



Product Differentiation at the Base of the Pyramid: Individual-Level Antecedents and Performance Outcomes

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Abstract. Entrepreneurs at the base of the economic pyramid often follow an imitation strategy, whereby the products and services they offer are similar or identical to those of their competitors. Although mimicry is not unique to impoverished and developing contexts, it appears to happen therein with much greater frequency. This has led some scholars to propose that there are significant and unique benefits to imitation in the base of the pyramid context. As such, using survey data from a sample of business owners in Nigeria, we first investigate the degree to which differentiation is beneficial to performance. Contrary to findings in the mainstream strategy literature, we find evidence of a U-shaped relationship between the constructs, suggesting that business owners should either follow closely or distance themselves greatly from what others are doing. We further explore two novel antecedents of differentiation: unconventionality and risk-taking propensity. Our results suggest that there is a positive impact of both unconventionality and risk-taking upon differentiation. Each of these findings advance differentiation theory and literature.

Keywords: differentiation, imitation entrepreneurship, BOP, unconventionality, risk-taking.

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1. Introduction

Lack of differentiation among businesses is ubiquitous at the base of the economic pyramid (BOP) (Alvarez & Barney, 2014; Bateman, 2010). Walk through any market in the developing world and you are likely to see numerous business owners with identical offerings at identical prices. The process that results in such a market is commonly referred to as the “me too” phenomenon (e.g., Avlonitis & Salavou, 2007; Kaufmann & Dant, 1999). Via this phenomenon, entrepreneurs enter crowded markets of highly visible competitors largely because the newcomer judges existing predecessors as successful and believe that they too

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will be successful if they mimic their established counterparts (DiMaggio & Powell, 1983; Fritsch & Wyrwich, 2017). This phenomenon has become more common since the advent of microfinance, given that entrepreneurs are often pulled or even pushed into entrepreneurship in a short time span by microfinanciers (Bateman, 2010; Karnani, 2007).

Although imitation is often a valid strategy that can yield second-mover advantages, economic, strategic management, and marketing theories tell us that pursuing the same customers in the same ways will yield less money for all and will eventually hit an equilibrium point wherein no one earns a profit (Kirzner, 1997; Shankar, Carpenter, & Krishnamurthi, 1998). Nevertheless, entrepreneurs in developing contexts continue to both start and maintain “me too” businesses. This begs the question of whether classic business theories apply to such contexts.

Institutional theory (DiMaggio & Powell, 1983) offers a competing view of why differentiation may be harmful in such a context. Specifically, conformity confers legitimacy, defined as the alignment between the values and actions of a business and the expectations of relevant social actors (Deephouse, 1996). Although all businesses endure some measure of isomorphic pressure, the pressure is magnified in developing settings in which communal support is necessary for survival. Combining the institutional and differentiation literatures, as well as drawing on strategic balance theory (Deephouse, 1999), one may expect a curvilinear relationship between differentiation and business performance such that a moderate amount of differentiation is optimal (i.e., an inverse U-shaped relationship). Our research investigates the degree to which this relationship holds in a BOP setting.

In addition to the outcomes of differentiation, we are interested in its antecedents. Although “me too” businesses are common in the aforementioned markets, one occasionally encounters a unique or differentiated business, inviting the question of why these businesses, which buck the trend, are created. We propose that individuals running differentiated businesses are unconventional in their personal lives and already endure, or perhaps take pride in, being different. Further, we propose that this mindset spills over into their business decisions. We also suggest that such individuals are higher in their risk-taking propensity, as engaging in new or different activities, almost by definition, encompasses greater uncertainty (McMullen & Shepherd, 2006).

In order to test our expectations, we administered surveys to business owners in Nigeria. A pilot test was run, followed by the collection of 250 surveys of two types of businesses – shoe making and tailoring – from a large market in the city of Kano. Surprisingly, and contrary to our expectations, the results of our regression analyses support a U-shaped relationship between differentiation and performance. In line with our expectations, we further find positive relationships for unconventionality and risk-taking on differentiation. Our research makes three contributions. First, we find a U-shaped relationship between differentiation and performance at the BOP, suggesting that business owners should either

follow closely or distance themselves greatly from what others are doing. This contradicts and extends established theories such as strategic balance theory (Deephouse, 1999) and optimal distinctiveness theory (Brewer, 1991). Each of these theories argues the greatest performance benefits derive from a moderate amount of differentiation; we find that these theories do not hold in our domain. Second, we establish two novel predictors of differentiation within the entrepreneurship domain. Third, because supporting entrepreneurs at the BOP in many cases is a costly activity, support organizations are continually looking for ways to efficiently and effectively expand their operations and impact (Hermes, Lensink, & Meesters, 2011). This paper offers clear recommendations as to which entrepreneurs may be most suited to fulfill support organizations' missions of facilitating profitable businesses and, often by extension, combating poverty.

2. Literature Review and Hypotheses

Differentiation represents the extent to which a venture provides new or distinct offerings that deviate from those offered by its competitors (Deephouse, 1999). Over the past 30 years, scholars have suggested that new ventures achieve higher performance by being different (Hambrick, 1983; Porter, 1980; Zahra, 1991). The fundamental argument is that ventures that are different face less competition for resources and obtain rewards by creating unique value in the marketplace (Deephouse, 1999). A differentiation strategy can be achieved through many kinds of firm activities, including altering product lines (Hambrick, 1983), shifting branding images (Sujan & Bettman, 1989), and offering uncommon services (Porter, 1980). On the whole, such differentiation-based activities are beneficial when the accumulated value created by being different exceeds the accumulated cost of being different.

Although a substantial body of research attests to the effectiveness of differentiation as a strategy to achieve superior performance, only a few studies have examined the effects of differentiation within the BOP context (Barki & Parente, 2010; Goyal, Sergi, & Kapoor, 2014). This relative imbalance, which favors developed contexts and large businesses, is particularly problematic because nearly half of the world's population is comprised of individuals who live under the global poverty line of \$2.50 per day (EIU, 2008).

We assert that, as is the case in most developed markets, new ventures within BOP markets can achieve superior performance by establishing a niche and differentiated position in a market. Such differentiated market positions are typically less competitive and can translate into higher earnings or increased rents when resources and opportunities are maximized. In the BOP context, this is critical, given that normal markets are often competitive and dominated by a few market leaders (Pralhad, 2009). Within such a setting, it is conceivable that even slight differentiation—perhaps a slightly higher quality product or a product of a

different color—may prove to be enough for consumers to distinguish the offerings of one business from the rest and, in turn, for the firm to yield significant returns.

In addition, prior research suggests that buyers at the BOP, similar to mid-income and high-income buyers, are willing to pay more to have a differentiated product or service (Barki & Parente, 2010). In a sense, differentiation can appeal to a buyer's need to be different (Fromkin & Snyder, 1980). This need for distinction can drive a buyer's purchasing decisions and lead the buyer to seek goods or services that others do not possess. Even at the lowest income levels, buyers seek ways to increase their status through differentiating themselves (Barki & Parente, 2010). As such, differentiation can be used to attract a new or diverse set of buyers, which can lead to increased sales, profitability, and likelihood of survival (Boehe & Cruz, 2010). Moreover, by securing niche markets through differentiating product or service lines, new ventures may have access to more opportunities than their rivals have (Klepper, 1997) or complement existing products in the market (Porter, 1987). This can create a cumulative process of market expansion, whereby expansion – or exploitation of new opportunities – in one area leads to further expansion in another (Matsuyama, 1995). Taken together, a differentiation strategy at the BOP can yield higher performance when products or services offered are distinct and complement existing patterns in the market. Based on these, we posit:

H1: New-venture differentiation at the base of the pyramid is positively related to performance.

Although we argue that new-venture differentiation is positively related to performance, we also suggest that too much differentiation can be costly and can lead to underperformance. This occurs when the costs associated with being different exceed the premiums received from being different (Porter, 1980). Differentiation is primarily beneficial (e.g., higher ROA or market share) when stakeholders understand or approve of a new venture's unique strategy or position. When a new venture's product or service lines are different enough to generate legitimacy challenges, however, these benefits diminish. Stated another way, we suggest that a new venture's performance will continue to increase as long as the gains achieved from being different outweigh the cost of legitimacy challenges. For new ventures, at the BOP, this can be a significant challenge to overcome, given that new ventures are often contested on their merits of legitimacy because they (1) are unfamiliar to buyers, (2) often bear attributes (e.g., resource constrained, limited experience, unknown products/services) that are unattractive in the marketplace, and (3) operate in highly competitive environments. This implies new ventures, at the BOP, may benefit by being both different from and similar to their competitive rivals.

Drawing on strategic balance theory, we argue that there is an optimal point of differentiation and a curvilinear relationship between differentiation and performance. Indeed, prior research demonstrates that a new venture can achieve higher performance when it is similar enough to its competitors to be viewed as legitimate but different enough to be viewed as unique (Deephouse, 1999). The fundamental argument suggests that, when a new venture mimics a well-established competitor, the new venture is more likely to be viewed as legitimate by current and potential exchange partners (i.e., customers, suppliers, and regulators). In lieu of readily available information, following well-established scripts can induce exchanges with resource partners by reducing the costs associated with retrieving information about the new venture. Taken together, limiting one's level of differentiation enables new ventures' legitimacy, which allows them to gain access to opportunities (i.e., alliances; Vermeulen & Barkema, 2001). Further, prior evidence supports this perspective, and empirical research confirms that strategic similarity is positively related to performance (Miller, Breton-Miller, & Lester, 2013).

At the BOP, new ventures are entering markets that have strong structural pressures due to well-established market norms and expectations for behavior. When norms are institutionalized, and logics are codified in regard to how business is conducted, new ventures that deviate from these established norms by attempting to sell differentiated products at different prices are likely to be perceived as threats by their competitors, drawing ire and competitive retaliation (Livengood & Reger, 2010; Marcel, Barr, & Duhaime, 2011). Given that the BOP context is characterized by businesses that sell similar products for similar prices, a strategic similarity perspective suggests that new entrants are strongly incentivized to conform to the products and prices of their competitors and to find their competitive advantage through clientelization and bargaining (Geertz, 1978). Those who violate these norms may be perceived as illegitimate, resulting in negative endorsements by third parties (Deephouse, 1996) and the potential to be evaluated negatively by peers (Piazza & Perretti, 2015).

Conversely, limited amounts of differentiation can confine a new venture. Being highly similar to competitive rivals can stall growth, arouse strategic complacency, and result in lower performance when the competition for resources exceeds the benefits of being perceived as legitimate (Deephouse, 1999; Porter, 1980). When a venture is isomorphic to its rivals, it may not be able to achieve a positional advantage in the market. Similarity is advantageous but only when competition is limited. At the BOP, competition is intense, given factors such as the limited number of alternatives that people have for work and the prevalence of microfinanciers (Hermes, Lensink, & Meesters, 2011; Gazzah, Bonnet, & Harbi, 2017). Hence, the advantages that might result from strategic similarity in normal markets likely lead to competitive parity or disadvantage at the BOP. This suggests that new ventures should strike a balance between being different and conforming to the expected standards of the market. The

fundamental implication is that differentiation and similarity are important and that new ventures have the highest performance at intermediate levels of differentiation. Based on the argument above, we propose:

H2: The relationship between new-venture differentiation and performance at the base of the pyramid is an inverse U.

Regardless of whether businesses perform better or worse by differentiating, the institutional pressures to conform remain present and prevalent (DiMaggio & Powell, 1983). In the next two hypotheses, we propose individual-level factors that aid entrepreneurs in bucking such pressures and nevertheless pursuing differentiation. First, we consider the role of unconventionality, which is defined as behaviors that tend to be different than commonly accepted expectations (Conger & Kanungo, 1987). Unconventionality has been studied and employed in a variety of contexts, including creativity in preschoolers (Lee, 2005), adolescent behavior (Donovan, Jessor, & Costa, 1991), art development (Konijn, 1999), and leadership (Conger, 1998; Jaussi & Dionne, 2004). In the leadership domain, unconventionality is thought to promote unusual managerial behaviors that inspire followers. Specifically, unconventional leaders are characterized as constructive individuals who capitalize on unique opportunities to try new things. For example, unconventional leaders could engage in unique strategic actions, such as having union representation on the board of directors (Conger & Kanungo, 1987), which could facilitate stronger networks and performance outcomes.

Notably, unconventional behavior is context-specific (Jaussi & Dionne, 2004). Thus, we expect that those who are unconventional will engage in unusual behavior, given the context within which they operate. In bazaar markets, such as those in Nigeria, there are strong institutional pressures to avoid differentiated behavior and, instead, to rely on well-established practices, such as clientelization and intensive bargaining (Geertz, 1978). Specifically, the established practice has been to stick with the tried-and-true methods of other entrepreneurs. This practice, in turn, may open a window of opportunity for those who are willing to exploit these types of opportunities. Entrepreneurs who are unconventional are more likely to notice and capitalize on unique strategies (Conger, 1985), even when they go against traditional norms (Conger & Kanungo, 1987). Further, they are more likely to engage in differentiated behavior, in general, regardless of any potential financial gain for doing so (Conger, 1998; Jaussi & Dionne, 2004). For these reasons, we speculate that unconventional entrepreneurs likely exhibit behaviors counter to the prevailing norms of conformity in the BOP context; in other words, they tend to differentiate. Thus, we posit:

H3: Unconventionality is positively related to differentiation.

We also draw upon a common entrepreneurship construct that is often related to performance and that we relate to differentiation. We define risk taking as one's orientation toward taking chances in a decision-making situation (Sexton & Bowman, 1985). Risk-takers are innovative, engage in disruptive behavior, and are willing to break rules (Gardiner & Jackson, 2012). Further, they are comfortable with large amounts of uncertainty (Borghans, Duckworth, Heckman, & Ter Weel, 2008; Sexton & Bowman, 1985), eliciting bold decisions that others would not make.

As discussed, the expectation for entrepreneurs in BOP institutional environments is to conform. Given that most ventures in bazaar economies succeed through conformance (Geertz, 1978), there is great uncertainty in the outcome of differentiating, and institutional pressure to conform is particularly strong (DiMaggio & Powell, 1983). Further, differentiation in the Nigerian bazaar is quite risky, as it may result in severe and irreparable backlash from competitors. Thus, those who choose to differentiate are likely aware that their behavior will be disruptive but are willing to break the rules to try to get ahead. Despite such pressures, there may be *some* individuals willing to buck the system. In contexts where few entrepreneurs differentiate, we argue that those who choose to do so are likely high risk-takers. Indeed, risk-takers tend to engage in disruptive behavior (Gardiner & Jackson, 2012). Further, as noted, they are comfortable with the uncertainty of making risky decisions (Sexton & Bowman, 1985). As such, it is particularly likely that risk-takers will engage in differentiated behavior in the BOP context. We thus postulate:

H4: Risk-taking is positively related to differentiation.

3. Methods

3.1. Sample and Data Collection

We conducted our study in Nigeria, a nation with an underdeveloped yet blossoming entrepreneurial landscape (Thaddeus, 2012). To avoid confounding geographical factors, we focus our study on one large market, Fagge, in the city of Kano, and two prevalent and related types of businesses in Fagge—shoe making and tailoring. The market in Fagge is structured as a permanent buyer-seller exchange, where market traders control the flow of goods, sellers purchase goods to trade, and buyers are offered an array of similar products to purchase. The market functions like most Bazaar markets, such that sellers seek maximum profit, buyers attempt to maximize their utility through bargaining and information flows and, like most capital markets, supply and demand ultimately dictates price (Geertz, 1978).

Data collection was conducted via surveys, administered orally to business owners in the market by a member of our author team fluent in Hausa (the local language). Surveys were administered over a 20-day period in July 2015. We began data collection at the main entrance of the market, asking every individual who owned either a shoe making or tailoring business to participate until 250 surveys were administered. In total, 42 owners declined to participate, but we observed no significant differences (e.g., more customers present, fewer employees, geographic location) between those who declined and those who agreed to participate. Ten respondents did not complete the items related to our variables of interest, resulting in a sample of 240 business owners.

Our survey was developed in English, translated into Hausa by one of our authors, who is fluent in both languages, and reverse-translated by a local professional. We compared the two English versions, noting any inconsistencies, and the two translators collaborated to establish the most appropriate translation. We pilot tested the survey on 11 local entrepreneurs and revised the questionnaire based on the feedback we received (e.g., the survey was too long, and some demonstrated fatigue before completion; thus, we cut some questions).

3.2. Variables

Our hypotheses encompass four variables of interest: (a) differentiation, (b) performance, (c) unconventionality, and (d) risk-taking. Our *differentiation* construct includes five questions modeled after those in the Panel Study of Entrepreneurial Dynamics II (Reynolds, 2011). We provided responses on a 7-point Likert scale, from strongly disagree (1) to strongly agree (7) and averaged the scores. Because detailed records are not generally kept in BOP businesses (Gras & Nason, 2015), for our performance measure, we necessitated an easily recallable figure over a recent time frame that could reflect a larger business cycle. *Performance* is captured by last month's profit (sales minus costs) in Naira (the local currency) and divided by 10,000, for the parsimony of our tables (at the time of this writing, 1 US dollar equaled roughly 360 Naira). Our *unconventionality* scale draws from the International Personality Item Pool (IPIP; Goldberg et al., 2006) and includes four items of a person's nature. We provided responses on a 7-point Likert scale, from strongly disagree (1) to strongly agree (7) and averaged the scores. Our *risk-taking* scale is similarly drawn from the IPIP and includes two items on the same 7-point Likert scale. Appendix A offers the full item lists for the differentiation, unconventionality, and risk-taking constructs. We further control for several variables. First, we control for gender via a dummy variable coded 1=female, 0=male. Second, we control for the education level of the business owner by asking their highest level of education attained on a nine-item scale ranging from no formal education to graduate degree; dummy variables for each level were employed in the analyses. Third, we

include both the age of the individual and the age of the business, measured in years. Fourth, we control for the size of the individual's family by asking the total number of individuals that reside in their household. Fifth, we control for the type of business; tailoring is coded as 1, shoe-making is coded as 0. Sixth, we controlled for the number of employees each firm has, as well as the number of partners involved; each was a count of the number of individuals. Finally, we included whether the business is informal or, alternatively, formally registered with the government; informal businesses were coded as 1, while formal businesses were coded as 0.

Table 1 gives an overview of our sample via descriptive statistics and correlations among the variables we employ. As shown in the table, and unsurprisingly for the region, nearly all business owners are male, the average age among them is roughly 35, the average level of education (i.e., the highest grade completed) is fairly low, the family units are large (at least compared to Western statistics), and the preponderance of businesses in our sample are informal. Somewhat surprisingly, the average levels of differentiation, unconventionality, and risk-taking are fairly high, and while partnerships were rare, the average number of employees is fairly high for BOP research, at nearly six employees per business.

4. Analysis and Results

As our data are cross-sectional, with continuous dependent variables, we employed ordinary least squares (OLS) regression for our analyses. The data were explored for violations of OLS assumptions, and none were identified. The results are presented in Table 2.

Models 1, 2, and 3 address Hypotheses 1 and 2, predicting performance. Model 1 includes only control variables; Model 2 includes the independent variable, differentiation; and Model 3 includes a squared differentiation term to explore the potential curvilinear effects. Models 4 and 5 address Hypotheses 3 and 4, predicting differentiation. Model 4 includes controls only, and Model 5 includes the independent variables of unconventionality and risk-taking.

Table 1. Descriptive statistics and correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1) Performance	11.11	11.84	1.00											
2) Differentiation	5.31	0.66	0.33	1.00										
3) Unconventionality	4.92	0.82	0.31	0.33	1.00									
4) Risk-taking	6.00	1.07	0.07	0.32	0.10	1.00								
5) Gender (female)	0.04	0.20	-0.02	-0.06	-0.02	0.01	1.00							
6) Age	34.33	6.65	0.21	0.12	-0.01	0.01	-0.04	1.00						
7) Education	2.85	1.37	0.12	0.04	0.08	-0.21	-0.02	0.06	1.00					
8) Family Size	9.25	3.79	0.00	-0.09	-0.10	-0.06	-0.21	0.49	-0.05	1.00				
9) Age of Business	12.93	5.85	0.24	0.25	0.02	0.12	-0.08	0.75	-0.04	0.25	1.00			
10) Business Type	0.75	0.44	0.08	0.01	-0.05	-0.13	0.07	0.02	0.18	-0.05	0.06	1.00		
11) Employees	5.82	5.19	0.46	0.30	0.16	0.16	-0.01	0.34	0.11	0.13	0.34	0.17	1.00	
12) Partners	0.13	0.39	0.24	0.05	0.11	-0.01	-0.02	-0.09	0.08	0.04	-0.03	0.08	0.13	1.00
13) Informal	0.84	0.36	-0.32	-0.16	-0.18	-0.05	0.09	-0.04	-0.13	-0.04	0.08	0.05	-0.18	-0.33

Note: All correlations with an absolute value above 0.07 are significant at the 0.05 level. N=240.

Table 2. Regression Results

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
	Performance	Performance	Performance	Difference	Difference
	<i>B</i> (<i>SE</i>)	<i>B</i> (<i>SE</i>)	<i>B</i> (<i>SE</i>)	<i>B</i> (<i>SE</i>)	<i>B</i> (<i>SE</i>)
Gender (female)	-1.67 (3.65)	-1.02 (3.64)	-1.00 (3.59)	-0.21 (0.21)	-0.17 (0.20)
Age	0.20 (0.19)	0.21 (0.18)	0.23(0.18)	-0.01(0.01)	-0.01(0.01)
Education	Incl.	Incl.	Incl.	Incl.	Incl.
Family size	-0.49** (0.23)	-0.42* (0.23)	-0.40* (0.23)	-0.02 (0.01)	-0.01 (0.01)
Age of Business	0.18 (0.19)	0.12 (0.19)	0.06 (0.19)	0.03*** (0.01)	0.03** (0.01)
Business Type	0.03 (1.61)	0.30 (1.61)	0.14 (1.59)	-0.10 (0.09)	-0.03 (0.09)
Employees	0.75*** (0.15)	0.70*** (0.15)	0.69*** (0.15)	0.02** (0.01)	0.02* (0.01)
Partners	6.03*** (2.11)	5.76*** (2.10)	5.67*** (2.07)	-0.01 (0.12)	-0.02 (0.11)
Informal	-6.83*** (2.10)	-6.52*** (2.09)	-5.94*** (2.07)	-0.16 (0.12)	-0.12 (0.12)
Differentiation		2.45** (1.17)	-26.44** (10.63)		
Difference-sqr			2.76*** (1.01)		
Unconventionality					0.18*** (0.05)
Risk-taking					0.12*** (0.04)
R^2	0.33	0.35	0.37	0.24	0.31

Note: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. N=240.

Hypothesis 1 predicts that new-venture differentiation at the BOP is positively and linearly related to performance. As shown in Model 2, the differentiation coefficient is positive and significant ($\beta = 2.45$; $p < 0.05$). Thus, we find support for Hypothesis 1. Hypothesis 2 predicts an inverted U-shaped relationship between differentiation and performance, with a moderate amount of

differentiation being optimal. As shown in Model 3, the coefficient for the linear term is negative and significant ($\beta = -26.44$; $p < 0.05$), while the squared differentiation term is positive and significant ($\beta = 2.76$; $p < 0.01$). As such, although we expected an inverted U-shaped relationship between differentiation and performance, we find the opposite, indicating that a moderate amount of differentiation is the least optimal choice within this setting, while either mimicking competitors or differentiating substantially leads to higher performance. A follow-up calculation – $(26.44/(2*2.76))$ – suggests that the minimum level of performance is reached at a differentiation level of 4.8; deviance either above or below this level of differentiation improves the resulting performance. Hypothesis 3 predicts that unconventionality is positively related to differentiation. As shown in Model 5, the differentiation coefficient is positive and significant ($\beta = 0.18$; $p < 0.01$). We therefore find support for Hypothesis 3. Hypothesis 4 predicts that risk-taking propensity is positively related to differentiation. As shown in Model 5, the differentiation coefficient is positive and significant ($\beta = 0.12$; $p < 0.01$). Thus, we find support for Hypothesis 4.

5. Discussion

The results indicate that either little or substantial differentiation is best at the BOP and that it is the unconventional and risk-taking individuals who tend to buck the trend and pursue differentiation. These findings have several implications for the extant literature and for practice. Regarding contributions to the literature, we first refute the extant literature that predicts that the relationship between diversification and performance is represented by an inverse U-shape. Instead, our results suggest that moderate levels of differentiation are detrimental in BOP contexts. Given our focus on the BOP, and our findings which contradict extant theories, these results provide further evidence for research exploring spatial considerations to entrepreneurial success (Backman & Karlsson, 2013). Second, although an abundance of research has explored the outcomes of differentiation (e.g., Dirisu, Iyiola, & Ibidunni, 2013; Rosen, 1974), far less has explored the individual-level antecedents of differentiation. We offer two novel and salient predictors and thereby extend the literature on unconventionality (e.g., Conger & Kanungo, 1987), risk-taking (e.g., Gardiner & Jackson, 2012), and differentiation (e.g., Porter, 1979).

Our finding that the relationship between differentiation and performance is U-shaped, as opposed to inverted U-shaped, is counter to the prevailing theory on strategic balance (Deephouse, 1999). To explain this counterintuitive finding, we draw on the cognitive perspective of strategic groups. Objectively, strategic groups are firms within an industry that pursue similar strategies (Short, Ketchen, Palmer, & Hult, 2007). In practice, however, venture leaders must cognitively evaluate who their competitors are, which may not always match with objective

classifications (Reger & Palmer, 1996). We suspect that ventures in the Nigerian bazaar context first see decreases in returns to differentiation, and then increases, due to changes in the way that competitors perceive them. Specifically, with low to moderate levels of differentiation, businesses viewed as competitors are noted as non-conformers, opening the door for reprisal. As ventures become increasingly differentiated, however, even if they still may be classified as competitors, others do not cognitively make the connection that they are also non-conformers. As a result, highly differentiated businesses may not suffer similar penalties for differentiation as do moderately differentiated businesses because nobody views the highly differentiated businesses as a threat (Bundy, Shropshire, & Buchholtz, 2013; Dutton & Jackson, 1987).

Further, we suggest that ventures at the lowest strata of differentiation have greater access to information related to the most efficient practices. Deep intra-market linkages to entities that operate within the same competitive space facilitate interactions among entrepreneurs who face the same challenges. These common linkages can facilitate knowledge transfer of the best practices that market forces have selected and retained over time (Alchian, 1950). In turn, ventures that adopt and employ these practices accrue positive returns (Cohen & Levinthal, 1990; Geletkanycz & Hambrick, 1997). Ventures that engage in little to no differentiation gain advantages through their homophilic affiliations when intra-market ties provide a venture with superior access to market knowledge and efficient practices.

Regarding practice, many entrepreneur-support organizations (e.g., microfinanciers) predominantly work with undifferentiated businesses (Alvarez & Barney, 2014). Our research suggests that this is not the only potential approach, assuming that the goal of such organizations is to support the creation of profitable businesses and/or to eradicate poverty. Instead, such support organizations may consider not only encouraging and supporting undifferentiated businesses but also highly differentiated businesses. Further, entrepreneur-support organizations (at all levels of the economic pyramid) are continually asking which entrepreneurs they should support. Our results provide new answers to this question in a BOP context. Inasmuch as differentiation is paramount to performance, our results suggest that support organizations should seek out the unconventional and risk-takers in their midst, as opposed to only considering those who will develop undifferentiated businesses.

5.1. Limitations

Our study includes several limitations. First, our data collection is limited in its geographic and cultural scope. It is possible that the mechanisms proposed in our theorizing may be different or absent in other BOP contexts. Replication and extension of our study in other BOP contexts could add fidelity to our theorizing.

Second, each of our variables is derived from a single source: the entrepreneur. Although there are few other options in developing settings, given that the small businesses therein rarely keep records or report their dealings to the government (Gras & Nason, 2015), this methodology may certainly result in biases (Meier & O'Toole, 2012). Third, our data are cross-sectional, which may allow for reverse-causality in our results (e.g., entrepreneurs are able to differentiate *because* they perform well). We thus recommend that future research on this topic employ longitudinal methods.

6. Conclusion

We advance the understanding of diversification in three primary ways. First, prior work within developed Western contexts indicates that a moderate amount of differentiation is optimal, suggesting the relationship between differentiation and performance is characterized by an inverse U-shaped relationship. We provide evidence that the relationship is reversed within the developing context; that is, it is a U-shaped relationship, whereby a moderate amount of differentiation is least optimal. Second, we demonstrate that, within the BOP context, it is the atypical, the nonconformist, perhaps even the eccentric who pursues differentiation. Within a context filled with copy-cat businesses, it is the unconventional individuals who do not follow the pack and start similar (or identical) businesses. Third, we demonstrate that those higher in risk-taking propensity are more likely to pursue differentiation. This also aligns with our finding that differentiation, particularly moderate differentiation, may be detrimental. We speculate, based on our experiences in the area, that this relationship may be due largely to the risk of competitor backlash and retribution. Those wanting to differentiate themselves under such circumstances must be willing to endure the accompanying risks.

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APPENDICES

Appendix A. Items used for measuring Differentiation, Unconventionality, and Risk-taking

Differentiation

- 1) Right now, are there many businesses offering the same products or services to your potential customers?*
- 2) My potential customers consider my products or services new and unfamiliar.
- 3) My products or services are different than those of my competitors.
- 4) My products or services are better than those of my competitors.
- 5) I put thought and effort into making my products different than those of my competitors.

Unconventionality

- 1) I am considered to be kind of eccentric.
- 2) I know that my ideas sometimes surprise people.
- 3) I do things that others find strange.
- 4) I do not take orders from others.

Risk-taking

- 1) I take risks.
 - 2) I am willing to try anything once.
-

* As this question is a reverse measure of differentiation, we inverted its answer categories (i.e., strongly agree=1; strongly disagree=7).