a positive outcome or reduce the outcome’s uncertainty (Hopkin 2012, 49).

Risk management emerged in the United States by the management functions of insurance companies in the 1930s (Hopkin 2012, 37; Suominen 2003, 27). Mehr and Hedges published the classic of risk management books, Risk Management in the Business Enterprise in 1963 (Gumbel 2014; Suominen 2003, 27). In Europe, risk management developed during the 1970s, and the cost of the risk became important. Nowadays, risk management is not as much based on insurance, but the insurance is taken as a risk control technique (Hopkin 2012, 37).

The terminology in risk management varies, and different kind of literature might use different terms to explain the same event. For organizations, it is favored to use common language and terms in risk management to keep it understandable for the whole organization. The International Standard Organization (ISO) has created a standardized vocabulary, ISO Guide 73 (Hopkin 2012, 3–4, ISO 2009). This thesis follows terminology from the searched literature and ISO Guide 73’s vocabularies.
4.1 Define Risks

Risk often occurs as a negative outcome, but in many cases, firms need to take a risk to reach a positive outcome too. In enterprise risks management an existing risk usually has one of the three outcomes according to Hampton (2014): the possibility of loss or injury, the potential for negative impact, the likelihood of an undesirable event. Therefore, like in financial risk management, the risk is not the particular size of the cost, but the risk is that if the cost would rise unexpectedly, or saved money that could be used for the cost, is stolen (Crouhy, Galai & Mark 2013). Defining the risks has often used the formula: risk = probability of risk x severity of the risk (Juvonen et al. 2014, 9).

Risks can be grouped into different categories, typically based on the possible outcome (Suominen 2003, 12). Global changes and developing technology add new risks, and there are many different ways to sort the risks. Crouhy, Galai, and Mark (2013) group risks as market risks, credit risks, liquidity risks, operational risks, legal and regulatory risks, business risks, strategic risks, and reputation risks. Juvonen, Koskensyrjä, Kuhanen, Ojala, Pentti, Porvari and Talala (2014) also add groups of business risks, personal risks, property risks, business interruption risks, environmental risks, cargo risks, computer risks, liability risks, and other groups under-listed risks.

Hopkin (2012, 13, 15, 30–33) offers three types of risks that are called hazard risk, opportunity risk, or uncertainty risks, also known as control risk. Hazard risks usually include risks that can use insurances, such as damage and theft. Risk management has traditionally been managing hazard risks. Control risks are uncertainties that organizations face. Opportunity risks then are intentionally taken risks to seek positive outcomes for the company. Chapman (2011, 6) also cites, that risk management is for both, for opportunity risks, and for risk that is threats, to businesses to grow and be wealthy.

4.2 Managing Risks

By following ISO 31000:2018 standard (ISO 2018), the risk management process starts with scope, context, and criteria, following up with risk assessment and choosing the risk treatment. In a circle are also communication and consultation, and monitoring and review, and recording and reporting. Risk assessment includes identification of the risks,
analysis of the risks, and evaluation of the risks. In this thesis, the focus is on the risk treatment section.

Figure 4. ISO 31000:2018 Risk Management: principles, framework, and process. Source: ISO 2018.


Chapman (2011, 137–138) stresses seven core risk management stages for enterprise risk management process; context, identification, analysis, evaluation, treatment, monitoring and review, communication, and consultation. These seven stages are mostly used in different kinds of literature on risk management, usually by different vocabulary. Hence, when analyzing risk management processes, there are some differences in procedures for hazard, control, and opportunity risks (Hopkin 2012, 52). One optional process, according to Hopkin (2012, 41) is risk management, usually used to hazard risks, 8Rs, and 4Ts, which are explained in the following figure.
The first step of 8Rs is a recognition that identifies the risk or nature of the risk. The second step, rating, profile the risk, and its magnitude and likelihood. The third step analyzes the risk against the criteria or appetite. The fourth step of 8Rs is responding to risk, that includes 4Ts. More about 4Ts will be included in the next chapter, “risk treatment”. Resourcing controls are the fifth step that ensures the use and maintenance of control. The sixth step is reaction planning, also known as event management. The seventh step includes reporting on risk. The last step of 8Rs is reviewing and monitoring, that can consist of auditing and updating. (Hopkin 2012, 40–41).

4.3 Risk Treatment

According to ISO guide 73 (ISO 2009), risk treatment stands for “process to modify risk”. Risk treatment comes after identification of risks and evaluation of the risks, and it cannot
exist without identifying the risk first (Juvonen et al. 2014, 23; Chapman 2011, 230). The purpose of risk treatment is to reduce the negative impact of the risk and achieve positive results (Shortreed 2010). Chapman (2011, 223–224) highlights factors for successful risk treatment, for example when the treatment process is clear, adequate time management, recording of the limitations, identification of risk appetite, and right responses for both risks and opportunities.

The risk treatment process includes input in the form of a risk register, insurance policies, risk appetite, and industry betas. It also includes constraints input in the form of a risk management plan, resources and study parameters, and mechanisms as risk response flow chart and strategy. The output of the risk treatment process is then responses to risks and also an updated register of risks. (Chapman 2011, 224–225).

Figure 6. A process of risk treatment. Source: Chapman 2011, 225.

The risk register in input includes all of the details from previous stages in the risk management process. The risk treatment process adds updates to the risk register as an output of the treatment process. Risk appetite in input stands for a firm’s tolerance of risk amount. Constraints are then, however, controls of the process. Mechanism signifies methods, techniques, or tools. Thus, Chapman (2011, 225) states two processes: resolution strategy, that responds in a similar way to reoccurring risks, and risk response flow chart, that “… illustrates the decision options that are made to arrive at the desired risk
response category.” Responses to risks are to retain, remove, reduce, or reassign the risk. (Chapman 2011, 145, 224–227).

### 4.3.1 Risk Response

In literature, authors have used different processes and control tools to show various options to modify risks. Classical risk management tools identified by Williams, Smith, and Young are risk-avoiding, loss prevention, risk sharing, combining risks, risk transferring (Suominen 2003, 98, 100). Cather and Dorfman (2013, 47–48, 62–63) conclude similar results of risk-handling techniques in enterprise risk management; loss control, risk transfer, loss financing, and diversification and hedging. Also, Hopkin (2012, 224–225) offers 4Ts as options for responding to defined risks in hazard risk management that are reviewed in Figure 5.

**Figure 7.** Hazard risks’ control types. Source: Hopkin 2012, 226.

The first T stands for tolerating. Tolerate is a response to risk that is accepted, and there is no action further with the risk. The first T can include risks that the treatment action cost more than the outcome of the possible risk. The second T stands for treat. Most of the risks are grouped in the treat section. Risks will be controlled and reduced to the level that is acceptable for the organization. The third T stands for transfer. Often this means risks that can be insured. Also, contracts are one way to transfer risk. The fourth T stands for terminate. Some risks are a too high level of risk to take and can seriously damage the
business. Those risks should be avoided or eliminated. The choices of treatments are chosen by the risk’s position on likelihood/impact matrix. Thus, risk control techniques should be selected by the level of the risk. (Hopkin 2012, 224–225, 236).

When managing uncertainties, control risks, the control types differ slightly from control types of hazard risks. Hopkin 2012 (231–232) offers 4As for control risks, that often are managed in project risk management. The 4As stands for accept, adopt, adapt, and avoid increasing uncertainty/level of the risk matrix. When the risk is low in increasing uncertainty and level of risks, the control type is to accept the risk. If the risk is high in increasing uncertainty but low in the level of risks, the risk should be adopted. When the risk is both high in increasing uncertainty and level of risk, it should be avoided, similar to 4Ts’ “terminate”. If the risk is high in level of risk, but low in increasing uncertainty, the risk can be adapted.

Figure 8. Uncertainty and opportunity risks’ control types, 4As, and 4Es. Source: Hopkin 2012, 232–233.

Hopkin’s (2012, 232–233) risk response to opportunity risk management are 4Es that stands for exploit, exist, exit, explore in potential reward/level of the risk matrix. The 4Es are usually used in business strategies. Entrepreneurial opportunities usually appear in low potential reward, but a high level of risk. In an ideal situation after growth, a firm will reduce risk and gain rewards before competitors arrive. The stage for this is “exploit” in 4Es (Hopkin 2012, 233).
4.4 Risk Management in BOP

Strategies in the BOP are usually nonlinear, without traditional capabilities as risk management (Marano & Tashman 2010). When in traditional markets, the fortune already exists, so risks can be discovered and minimized (London 2015, 17). London (2015, 18) gives an example of how to change from “fortune finding” and traditional risk management to “fortune creating” by seeing risks as “recognize ignorance; inspire creativity”, thus, firms should increase their creativity when they are operating in BOP markets. However, when innovating and piloting in the BOP, risks should still be comprehended and managed to successes. Furthermore, in cases, when the local partners and communities are included to take a risk, firms should have planned how to manage risks. An unsuccessful pilot can have a negative impact on locals (London 2015, 18, 22, 71; Faivre-Tavignot 2015, 48).

One example of risk management processes is a case of Oxfam America. Oxfam America and United Nation World Food Programme started an initiative “HARITA” (Horn of Africa Risk Transfer for Adaptation), later known as R4 Rural Resilience Initiative, to help rural area farmers in Ethiopia. Farmers tend to face climate-related risks and difficulties with food security. R4 stands for risk transfer, risk-reduction activities, risk-taking, and risk reserves, that is also shown on the Oxfam America website. (London 2015, 141; Oxfam America 2019).
5 EMPIRICAL RESEARCH

The empirical research is based on articles and responses of the research inquiry. The sampling of the group is non-probability (Metsämuuronen 2005, 53) when the participants are chosen by the researcher. The characteristics of participants were similar; a business that features match startup theory, chapter 2., and they are operating or have been operating in BOP. The BOP in this research is considered as in the theory of BOP in chapter 3.

5.1 Data Collection

In research, inquiries are used to collect primary data and already existing data is used as secondary data (Eriksson & Kovalainen 2008, 77). Primary data is collected by qualitative semi-structured interviews by a research inquiry form. The secondary data in the thesis is collected from published articles. The articles are published between years 2009–2019, in Finnish and English and found from Google, Google Scholar, Vaasa University of Applied Sciences campus’ library search platform Finna. The selected two articles are both narrative cases. The aim of the thesis is to analyze those two articles from a risk management point of view. The results are summarized in the result section.

5.1.1 Inquiry

The aim of semi-structured inquiries in this thesis is to collect qualitative data (Hirsjärvi, Remes &, Sajavaara 2013, 193–194) and there is given an opportunity to answer via a Google form or email, or to contact the researcher to have an interview via phone or Skype. The aim of the inquiry is to receive answers to the questions: “Do startups use risk management in BOP?” “What kind of risk treatment have startups developed and discovered in BOP marketplaces?” The research inquiry questions were chosen based on the theory.

Advantages of the inquiries are effectiveness and timesaving. Furthermore, with inquiries, collected data is written by participants. Disadvantages, however, are the uncertainty of interviewees’ seriousness and misunderstanding (Hirsjärvi, Remes &, Sajavaara 2013, 195). Inquiries were sent only to people contacted directly via email. Participants were allowed to contact the researcher at any time to reduce misunderstandings.
In the inquiry, questions are open questions (Hirsjärvi, Remes & Sajavaara 2013, 198–199) and the themes are risk management and risk treatment. The questions are different for startups and organizations, but the themes are the same. With a lack of answers, some questions were removed from the research inquiry for startups after two months from the first contact. The final questions are attached to the thesis (Appendix 1; Appendix 2). The appendices are PDF documents that are sent to participants if they wanted to answer via email instead of an online questionnaire. The inquiry is in Google form but includes the same questions.

5.1.2 Interview

The interview is in an inquiry form. Thus, interviewees have an option to have an interview via phone or Skype. This research uses semi-structured interview (Hirsjärvi, Remes & Sajavaara 2013, 208) when the questions are the same as in the research inquiry, but different inquiries for startups and organizations. Metsämuuronen (2005, 222–223) cites that interviews can also be mailed interviews or interview forms.

5.2 Process

Empirical research starts by posing questions to startups. The research inquiry questions follow the guidance of the questions “How do startups minimize risks in BOP?” “Do startups use risk management?” “What kind of treatments have startups found?” “How do different organizations help startup in BOP?” The inquiry aims to find examples of startups risk treatments, possible methods to develop risk treatments, and whether the risk management is taken in action as a planned strategy in a startup. For organizations, the questions are supporting questions to discover how organizations help startups as collaboration is noted in the theory part. The research responses are collected by Google Form.

The inquiries are sent via email to potential participants. The startups are found by different Startup Hubs, news articles, banks’ website, organizations’ website. The characteristics of the startups are similar; startups that are operating or have been operating or being participants with projects in BOP marketplaces by offering affordable products and services and decreasing poverty. In this research, the industry was not necessary information. Further research could be done with only one sector, for example, fintech. Also, the research does not focus only on one specific country or area; the limitation is BOP marketplaces, that exist in different countries, mostly developing countries.
The organizations’ features follow similarities too; organizations that help startups in BOP countries. These might be non-profit or for-profit, who gives direct support as finance, knowledge or network, or offers programs and projects to startups. The research does not focus on the organizations. Therefore, the aim of the organizations’ inquiry is to get a different perspective on how to minimize risks in BOP marketplaces.

The first version of the inquiry for startups is sent to nine startups. A lack of answers leads to updated questions and the removal of different risk areas to combine those to one question, “what kind of risk treatments and solutions the firm has discovered/developed?” and leave the decision to categorize risks for participants. The aim is not to lead participants but receive examples of risk treatments. Analyzing part of this question then is vast, and can also cause misunderstanding (Hirsjärvi, Remes & Sajavaara 2013, 231–232). The updated research inquiry is sent to 15 startups. The organization’s inquiry is sent to three organizations.

Another lack of responses also leads to considering different approaches. The secondary data is collected from articles that are found by Google Search, Google Scholar, and Vaasa University of Applied Sciences’ library. From these two articles are chosen, which have the same features; the articles are written by a startup’s or an organization’s founders and employees. The first one is about a startup, that is operating in the BOP marketplace, and the second one about an organization, that is helping startups. Both articles are narrative cases, and those are from MIT Journal Press; Innovation: Technology, Governance, Globalization. According to Hyvärinen and Löyttyniemi, a narrative research is a story, a biography or something that describes the course of events (quoted in Hirsjärvi, Remes & Sajavaara 2013, 218). The articles are analyzed by seeking risk management and risk treatment cases, and those points are summarized in the results.
6 RESULTS AND ANALYSIS

The results were collected from both primary data by research inquiries and secondary data by summarizing and analyzing articles. The response rate of the inquiry was not high; eight percent of the startups answered the inquiry form. Organizations are contacted less, why the response rate is higher, 33 percent. The secondary data consist of selected articles to have more perspectives. The characteristics of the articles are the same; the startup’s or organization’s founders or employees wrote the articles, and both are operating in the BOP markets. An analysis part follows the results.

6.1 Primary Data

Primary data is collected by inquiries. The questions are different for startups and organizations mostly collecting information related to their activity that is researched in the thesis; startups’ activity in BOP markets and organizations’ action towards startups. Primary data results are written as participants answered the questions. The final analysis is in the next section, analysis, and conclusion.

6.1.1 Startup A

Finnish startup A was established in 2012. Startup A does not have a risk management strategy or a plan, and they do not mention differences between different locations. However, for other actions towards risks, participant A from startup A points out to avoid the impact of employee leaving by sharing product and/or service and customer data systematically. Also, to avoid customer payment risks by having their own control of service availability. Sharing critical info between employees is an example of risk treatment. Startup A did not use methods or tools to discover and/or develop risk treatment for risks, and they did not either used external consulting. Participant A also mentions to use local partners to carry out local business.

6.1.2 Startup B

In 2018 startup B established operations in Ethiopia. Startup B does not have a risk management strategy or a plan, and also did not mention differences between countries. In other actions to treat risks, participant B from startup B tells that risk management, assessment, and mitigation are part of their everyday life. Participant B is certified in Risk
Management. Various risks pertaining to the Ethiopian context are constantly in their mind and are part of the daily discussions and strategic decision making. Participant B points out that taking the time to develop a risk management strategy has seemed “overkill” at this point.

Participant B mentions examples of risk treatments; due diligence, network, protection (e.g. of data), in-person follow up. Participant B also points out that there is so much more risks treatment, responses, and/or solution than only the mentioned examples. Startup B has not used methods or tools to discover and develop risk treatments, but ad hoc logical thinking and experience. Startup B also did not use external consulting to develop risk treatments, as it has not been a priority. Also, participant B was a management consultant working with risk. Thus, the competencies are inhouse.

For endnotes, participant B mentions the importance of risk management for companies that are new to the marketplace. The network is key to know what the relevant risks are and to do their due diligence.

6.1.3 Organization A

Organization A’s core activity is helping children in developing countries. For companies and startups, organization A provides access to BOP markets for piloting products and/or services. They also approve of concept if the pilot is successful. Of the risk management, the organization does not shoulder the market risk, but they are making sure that their beneficiaries are not adversely affected. Risk management should probably be in practice for example when the political environment is unstable. Organization A does not mention risk treatments, but startups tend to transfer risks to the organization if inappropriate acting appears. For last notes, organization A tells that the timeframe may be longer than startups expect or hope.

6.2 Secondary Data

In the empirical research, secondary data reviewed existing data. This research uses published articles of the startups and organizations that are operating in BOP marketplaces. The articles are summarized to explain the activity of a startup and an organization and analyzed the risk management and risk treatment points from both articles. The final analysis in the analysis and conclusion section.
6.2.1 Article A: Startup

The article “Building Lean Startup at the Bottom of the Pyramid” from 2013, is written by Clara Chow and Lily Rubin, tells about the startup YouthBank’s, later known as Generation Enterprise. Chow and Rubin established YouthBank as a microfinance startup in 2009 in Lagos, Nigeria. When traditional financial services view to borrow small loans to youth unemployed in Lagos was too risky, other microfinance companies have developed different risk reductions. The article points out that even with high stakes, the opportunities are enormous in a growing group of youth in developing countries.

Rubin and Chow put together knowledge of financial inclusion and alleviation of poverty. The original idea of YouthBank came out from Rubin’s Nigerian friend, who moved to Canada. However, he helped Rubin and Chow to build a local team when they launched to YouthBank.

YouthBank needed to find solutions to reduce risks when borrowing loans to youth, who might not have a fixed address, guarantors, or collateral. Also, the target group tends not to have a regular and respectable income. For this, YouthBank developed to be a business where youth, as they later call Fellows, could learn business skills, have an income, and meet potential investors. Those Fellows who showed enough integrity, work ethic, and aptitude could get the loans. YouthBank established a photo studio that sells headshots for actors. Chosen Fellows could be trained there, and they also got work experience. The business model was a hypothesis at that point. Challenges occurred when the photo studio did not make enough profit to cover Fellows’ stipends, and also the business ideas where often copycats of existing businesses. The pilot of YouthBank program shut down after organizational difficulties. Rubin and Chow mention in the articles that they focused probably more on the credit risk and the organizational risk. Thus, Fellows and Nigerians that return to Nigeria from colleges in the U.S. reminded Chow and Rubin about the importance of their business. Chow and Rubin decided to continue and ask for help, as they note, every successful startup does at some point.

With a new idea to invest to people, who already have some skills and teach them more business skills in a business model of business boot camp, Chow and Rubin continued with the new name, Generation Enterprise. They also organized a board of directors to help them with complex risks and opportunities.
By the time the Generation Enterprise put more focus on innovations and co-creation businesses to serve the bottom of the pyramid, as their Fellows have experience of the field. They developed Generation Enterprise Business Lab with P&G and with their guidance to prototype and testing in the market new products and also business units. When the business model was working, Generation Enterprise started to scale it to cities around the world. (Chow & Rubin, 2013).

6.2.2 Article B: Organization

An article “Accion Venture Lab” from 2015, is written by Paul Breloff. Accion Venture Lab provides management support and small loans to startups. The non-profit lab was launched in 2012, and it is part of Accion, established in 1961. It is focusing on financial technology, so-called fintech startups. Keeping up a portfolio of startups, Accion Venture Lab gains experience and knowledge of business models that work, and also a collection of startups that were not Venture Lab supported but nonetheless succeeded.

In the early stages, people from Accion Venture Lab traveled around the world to hunt opportunities and spend time in different countries to find out where to open the business. They met a lot of people to have a network and to be noticed. Accion Venture Lab also gathered people with firsthand experiences of emerging markets. In that way, the Lab understand the realities of the markets, and if the startups’ idea could succeed in the market. In that time, Accion Venture Lab has learned to notice differences that appear between great ideas, business, and deals.

Features that Accion venture Lab has noticed of startups’ barrier to growth is a lack of human capital. The goal is to connect ventures in a lab to expertise that can take the startups to the next level. Accion Venture Lab also sometimes have board seats in companies where they invest, that they are close to the business and can support in that way too. (Breloff, 2015; Accion International 2019).

6.3 Analysis

This thesis uses thematic analysis (Bernand & Ryan 2000, 780) to analyze the results and compare the empirical research results to the theory. The themes are built based on theories of risk management and risk treatment. The same themes are in the research inquiries’ questions that are sent to the participants. In the analysis, thematic analysis is used to
understand the key features of the real-life event. In this thesis, the real-life event is risk management by startups in and with BOP.

6.3.1 Risk Management Analysis

In the theory, it is noted that entrepreneurs should take risk management into account when they are doing business with BOP (London 2015). By piloting in the BOP, failures should be managed as it is noted in a roadmap for ventures in the BOP (London 2010). Calculated risks are also one of the keys to success for startups (DeBaise 2018). Hopkin (2012) states risk management 8Rs process to hazard risks start by recognition of the risks, rating the risks, ranking them against risk criteria, when the fourth stage is to respond to risks, that is followed by controlling, reaction planning, reporting and reviewing and monitoring. In the empirical research, participant startups A and B noted that they are taking into account the risks, however, without a planned risk management strategy. In article A, the startup built a board of directors to take care of risks and opportunities, but the article does not point out if the risk management strategy was planned in earlier stages. Although Chow and Rubin did focus on credit risks more than organizational risks in the early stages, that lead to conclusion, risks were considered before the board of directors. Therefore, avoidance, risks being part of discussion and decision making, experiences of the field as in the company or from outside partners and local businesses, are highlighted to be keys of taking action with risks. Organization A also mentions that startups probably should have risk management, and participant B from startup B notes the importance of risk management for a new business in BOP markets. London (2015) states risk management to be important particularly including local partners in piloting. According to Marano and Tashman (2010), with BOP the strategies usually do not include traditional capabilities as risk management. By the solution of the empirical research, the case is similar to startups that have participated in the inquiry: they consider and manage risks, but do not use planned risk management strategy.

Neither of the startups, that answered the research inquiry, used external consulting for risk management. Thus, a solid network is found important to do business in and with BOP. In the article A about the startup, Rubin and Chow asked for help when it was needed. Organizations offer help to the startup, organization A with piloting products and services in BOP, and in article B, the organization, invests in startups and provides management support. Organizations’ activity might not be directly aimed only for companies,
as organization A mentioned their core activity is helping children. In article B about the organization, the Accion Venture Lab was created to help technology startups in BOP, and it is part of Accion, that offers their global services to others too. In the theory London (2015) states, that NGOs that are operating in BOP, differ with their activities and enterprises should take that into account. It should be noted that in the empirical research, the organizations that were contacted were not only NGOs but also for-profit organizations that are helping startups in the BOP marketplaces.

6.3.2 Risk Treatment Analysis

Risk treatment is in Hopkin’s (2012) risk management process to hazard risks, 8Rs that includes eight stages (Figure 5.), with the fourth stage is responding to risks and options of 1. Tolerate, 2. Treat, 3. Transfer and 4. Terminate. Chapman’s (2011) process of risk treatment (Figure 6.) is looking for input and constraints and mechanisms and output. The output is then the risk responses and updated risk register. ISO 31000:2018 (Figure 4.) then has to process the scope, context, and criteria of the risks that are followed by risk assessment, including risks identification, analysis, and evaluation, and followed by risk treatment. In the empirical research, both of the participant startups did not use tools or methods to develop risk treatment for these risks. According to ISO guide 73 (ISO 2009), risk treatment is a process to modify risk. In the empirical research, startup B modifies risks by using logical thinking and the experience of risk management. In Churchill’s and Lewis’s growth model (Figure 1.), the formality of systems is usually minimal; startups might not have exact methods and tools also because of the young ages of the businesses. The management style is typically direct in the early stages of the business. However, this area of the topic needs more study to be concluded.

Risk treatments, solutions, and responses that appear in the results of the inquiry: due diligence, network, protection as data, in-person follow up, critical info sharing between employees. The responses that are noted from the articles: learning as share information, integration as having customers to be part of the business, intellectual capital as skilled people and professional relationships between companies. The risk responses from the empirical research are analysed by using Hopkin’s (2012) hazard risk control types diagram (Figure 9).
Networking, sharing, protecting, learning, integrating are highlighted in the empirical research. Most of the responses are minimizing the risks by controlling or reducing. In these listed ways risks are more acceptable for startups and organizations (Hopkin 2012). Startup A also notes the opportunity to use local partners to carry out local business in BOP. This can be analysed as a transfer for risk. According to Hopkin (2012), transfer usually includes other parties to share risks, generally by insuring or having a contract. Thus, it is not told directly in the inquiry if there is a contract between businesses.

Organization A mentions that the timeline might be longer than startups think. According to Helaniemi, Kuronen, and Väkeväinen (2018), time is often the key to success for startups. This might not then be the same with BOP, but this topic needs more research and cannot be proven in this study.
7 CONCLUSION

The research question of the thesis is: How do startups minimize risks in BOP markets? Other research problems to observe in the thesis are: Do startups use risk management? What kind of treatments have startups found? How do different organizations help startups in BOP?

The research analyses that experiences of the BOP and a solid network are keys for doing business with and in the BOP. Planned risk management strategy is not a priority; however, risk management is essential for new companies and risks should be considered and treated. Similar conclusions have appeared in the research and literature before with MNCs and MNEs that are operating in BOP. For the questions “how to minimize”, in the theory of risk management, different tools and methods are used to manage risks. However, planned methods and tools are not used to develop and discover risk treatment in BOP marketplaces by startups that participated in the inquiry. Responses to risks are developed by experiences and logical thinking. Examples of responses that startups mentioned, and articles pointed out, are usually to reduce, control, and minimize risks.

Organizations help startups in BOP in various ways, such as offering support or financial help. In this thesis, organizations are viewed as either non-profit or for-profit. However, in the theory non-profit organizations, such as NGOs, are emphasized more as a source of help. Because of this, the target of the research could differ if the organizations include only NGOs. However, earlier research already has studied relationships between companies and NGOs in BOP.

The thesis is written during late spring, summer, and early fall in 2019. Lack of clarity in methodology and perspective in the beginning, were barriers to attain coherent flow in the research process. By selecting different methods, the answers could differ from this thesis, for example, as quantitative methods to survey startups’ risk management methods and tools utilization in BOP. In this research, literature, and research are collected in English and Finnish. This limitation might cause that the research does not use information that is written in other languages. Terminology in risk management is vivid; some information might not be noted in the research by not observing it by the terminology that is used in this thesis. By first asking what kind of terminology the research target group is using, the results might differ from what the researcher used. In this way, risks might be
grouped and researched specifically, for example opportunities, uncertainties, and hazard risks separately.

7.1 Questions for Future Research

In this research, risks were not asked, only the responses to risks. This is leaving a gap of knowledge of the specific response to the particular risk. In the research inquiry, participant B noted, that question number 3 is vast to answer. By this, questions for future research could be:

How do startups transfer/treat/tolerate/terminate risks in BOP?

What kind of risks startup has, and how do they respond for those?

The research could not prove the reason for the lack of answers to the research inquiry. The research inquiry was sent in summer 2019. The option is to follow similar research in a different time, for example, in fall. Similar research could also be done as quantitative research via surveys. The sampling group should then be larger to gather quantitative data.

Organization A notes that the timeline might be longer than startups think when they are entering BOP markets. This can also be researched as a case study by the following question:

What is the timeline, that takes startups to enter in BOP markets?

7.2 Validity and Reliability

Reliability can be measured by repeating the research (Hirsjärvi, Remes & Sajavaara 2013, 231). In the thesis, reliability is ensured by using semi-structured inquiries. However, it cannot be proven that the answers could be the same if this research is done again. The situations might change by startups’ priorities or new cases.

Validity gauges measurements that are used in the research and that those measures what is the purpose of measuring (Hirsjärvi, Remes & Sajavaara 2013, 231). The process of sampling and data collecting are described in the thesis. Research inquiries are used to collect primary data. It might differ how the interviewees understand the questions in the
form. In the theory it is mentioned that the terminology of risk management differs between books, theories, and organizations. Because of this, the words that are used in the inquiry might be different to those used in the companies, and it can cause misunderstandings. However, in the cover letter, and the inquiries it is stated to contact the researcher in case clarification of something is needed.

A higher response rate would further increase the saturation and reliability of the study.

7.3 Ethical Consideration

Bell and Bryman (2015, 134–145) state four areas, where ethic in business research breaks down; harm to participants, lack of information consent, invasion of privacy, and deception. This research respects all participants in this thesis. The interviewees had the opportunity to answer anonymously, and they appear in the thesis then without name or title. In the inquiry is given an option to answer “yes”, if participants wanted their name to be shown in the thesis. The questions in the questionnaire aim not to lead the participants, and participants also had contact information to the researcher if needed at any point. The questions sent to potential interviewees were referred to as a survey for the sake of simplicity. However, these questions represent a research inquiry, which is the primary method of data collecting of empirical research. The purpose of the inquiry is written in the cover letter and the questionnaire’s introduction. The topic of the thesis is also presented in the cover letter and the inquiry form.

In the results is used other researchers’ data as secondary data. All this data is referenced in written text and reference list. About the data management (Bell & Bryman 2015, 146–147), the data is handled only by the researcher. Results from primary and secondary data are analyzed objectively only for the thesis’ purpose.
REFERENCES


Appendix 1

The survey for startups

Interview

Name of the interviewee:
The interviewee’s name can be in the thesis: Yes / No

Organization

Name of the firm:
The firm’s name can be in the thesis: Yes / No

Founded in:

Locations and counties, where the firm operates:

Risk management

1. Does the firm have a risk management strategy or a plan for managing risks? If the answer is yes, fill section A. If the answer is no, fill section B.

Section A. How does the risk management strategy or plan are taken into action in the firm?

Section B. Does the firm have some other actions to treat risks and uncertainties in business?

2. If the firm is operating in different locations, how does risk management differ between different locations?

Risk treatment

3. What kind of risk treatments, responses, and/or solutions has the firm discovered and/or developed to risks?

4. Did the firm use methods and tools to discover and develop risk treatment for risks? And if yes, what kind of tools and methods?

5. Did the firm use external consulting to develop risk treatments?

6. Other thoughts about startups’ risk management, or similar action, in BOP marketplaces?
Appendix 2

The survey for organizations

Survey – Startups’ risk treatment in BOP markets

Name of the interviewee:
The interviewee’s name can be in the thesis: Yes / No
The name of the organization:
The organization’s name can be in the thesis: Yes / No

About the organization:

1. What is the organization’s core activity?
2. How does the organization’s action relate to Base of the Pyramid marketplaces?
3. How do the organization’s actions help startups?

Risk management in BOP:

4. How important is risk management in BOP marketplaces?
5. Should startups practice risk management in BOP markets, and how?

Risk treatment:

6. What kind of risk treatments has the organization discovered in BOP marketplaces?
7. Do startups transfer risks to the organization?
8. Other thoughts about startups in BOP marketplaces?
Appendix 3

List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOP</td>
<td>The Base of the Pyramid, the Bottom of the Pyramid</td>
</tr>
<tr>
<td>BOS</td>
<td>Blue Ocean Strategy</td>
</tr>
<tr>
<td>ISO</td>
<td>The International Standard Organization</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multinational Corporations</td>
</tr>
<tr>
<td>MNEs</td>
<td>Multinational Enterprises</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-governmental organizations</td>
</tr>
<tr>
<td>OECD</td>
<td>The Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>TOP</td>
<td>The Top of the Pyramid</td>
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