Enterprise models that help alleviate poverty

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Credit: University of Michigan

While the understanding of how specific business enterprises alleviate poverty continues to grow, research that compares impacts across business models remains scarce.

Ted London, adjunct professor of business administration at the University of Michigan Ross School of Business, compared several business strategies to explore how each impacted young children.

Young children were the focus as they are perhaps the most vulnerable to any changes in well-being. The findings were presented at the Academy of Management annual conference in Atlanta.

"We tend to assume that comparing impacts across enterprises is not feasible," said London, also senior research fellow at the William Davidson Institute at U-M. "Holding on to that assumption—which our study shows isn't true—is a real roadblock in our understanding of how best to use enterprises to alleviate poverty."

The study looked at businesses selling to and buying from those at the "base of the pyramid," or the 4 billion people who live on roughly $4 a day or less in low-income markets in the developing world. Their impoverishment, combined with the impoverished market environment in which they transact, excludes them from participation in the formal economy.

London and co-author Colm Fay, also with WDI, analyzed four enterprises that showed substantial similarities within each strategy and substantial differences across strategy. The results show that both business strategies have both positive and negative impacts.

Furthermore, while no one bottom-of-the-pyramid business strategy excels on all poverty-alleviation dimensions, the researchers found identifiable relationships between business strategies and poverty alleviation outcomes.

The impact varied by business strategy, the role of the stakeholder in the business model, and decisions by intermediaries within family unit. Also important were the relative weightings of different impacts and the unequal impacts of positive vs. negative changes in well-being.

"People assume poverty is income. Poverty is about a lack of well-being and well-being is multidimensional," London said. "If we use a multidimensional view of who is impacted—the key stakeholders in the business model—and how they are impacted or the key dimensions of poverty—we can compare impacts across different business strategies."

Provided by University of Michigan

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