

Preface

The poor themselves can create a poverty-free world. All we have to do is to free them from the chains that we have put around them. – Muhammad Yunus

This book is about a relatively new research domain that is focused on the interface between poverty and entrepreneurship. For simplicity, we shall refer to it as poverty entrepreneurship. It might seem ironic that an activity (people who are living in poverty and decide to start a business) which has been going on for centuries represents a relatively new area for scholarly research. Yet, entrepreneurship itself is a relatively new domain when it comes to theorizing, hypothesizing, and carrying out empirical studies, with much of the published work appearing in the past 40 years. As a result, we know relatively little about the impact of the poverty experience on new venture creation, or the outcomes of businesses created by the poor.

A central question underlying these chapters concerns the role of venture creation in the lives of the poor, and whether entrepreneurship represents a viable pathway out of poverty. The short answer appears to be “it depends.” Establishing what it depends upon is the concern of the authors featured in this book. As the reader shall see, the ability of low-income and disadvantaged people to create sustainable enterprises that improve their economic lives and contribute to their overall well-being is affected by everything from personal capabilities, education, family support, and faith to the availability of microfinance, technology, supportive community ecosystems, and a munificent institutional environment. The implication is that context matters, and the kinds of contexts in which poverty entrepreneurs are consistently able to overcome constraints imposed by severe scarcity and lack of choice, and ultimately thrive, have not been determined.

To understand poverty entrepreneurship, we must first understand poverty. Failure to do so is arguably a flaw in much of the existing research. The long-term effects of being in poverty are not well-established when it comes to pursuing a challenging undertaking such as entrepreneurship, where considerable uncertainty exists, things are emergent, there are ongoing encounters with novelty, multiple roles must be learned, and the founder controls relatively little. For its part, poverty is a multidimensional construct that transcends a lack of income. It is tied to deficient education, substandard housing, food insecurity, chronic health problems, physical insecurity because of crime, single parenthood, teenage pregnancy, lack of dependable transportation, limited networks, social exclusion, discrimination, and more. The complex interactions among these characteristics over a prolonged time period have significant implications when one is attempting to start and develop a business.

The majority of ventures started by the poor perform marginally, are inefficient, create few jobs, generate little innovation, and fail at a relatively high rate. They often fall into what we call the commodity trap, where the business is not well-differentiated; faces considerable competition; is labor-intensive with the founder performing much of

the labor; operates with limited capacity and a lack of equipment and technology; has little bargaining power with suppliers, distributors, and customers; and underprices. As a result, the entrepreneur struggles with low profit margins and low volumes. The result is often negative stereotyping, reflected in a general sense that these ventures do not really matter and should not be invested in, and a tendency to denigrate this form of entrepreneurship. It should not be surprising, then, that the actual contribution of businesses created by people experiencing poverty is significantly under-valued.

The reality is that, around the world, impoverished people are starting more ventures than those in other income categories. This includes formally registered businesses as well as millions of informal sector ventures. These ventures represent a sizable proportion of GDP in most developing countries and a meaningful component of GDP in many developed countries. They create jobs for millions of low-income entrepreneurs, serve as an economic lifeline that enables many of the poor to survive, and provide a pathway for some of these individuals to escape poverty. They create value for customers, serve market niches ignored by incumbent firms, often pay taxes, and can serve as a source of social stability and investment in low-income communities. Perhaps of the greatest importance is that these ventures serve as a vehicle for developing skill sets and capabilities (human capital), self-identity, self-efficacy, personal meaning, voice, and an ability to contribute to one's community.

Entrepreneurship under poverty conditions is not simply conventional entrepreneurship but with severely limited financial resources. The complex mosaic of the poverty experience suggests a need for a much more nuanced understanding of these entrepreneurs and their ventures. We believe that entrepreneurship holds much potential for addressing the complexities of poverty, but that the potential of these ventures to enhance well-being and life quality is not being sufficiently realized. The current volume seeks to shed light on the kinds of contextual factors and considerations that can help nations and communities realize this potential by facilitating the creation of economically sustainable ventures.

The book is organized into four major sections. In Part 1, we explore the nature of the poverty and entrepreneurship interface. In the opening chapter, we address some of the misconceptions surrounding venture creation by the poor, while introducing a new paradigm for the domain labeled as poverty entrepreneurship. This is followed by an exploration of how the complex mosaic of poverty impacts the individual when attempting to launch a business. We introduce the four liabilities of poorness and draw implications for the types of opportunities pursued and ventures created. Attention is also devoted to understanding the constraints poverty circumstances can place on an individual's opportunity horizon, and ways the depth and breadth of this horizon can be expanded (Chapter 3). This part concludes with an interesting overview by Soleimanof and colleagues of key theoretical frameworks that can help advance our understanding of the poverty and entrepreneurship interface.

Part 2 investigates some of the key contextual variables affecting the poverty and entrepreneurship interface. In Chapter 5, Webb and Barzuna-Hidalgo focus on the

role of the informal economy in developing and emerging economies. The authors critically assess how policymakers have tried to reduce the size of informal economies by incentivizing formalization and suggest a different way of looking at formalization, highlighting the benefits of a more relational approach that can build trust between formal institutions and informal economy actors through continuous semi-formalization efforts. Morales (Chapter 6) further expands on the context of the informal sector in developing countries, exploring different factors that can improve the well-being of individuals operating within this sector. The characteristics of registered and unregistered firms in Indonesia are explored by Floridi and Agustina (Chapter 7). They examine the institutional and social network characteristics of these businesses, finding that informal entrepreneurs experience limited access to policies and programs, even as they are able to use informal networks to overcome institutional gaps and market failures. Ault and Spicer (Chapter 8) review and integrate recent research from a comparative institutional perspective to study the effects of developing countries' institutional heterogeneity on entrepreneurial processes and outcomes in the context of poverty. They emphasize how distinctions between subpopulations within countries can be traced to institutional settings. We then turn our attention to how entrepreneurial ecosystems influence poverty. Roundy (Chapter 9) conducts a literature review that reveals how poverty entrepreneurship ecosystems can have positive or negative effects on poverty entrepreneurship, depending on the context, with policymakers having different degrees of influence on creating ecosystems that serve the poor, and ecosystem leaders being crucial in helping these entrepreneurs access community resources. Next, Douaihy and colleagues (Chapter 10) take a complex adaptive systems perspective to explore sub-ecosystems dedicated to poor entrepreneurs in developed countries. The authors emphasize how the role and functioning of these sub-ecosystems foster social and economic inclusion for the poor. Next, we shift our attention to child entrepreneurship in Bangladesh. Jaim (Chapter 11) explores how children initiate and develop businesses on a university campus, focusing on the role of family members (i.e., parents and brothers) in supporting the entrepreneurial activities of these children. In Chapter 12, Chatterjee investigates the challenges and implications of women's entrepreneurship in low-income, emerging markets. The author underscores the need for tailored policies, adopting a sensitive and integrated approach, to effectively address these challenges. Bikorimana and Nziku (Chapter 13) examine a particular group of women entrepreneurs, refugees in Scotland. The authors examine key constraints these refugees face while creating and growing their ventures. The part ends with an intriguing discourse on misconceptions and systemic challenges at the interface between race, poverty, and entrepreneurship by Tucker and Croom (Chapter 14).

With Part 3, we consider specific mechanisms to facilitate the creation of economically sustainable ventures by the poor. Two chapters address diverse aspects of faith and its relationship to entrepreneurship and the poor. Busenitz and colleagues (Chapter 15) argue that involvement in religious communities enables poverty entrepreneurs to move toward "venture flourishing"; a human flourishing-based construct. The authors suggest

that the stronger the affiliation poverty-based entrepreneurs have with their local religious community, the more effective they become in navigating the entrepreneurial journey. Faith-driven decision-making helps navigate uncertainty more effectively, and involvement with a religious community helps poverty entrepreneurs to emancipate themselves from a much narrower and restrictive social status identity. Next, Brown (Chapter 16) presents a more anecdotal and personal perspective on the role of faith and entrepreneurial decision-making among these entrepreneurs and introduces a model for capturing the impacts of faith. Given the severe resource constraints under which poverty entrepreneurs operate, Castellanza (Chapter 17) presents several strategies for overcoming resource scarcity. The author breaks down some of the myths surrounding poor entrepreneurs' businesses and specifies how poor entrepreneurs' resources differ from those of their richer counterparts, necessitating a unique resource-focused approach. Morris and Kuratko (Chapter 18) explore the concept of entrepreneurial hustle, which is about identifying and executing urgent, creative, and unorthodox actions for overcoming the severe constraints confronted by poverty entrepreneurs when developing a venture. The authors argue that the experience of poverty can foster a hustling mindset as a survival technique and examine how hustle can facilitate bootstrapping, resource leveraging, improvisation, and guerrilla behaviors. Next, we turn our focus to access to finance. Ranabahu (Chapter 19) presents a unique perspective on access to microfinance among women poverty entrepreneurs who suffer from gender-based violence. The findings suggest that this access has a paradoxical role in gender-based violence. Specifically, while the risk of experiencing violence increases for some women who participate in microfinance schemes, for others, the risk decreases. Simba et al. (Chapter 20) focus on access to finance for women entrepreneurship in Nigeria, exploring three types of financing: Ajo – a traditional savings club, family financial contributions, and the bank. The results show how informal finance takes precedence over formal finance. Lawson-Lartego (Chapter 21) presents microfranchising as a strategy to provide access to essential services for individuals at the base of the pyramid and contribute to poverty alleviation. The author analyzes case studies in the agriculture sector from various geographical contexts. Mozumdar and colleagues (Chapter 22) explore patterns, processes, and socioeconomic impacts of agro-machinery-based entrepreneurship in a developing country context. Using qualitative data from Bangladesh, the authors identify three models or forms of agro-machinery-based entrepreneurship that benefit from different forms of institutional support. Dao and colleagues (Chapter 23) focus on marketing practices and explore how these, combined with cultural norms, can influence the entrepreneurial success of women in Côte d'Ivoire. Wanyama (Chapter 24) explores different types of cooperative enterprises and their contribution to poverty reduction in Africa. The author argues that further diversification of cooperative enterprises has broadened economic activities for their members and extended livelihood opportunities to others in society. Finally, DeNoble and colleagues (Chapter 25) explore the importance of mentorship in supporting poverty entrepreneurs. The authors review different models for effective mentoring when working with low-income and disadvantaged entrepreneurs.

Finally, in Part 4, we establish some priorities for advancing the poverty and entrepreneurship interface. Alain Fayolle (Chapter 26) provides a unique perspective on the kinds of research questions that matter when considering venture creation by the poor, while in Chapter 27, Vickerie and Hayes examine approaches and gaps when it comes to the formulation of public policies. McDonald (Chapter 28) reflects on insights shared by successful entrepreneurs from poverty backgrounds regarding their needs when creating ventures, and Reynolds (Chapter 29) considers an entrepreneurship and poverty intervention and explores approaches to scaling its impact.

Our hope is that the diverse range of insights shared by these authors serves three key purposes. First, this work can help ignite the pursuit of new research questions and endeavors, in the process producing a richer body of evidence regarding sustainable venture creation by the poor. Second, the perspectives provided here can be instrumental in helping government officials rethink how a mix of policy initiatives and new forms of institutional support can foster successful entrepreneurship on the part of individuals in severely disadvantaged circumstances. Third, we believe the foundation provided here can contribute to the building of better-designed entrepreneurial ecosystems at the community level, together with innovative intervention approaches that much better reflect the needs of these entrepreneurs.

In the final analysis, poverty should not be seen as a characteristic of an individual, but rather, of a context. As Carr and Bandawe (2011) remind us, the question is one of determining how we go about empowering this context. We hope this volume helps to demonstrate the potential of entrepreneurship as a source of empowerment, while providing direction in terms of how to surmount the significant obstacles that stand in the way.

– Michael H. Morris and Susana C. Santos

References

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