

2021-12-01

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A. King, K. Pucker. 2021. "The Dangerous Allure of Win-Win Strategies." Stanford Social Innovation Review, Issue Winter, 2021, pp. 35 - 39.

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The Dangerous Allure of Win-Win Strategies

For the past 30 years, celebrated academics and business leaders have promoted the idea that companies often profit by addressing social and environmental problems. Although these proposals have been hailed as promising breakthroughs, they are unscientific and counterproductive.

By Andrew A. King & Kenneth P. Pucker

Strategies for business-led “win-win” solutions to social and environmental problems—in which companies can promote the social good and profit thereby—have gained wide appeal. Associated terms such as “shared value,” “circular economy,” “base of the pyramid,” and “reverse innovation” now pepper corporate reports and foundation websites. Corporate leaders, such as the members of the Business Roundtable, propose that they can simultaneously advance both profit and purpose. Famous academics contend that capitalism itself can be reinvented.

The coauthors of this article have a long association with several of these so-called “win-win” ideas. One, Andrew King, is an engineer turned academic who studies the economics of pollution prevention. The other, Ken Pucker, is the former chief operating officer for Timberland who worked for 15 years to demonstrate the value of a business model committed to “commerce and justice.” Given our backgrounds, one would think that we would be heartened by the present popularity of win-win strategies.

Instead, we are alarmed. We know that these strategies contain improbable mechanisms, promise implausible outcomes, and boast effectiveness that outstrips available evidence. We believe that they also inflict harm because they distract the business world and society from making the difficult choices needed to address pressing social and environmental issues. Their shiny appeal distracts us from adopting more effective strategies whose costs require careful weighing.

From Heresy to Dogma

An exhaustive catalog of win-win strategies is beyond the scope of this essay. To give a sense of their breadth, ambition, and influence, we focus instead on six prominent examples. (See “Win-Win Proposals Through the Years” on page TK.)

The earliest idea of the group, the **Negawatt Revolution**, was proposed by Amory Lovins, a University of Oxford-trained physicist who in 1982 founded The Rocky Mountain Institute, a US-based research organization dedicated to sustainability and energy efficiency. Lovins argued that companies were so inefficient that profits could be made by investing in energy-use reduction. As a result, firms could “solve climate change for fun and profit,” he promised.¹

Not long after, Harvard Business School professor Michael Porter and researcher Claas van der Linde formulated the **Pays to Be Green** approach. They argued that firms were so profligate in their use of resources that simple operational changes could allow firms to be both “green and

competitive.”² Andrew King (one of the authors of this article) identified case examples that encouraged this contention.”³

In the aughts, the late business professor C.K. Prahalad suggested the **Fortune at the Base of the Pyramid** strategy.⁴ He claimed that firms had so neglected the world’s poorest people that enormous profits could be made there, at the “base of the pyramid” (BOP), while also lifting people out of poverty. Business professor V.G. Govindarajan extended this idea in the following decade by proposing the strategy of **Reverse Innovation**: He argued that the innovative potential of BOP markets had been overlooked; if tapped, he contended, valuable innovations would flow from poor to rich nations, engendering both profitable products and green solutions.⁵

Michael Porter added another win-win proposal in the aughts, this time with consultant Mark Kramer, under the rubric of **Creating Shared Value**. They argued that firms had neglected the profit potential of both social and environmental improvement. They also denied that conflicts between private and public objectives are common, and encouraged managers to emphasize efforts that created “shared value”—i.e., value for both shareholders and stakeholders. Doing so, they claimed, would “drive the next wave of innovation and productivity growth in the global economy.”

Sixth and finally, the Ellen MacArthur Foundation has synthesized several of these ideas for social and environmental betterment in recent years as the basis for a **Circular Economy** strategy. The foundation argues that firms can save money by reusing and recycling nearly everything.

The influence of these ideas is hard to overstate. Inspired by notions of profitable energy-saving and poverty alleviation, Jeff Immelt, CEO of General Electric, created a program in 2005, called “ecomagination”, designed to engineer products and services that would save energy and lift people out of poverty—all while delivering superior returns to GE shareholders.⁶ Between 2005 and 2017, Walmart, Nestle, and Enel, announced they were pursuing “shared value” initiatives.

Government policy was also affected by the appeal of these ideas. Under President Clinton, programs were initiated to help firms profitably reduce energy use, toxic emissions, or design more efficient products⁷. President Barack Obama’s November 2016 Climate Action Plan assumed that 20 percent of proposed CO2 reductions could be accomplished through “cost-effective energy efficiency”. The International Finance Corporation initiated several “base of the pyramid” projects, and some policy advocacy groups shifted emphasis from promoting regulation to forming alliances with companies.⁸ The idea that firms could profit by solving social and environmental problems went, as business and sustainability scholar Andrew Hoffman observed, “from heresy to dogma.”⁹

Floating Above Analysis

A well-established principle of economics states that business competition should prevent the existence of a reliable “rule of riches,” because the benefit of any new insight or strategy will be dissipated by both diminishing returns and the adaptation of competitors. To evade this principle, proponents of win-win strategies argue that false beliefs and narrow mindsets have precluded

managers from identifying and harvesting available win-win opportunities. They trace these erroneous mental models to a mistaken acceptance of classic economic theory.

For example, in his speeches and writings, Amory Lovins repeats a parable about an economist and his granddaughter who see a \$10,000 bill lying on the street. The child wants to pick it up, but the economist says “Don’t bother. If it were real, someone would have picked it up already.”¹⁰ C.K. Prahalad tells the same story to explain why a presumed fortune remains untapped at the base of the economic pyramid. Porter and van der Linde use a similar narrative to defend their argument that firms can profit by reducing pollution. Likewise, Porter and Kramer blame economists for “legitimiz[ing] the idea that to provide societal benefits, companies must temper their economic success.”¹¹

Appeals to false beliefs and flawed mental models only provide a partial explanation for why win-win strategies persist. To justify claims of widespread and accessible win-win opportunities, proponents must explain both why managers fail to see them and why competition does not force them to do so. With respect to this problem, win-win theorists have appealed to a number of explanations—imperfect competition, changing conditions, and persistent organizational barriers—but none of these has proven durable.¹²

More commonly, win-win proponents have substituted promises so enticing that they elude rational analysis. For example, Amory Lovins claims that US electrical use can be cut in half with an investment payback of less than a year, and Porter and Kramer assert that shared value can “reshape capitalism and its relationship to society.” Visions this vibrant, economist and strategist Richard Rumelt warns, circumvent the defenses of even skeptical readers: “Bad strategy flourishes because it floats above analysis, logic, and choice, held aloft by the hot hope that one can avoid dealing with tricky fundamentals and the difficulties of mastering them.”¹³

Missing Evidence

What about empirical evidence in support of win-win theories? Although many of these strategies have been around for decades, evidence for their effectiveness remains lacking. This void is often obscured by the use of provocative, but unrepresentative, case studies. In speeches and publications, Amory Lovins uses the example of his home in Colorado as proof of his contention that energy efficiency can be profitable.¹⁴ Protected by multiple layers of gas-filled glazing, Lovins’ house grows banana trees despite being located in the Colorado mountains. Yet this example represents an obvious sleight of hand: No one doubts that it is possible to build a sealed and insulated house; what they question is his contention that it makes economic sense to do so. To prove this, econometric analysis across many houses is required. Only then can hidden frictions and tradeoffs be uncovered.

In fact, researchers have studied energy efficiency extensively, and the best evidence does not support Lovins’ claims.¹⁵ Indeed, some of the most careful recent analysis even suggests that some well-designed programs to encourage energy efficiency cost more than the benefits they create—social benefits included.¹⁶ That means those programs resulted in a lose-lose, not a win-win.

What about the fundamental claim, underlying many environmental win-win strategies, that pollution reduction and financial performance often align? Findings from hundreds of studies (several by Andrew King, coauthor of this article) cast doubt on the existence of a reliable link. Even proponents of win-wins strategies, such as Porter, Kramer, and Harvard Business School professor George Serafeim have recently admitted that, after years of effort, a firm's social and environmental performance does not deliver "alpha"—the tendency of its stock to outperform that of other firms.¹⁷ Yet they infer that this only means that firms are not implementing their strategy of "shared value" properly, and that if they did so, they would in fact achieve significant financial benefits.

Substantial empirical studies of other win-win strategies are almost entirely lacking. We know of no statistical analysis of theories for profits at the bottom of the pyramid, from reverse innovation, or through shared value strategies. In fact, when we asked Porter and Kramer about the empirical support for their ideas on shared value, they pointed to the popularity of their ideas among executives and students and the 18 business cases they had written. Yet selected cases studies provide evidence only of possibility, not practicality.

Worse still, some of the case studies used to promote these strategies seem ambiguous on closer inspection. For example, Allen Hammond, former vice president for innovation at the World Resources Institute, and C.K. Prahalad use the case of a skin-lightening cream as evidence of the potential for profit to align with social gain: The firm gets a sale and the user "feels empowered because of an affordable consumer product" that reduces the social stigma of her having dark skin.¹⁸ Where Hammond and Prahalad see empowerment, business professor Aneel Karnani disagrees: "At best, it is an illusion; at worst, it serves to entrench her disempowerment."¹⁹ Similarly, the most prominent exemplar of Reverse Innovation, a project to invent a \$300 house for Haitians left homeless from the 2010 earthquake, received extensive support from business, academia, and financial institutions. But no breakthrough design was uncovered, and no houses were ever built.

Some of the originators of "win-win" strategies agree that scientific evidence remains missing. In 2015, V.G. Govindarajan told a coauthor of this article that he intended Reverse Innovation to be understood as a proposed "next practice," one option among many that managers might choose to adopt. He said that this placed the "onus on the executive" to test the idea before using it. Another progenitor of a win-win strategy (who requested to remain anonymous) told us that evidence for profits at the base of the pyramid remains missing because many serious scholars have become entranced by the celebrity that can be gained from proposing simple, pain free, ideas. He disparaged these ideas as "three bullet points to a solution" and contended they represented advertisements for consulting services, rather than descriptions of serious proposals.

The style of writing in trade books and popular outlets may contribute to the gap between evidence and claims. "When you write for practitioners," Govindarajan told one of us, "some things you assert." Claims that are limited and conditional in an academic journal (e.g., to quote an article on reverse innovation from the *Global Strategy Journal*: "From time to time ... innovations have the potential to 'trickle up' from poor to rich countries."²⁰) become bolder and more colorful declarations when expressed in popular outlets. (e.g. "Reverse Innovation will

transform just about every industry, including energy, healthcare, transportation, housing, and consumer products.”²¹⁾

The Costs of Magical Thinking

Defenders of win-win strategies reject the notion that their proposals, even if later proven false, can be harmful. Their ideas, they contend, at worst build excitement and provide hope. Jim Yong Kim, the former head of the World Bank, made this point succinctly when defending criticism of Govindarajan’s project to design and build a \$300 house. A self-proclaimed “raging optimist,” Kim disagreed with warnings that untested proposals could create harm: “I think Barak Obama had it right: ‘There is no such thing as false hope. There is only hope.’”²²

We have no doubt that hope is a precious thing, but we also believe that hope that leads to misplaced action and investment can be harmful. Even the best of intentions can have enormous opportunity costs. We should not, as a society, support the sale of magical potions for dangerous diseases—even though they might engender temporary hope. Equally, we believe that using unproven win-win strategies can result in real harm because they can impede more effective systemic solutions and by hindering useful corporate action. And it turns out that President Obama cannot be used to justify prioritizing hope: The quote Kim referenced actually comes from *The West Wing*’s fictional president Matt Santos.

Impeding systemic solutions | Belief in win-win strategies can also delay needed change.

Business professor Aneel Karnani told us that dreamy proposals have slowed the extension of life-giving electrical power to impoverished areas. “By planning to put solar panels on all poor people’s houses, and talking like this, we delay extending the electric grid which is the right solution,” he told us. Something similar can be seen in the story of the \$300 house project for Haiti, an idea proposed by business professor Vijay Govindarajan and consultant Christian Sarkar. Eventually, even the project’s sponsors concluded that the country’s housing problems were caused by social and governmental challenges, and not by a lack of affordable house designs. “We cannot successfully build homes,” Govindarajan wrote with architect Jack Wilson, “without building community, infrastructure, and economic opportunity.”²³ In other words, the money used to create unneeded designs would have been better spent on these difficult systemic problems.

Belief in win-win potential can cause well-intentioned people to take actions that impede, rather than advance, *existing* systemic solutions. For example, Paul Ligon, senior vice president at Casella Waste Systems, told us that some of his customers, convinced by the “circular economy’s” premise that all material should be recyclable, had decided to put food-waste in recycling bins. When this contamination is discovered at processing centers, whole truckloads of material must be directed away from recycling and toward landfill disposal. Such actions, Ligon says, “allow people to feel like they’ve solved the problem, when in fact they’ve made it worse.”

Hindering corporate action | At the corporate level, exaggeration of win-win possibilities can backfire and actually slow voluntary action. Auden Schendler, senior vice president of sustainability at the Aspen Skiing Company, discovered this the hard way. Schooled at the Rocky Mountain Institute, and an early protégé of Amory Lovins, Schendler was certain that vast opportunities existed to make US corporations more energy efficient. On the job, however, he

quickly discovered that opportunities turned out to be harder to implement than he had been led to believe.

Eventually Schendler concluded that exaggerated win-win claims were hindering corporate progress. “You get a business person who’s totally new to it, and has bought the argument hook line and sinker from the environmental community, tries to do it, gets machine gunned coming over the top of the trench, and is now your worst enemy because you lied,” he says.²⁴

Scholar and entrepreneur Eric Simanis argues that belief in theories of win-win action often cause entrepreneurial efforts to fail. Simanis wrote his dissertation under the direction of one of the creators of the base of the pyramid (BOP) theory; he then worked with many companies in Africa, Latin America, and Asia, trying to create profitable businesses that also addressed social problems or reduced environmental harm.

Based on his experience, he concluded that adding in social and environmental objectives could harm business profits. “By trying to do a little bit of development, a little bit of participation, a little bit of business strategy,” he told us, “all we did was create bad businesses.” Eventually, Simanis wrote a series of articles arguing that the fortune at the base of the pyramid was a mirage.²⁵ His advice? “Forget a win-win; just focus on surviving.”

Putting profit aside, Guido Palazzo, professor of business ethics at HEC Lausanne, argues that belief in win-win strategies can actually decrease a firm’s adherence to moral imperatives. After he criticized an international food and drink company for their use of slave labor in Ghana and Cote d’Ivoire, executives invited him to visit a “shared value” project. During the trip, he discovered that executives seemed to believe that these win-win projects compensated for their immoral actions elsewhere. Horrified by the loss of moral boundaries, Palazzo told them “fix your core problems first...don’t let shared value obscure your basic responsibilities.

What Now?

We think our article has two main implications. First, we should all be careful to critically analyze new strategies, particularly those that promise pain-free solutions. Second, we should increase our support for proven interventions, even if they involve some sacrifice.

As former believers in win-win strategies, we have had to train ourselves to be more critical consumers of new ideas. We have found it useful to remind ourselves that theories made after observing cases should not be trusted, no matter how alluring they may be.²⁶ Theorizing explanations for observed events, philosopher Ed Leamer warns, results in “literature, not science.”²⁷ Yet, the resulting theories, like good literature, are often very enticing because they match what both the analysts and her audience wants to believe. Physicist and Nobel Laureate Richard Feynman long warned about this human tendency to pick attractive explanations: “The first principle is not to fool yourself, and you are the easiest person to fool.” Responses to the recent epidemic caused by the novel coronavirus responsible for COVID-19 demonstrates this clearly. Some researchers, hoping to find an easy cure, perceived in case examples indications of a potential treatment. But seeing an individual recover after taking the antimalarial drug hydroxychloroquine does not demonstrate its effectiveness. Only systematic testing can do that.

Unfortunately, testing can take years. So what can be done in the meantime? Evaluating explanations for their conformity with particular “virtues” can sometimes help. These include things like evidential accuracy, consistency, and simplicity. That is, better explanations account for a lot of observed facts, explain the connection between those facts, and require no special pleading or unnecessary complexity.²⁸ If an explanation demonstrates these virtues, it may be judged “more likely”, but how true or predictive it really is remains unknown, so it still must be handled cautiously. By our judgment, the six win-win proposals described in this essay don’t exhibit these virtues.

We think the six proposals we discuss reveal the dangerous appeal of pain-free solutions. It is extraordinarily enticing to believe that corporations will solve our global problems. Corporate promises of social responsibility, commitments to stakeholder focus, and illustrations of win-win solutions create the impression that companies can address social and environmental challenges. It is pleasant to believe ex Pepsi CEO Indra Nooyi, when she speaks of corporations as “little republics” that can remedy social and environmental problems. Nooyi may have good intentions, but one must remember that Pepsi continues to sell sugared drinks and salty snacks. They do so because the structure and rules of the system in which they compete remains focused on profitability. As a result, companies can sustain voluntary efforts only as long as they deliver traditional financial results. Consider that when GE’s stock price fell by more than 50 percent, activist investors wrote a white paper called “[Transformation Underway ... But Nobody Cares.](#)” CEO Jeff Immelt was encouraged to retire and his successor undid many of his initiatives.

Timberland, a company where coauthor Ken Pucker worked as COO, was once a prominent case example of the potential for voluntary corporate action. It pioneered strategies that promoted community service, protected global human rights, and advanced environmental stewardship. As a result, it was showered with honors: as a top 100 company to work for by *Fortune* magazine, a platinum investment by *Forbes* magazine, a top 10 ethical company by *Business Ethics* magazine, and a Ron Brown Corporate Leadership award from the President of the United States. Yet, Timberland’s carbon footprint continued to grow, and margin pressure led the company to close its US factories. “Purpose is essential,” Pucker now tells his students, “so too is profit.”

We believe it is time to turn away from alluring unproven strategies and refocus our efforts on those interventions that have proven effective – such as government regulation. When US citizens were faced with dirty rivers in the 1970s, they didn’t encourage firms to consider that it might pay to be green; they demanded that pollutants be regulated. When smog overcame many US cities, activists didn’t ask firms to create shared value; they called for emission standards. When the world faced its first global threat to our shared atmosphere, growing damage to our ozone layer, citizens did not ask for companies to create new “social purpose” charters—they forced global leaders to negotiate a worldwide ban on chlorofluorocarbons (CFCs). As a result, our rivers are healthier, our air is safer, and the hole in the ozone layer is closing.

When considering difficult global challenges, including those now presented by COVID-19, we are sure to be enticed by new and seductive ideas that promise pain-free solutions. When so tempted, we think critically about the proposal. Has it been tested? Does it have properties that make it likely? And we must remember that our hopes can lead us astray. Critical thinking and

implementation of proven interventions —not faith in oversold ideas—provides us with our best chance to deliver much needed social and environmental progress.

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Win-Win Proposals Through the Years

These six strategies illustrate how win-win claims rest on allegedly false beliefs that blind companies to profitable and socially valuable possibilities.

Title	“False” Belief Impeding Action	Win-Win Claim
Negawatt Revolution 1980s	Efficiency becomes progressively harder to achieve.	Climate change can be solved for fun and profit.
Pays to be Green 1990s	Firms pick the level of pollution that maximizes profits.	Firms profit by reducing pollution.
Fortune at the Base of the Pyramid 2000s	Limited income and lack of infrastructure makes poor people an undesirable market.	Selling products to the poor will reduce poverty and increase profits.
Creating Shared Value 2000s	Firms pick the level of social service and environmental protection that maximizes profits.	Providing social value will drive innovation, productivity, and increase profit.
Reverse Innovation 2010s	Products should be designed for the needs of the ultimate user.	Inventing with/for the poor is a good way to invent for the rich.
Circular Economy 2010s	Eternal reuse of material is neither possible nor cost effective.	Firms can save money by reusing and recycling almost everything.

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