Entrepreneurship and poverty: introduction to the special issue

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Biographical notes: Leo-Paul Dana has graduate degrees from McGill University and from the Ecole des Hautes Etudes Commerciales. Currently Senior Advisor to the World Association for Small and Medium Enterprises, he formerly served as Deputy Director of the Nanyang Business School International Business MBA Program, and Visiting Professor of Entrepreneurship at INSEAD. He is the founder of Kluwer's *Journal of International Entrepreneurship,* and the author of several books. His reference volume, *Entrepreneurship in Pacific Asia: Past Present & Future*, has been on the bestseller list for several years. His biography appears annually in the *Canadian Who's Who* as well as in *Who's Who in the World.* Currently based at the University of Canterbury, he frequently serves as Keynote Speaker to diverse audiences.

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We are pleased to bring together recent research from authors from Canada, Croatia, India, New Zealand, the UK, and the USA, to present to you this special issue of the *International Journal of Entrepreneurship and Innovation Management.*

We expect that our readers will be grouped into two types. The first, perhaps a majority, will be pre-disposed to the view that the cure for poverty in any region of the world is to stimulate more entrepreneurial business activity and business start-ups. Others will be inclined to a different view: that poverty alleviation requires deeper systemic changes. According to the latter view, at the very least a change of attitude, agenda, mindset, or political philosophy is needed amongst the world's more influential actors, including corporations, lobbyists, governments, international institutions, etc.

Both camps can draw upon very credible supporters. The Nobel laureate Gary S. Becker, for example, has observed that "the fraction of the world's population living at less than $2 a day fell by about 20% during the past three decades" (of rapid globalisation and the triumph of capitalism). Furthermore, "the world gap in life expectancy (also) narrowed considerably, despite the raging AIDS epidemic in Africa" and since 1950 "real per capita income grew by about 2% per year around the world".

According to another Nobel laureate, Joseph Stiglitz, it is the very same globalisation that has spawned inequities and hypocrisies. Special interest groups (mainly corporate lobbyists) within countries have operated behind closed doors to put in place global policies, such as those in the Uruguay Round of GATT negotiations. These contribute to a situation whereby the poorest countries, such as those in sub-Saharan Africa, became *worse off* at a rate of about 2% per year. With regard to trade barriers, for example, Stiglitz said publicly that "the basic issue is one of fairness" and this "is something that everyone can understand".

McMillan (2002), taking a middle position, argues that "Global poverty cannot be eliminated by sharing the wealth (2002, p.213)", and concludes that globalisation "neither impoverishes poor countries nor enriches them (2002, p.222)".

In these days when modes of communications have themselves become profit-driven competitive entities, there is an inevitable tendency to place audience appeal ahead of detailed and thorough explanation. Communications are framed accordingly. As is rather well known to all politicians, one can select statistics, studies and spokespersons that appear to support any required position, but whose real significance demands further critical inquiry. For example, one might try to find out how much of the average 2% growth in per capita income since 1950 was due to the high tax, high-spending welfare policies in several developed countries in the 1950s and 1960s.

Some philosophers have concluded that we cannot have a view of the world that does not reflect our interests and values (e.g., Putnam, 1990). However, in this special issue on entrepreneurship and poverty, we have intentionally thought of the work itself as a *public good.* Accordingly, we have tried to avoid promulgating any particular ideology. To achieve a balance (or perhaps a new synthesis) between the conflicting positions, one can of course turn to other Nobel laureates. For instance, Amartya Sen, in *Development as Freedom,* explained that poverty reduction, like the full realisation of human potential, is a multidimensional phenomenon that requires a multifaceted approach, but one that is set in a context of broad and deep political freedom.

It seems that the world needs innovative entrepreneurial activities; but in order to alleviate poverty *and* create wealth, these activities must be profoundly supplemented. This message seems to be reinforced by the varied contributions to this special issue.

In the first paper, Alan Singer observes that entrepreneurs and corporations currently do not view poverty alleviation as a strategic priority. It is argued that this mindset or agenda, with its associated ideology, is unfortunately a major cause of poverty in the world. Distinctive *forms* of poverty are then identified, together with a review of the positive and negative direct effects on each form of the various types of entrepreneurial activity. These are described with reference to multiple forms of capital (i.e. financial, human, social, etc.). In order to reduce poverty, Singer argues that contemporary entrepreneurs have to find ways of limiting the negative and destructive aspects, by *intentionally* designing or augmenting their business strategies. This is nothing other than an invitation to re-consider, or perhaps to update, Adam Smith's often-quoted observation that he never knew (i.e. up to 1776 at least) "much good done by those who affect to trade for the public good". Some examples of augmentations are then set out, each involving what he calls "strategic partnerships against poverty".

Also concerned with strategy, the contribution from Matthew Walley addresses an important psychological dimension of the globalisation process. The paper considers the possibility of myopia (cognitive errors, inappropriate heuristics and paradigms) by First-World entrepreneurs when they assess strategies for entry into LDC emerging markets. Several episodes are outlined where First-World paradigms appear to have been applied to strategic investments in emerging markets, resulting in subsequent failures or costly adjustments. The episodes include Korean *Daewoo* in Eastern Europe, where local poverty was under-estimated; *Swastik-Pepsi* in India, where the difficulties of distribution were apparently underestimated; *Hindustan-Lever* in India, where the bottom-of-pyramid segment was overlooked in a classic case of marketing myopia. Finally, the topical case of *Enron* in India is mentioned. It seems that some combination of self-deception ideological myopia and general lack of concern for the poor resulted in many problems with the Dahbol power project, not just the infamous failure of the parent corporation. The need for critical reflection is perhaps greatest in the context of entrepreneurial corporations that have derived their collective cultures and mindsets within economically advanced countries, but subsequently operate through subsidiaries in LDCs where levels of poverty are relatively high and where people's priorities and mindsets are quite different.

Ravi Bhensdadia focuses on the rural poor. He notes that a variety of factors prevent the rural poor from responding as well as they might to market opportunities. These include poor information, weak institutions, poor infrastructure, and inadequate control over assets. Instability and uncertainty at the macrolevel also prevent any broader economic growth from being fully translated into improvement in the welfare of the rural poor. The paper then surveys various 'channels' through which the many changes associated with globalisation affect the welfare of rural poor. Agricultural trade liberalisation has so far been achieved only to a very limited extent. Whilst developed countries often advocate free trade, agricultural protectionism by the developed industrial countries persists. Technological progress in the life sciences tends to neutralise any residual tendency for the forces of globalisation and growth to favour labour-intensive agriculture in developing countries. Although there are potential benefits from the rapidly expanding markets for exports and improved access to technology, the potential has not been fulfilled, so that the rural poor often lack access to the assets and services necessary for entrepreneurial success.

James Richardson's contribution focuses on entrepreneurship in Asia. He notes that numerous programmes have been initiated by governments and international development organisations in order to stimulate and support entrepreneurs in both developing and developed countries of Asia. Many such programmes are focused on the very poor and they involve quite large public and private investments. A number of studies have looked at the effects of specific entrepreneurial support programmes. These have reported relatively short-term effects on fairly narrow target populations. These positive reports have probably helped to fuel the interest in entrepreneurship support programmes among the wider international development community. Similarly, the reported successes of microfinance programmes have spawned many imitators. Overall, however, the available studies indicate that the relationship between entrepreneurial activity economic development and poverty alleviation is complex, in that entrepreneurial activity appears to be neither necessary nor sufficient for economic development and poverty reduction to occur.

Mei Hwa Ang looks more closely at the above mentioned microfinance programmes, their record and their prospects for empowering the poor. She first notes that there appears to be ‘an epidemic’ of poverty, spreading throughout the world, so that effective measures must be taken. One of the many constraints of the ability of the poor to improve their circumstances is the lack of credit at reasonable cost. Access to microcredit has already been shown to be an effective tool in the battle against substandard living conditions and exploitation. With suitable credit facilities, the poor, especially women, are able to become entrepreneurs, creating and growing sustainable microenterprises. This realisation of human and economic potential of course requires a suitable political context: the absence of political oppression and constraints. When political and institutional constraints are removed, entrepreneurial activity typically follows in ways that generate wealth and well being for the individual, their families, as well as the overall community.

The contribution of Pia Ahmad, Michael E. Gorman, and Patricia H. Werhane, elaborates upon the above mentioned episode of marketing myopia by Hindustan Lever in India. In First World markets for soaps and detergents, there is a long-standing practice of positioning the product as a minor status good: adverts typically depict the product in use in attractive situations. Whatever the social benefits and limitations of this traditional practice might be, it does appear to have unduly influenced the marketing strategy of *Lever* in the Indian region. Corporate managers have tended to believe that the only profitable segment for their detergent was the urban middle class and elite. Meanwhile, an Indian entrepreneur produced and marketed a detergent, Nirma, targeting the poor rural sector. By 1977 Nirma was the second largest volume seller in the country. The authors cite a recent paper by Prahalad and Hart, in which it was noted that MNCs have typically marketed to *only 30% of the world’s population.* Marketers have attended to the top three tiers of a four tier ‘pyramid’. It has been assumed, habitually, that Tier 4 lacks the ability to pay. Furthermore, the common description of Tier 4 as the ‘disorganised sector’ might itself be a psychological barrier to marketers, over and above the reality of absent infrastructures. The Nirma episode helps us to reframe and redescribe the Tier 4 market segment. In fact Tier 4 can provide MNCs with a base camp from which to launch an effective attack upon all levels of the pyramid. Put differently, deliberately serving the rural poor can sometimes be good strategy, in more senses than one.

Until education and corporate media seriously adopt a new programme, we will continue to see, for example, proposals requiring ethical screening met with howls of outrage by widely read business ‘review’ newspapers; or slick media appeals to end apathy towards global poverty (which is increasing, according to most published reports), set directly alongside reports and justifications of executive retirement packages in tens or hundreds of millions (despite disgraceful financial and social performance of the corporation for which the retiree was supposedly ‘accountable’). In compiling guidelines for ethical investment, it should be remembered that poverty has been prominent among the various root causes of SARS and the spread of terrorism, which have in turn had massive effects on investment performance. This is but a foretaste of a rather likely future, as environmental- and security-related costs further increase, reducing market ROE.

The final paper, by Senior Lecturer Teresa E. Dana, notes that many people kindly attempt to do good. Yet, she notes how some actions, although intended to be kind, may have seriously harmful consequences.

We can perhaps start to salvage humane ideals, with a more peaceful future, only when we recognise the big picture and re-acquire the historical sense. For example, there was some truth in Noam Chomsky's blunt comments about globalisation (or managerialism, corporatism, etc) being a 'con trick' successfully perpetrated on the entire world. Let us hope that at least academia can see through it.

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Reference

McMillan, J. (2002) *Reinventing the Bazaar: The Natural History of Markets,* Norton, New York.