

Poor people are business owners, too—but myths around poverty and entrepreneurship hold them back, says researcher

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Nearly 1 in 5 people in the world lives in poverty. Even in many developed countries such as the U.S., poverty rates [exceed 12%](#). In an

age of breathtaking technological progress and dynamic social change, poverty remains stubbornly persistent.

As a [professor of entrepreneurship](#), I'm interested in a critical question: Can people in poverty create their own path to prosperity? In other words, is venture creation a viable poverty alleviation tool?

[My work](#) has shown that it can be—with the right kind of support. However, that support is often lacking.

A big part of the problem is ignorance: Most people simply don't know much about poverty and entrepreneurship. There are plenty of myths when it comes to the ventures of the poor, due in part to the lack of hard data about the businesses of those in poverty.

These misconceptions have influenced public policy officials, economic development professionals and academics. As a result, they tend to undervalue the important economic and social role that these businesses play.

In an attempt to correct the record, here are six facts that people should know about poverty and entrepreneurship.

Fact 1: Poor people start businesses—lots of them

It's a myth that entrepreneurship is just for the rich. In fact, many ventures across the globe are started by people in disadvantaged circumstances—actually most of them. While hard data is difficult to come by, the evidence we do have is suggestive. For example, in some high-poverty sub-Saharan African countries, as many as two out of three adults [operate or are in the process of starting their own business](#).

Such small businesses are [arguably the backbone](#) of many developing

economies, where [over 50%](#) of the population can be in poverty. Even within developed economies, such ventures can be responsible for a meaningful component of gross domestic product.

Fact 2: Businesses run by poor people create value

Although people in poverty disproportionately create "survival businesses" that generate small profits, it's wrong to assume that makes these ventures less valuable. Such businesses provide jobs to [millions of impoverished people](#), representing an economic lifeline. They [create value in the marketplace](#), filling niches that aren't attractive to incumbent firms.

And they create more than just economic value: These businesses are embedded in the fabric of communities, providing a source of social stability. They pay taxes and can [produce spillover benefits](#) such as reduced crime, increased school completion rates and community pride.

Fact 3: Entrepreneurship can help alleviate poverty

A growing body of research suggests that higher levels of entrepreneurship are associated with [greater reductions in poverty](#). For example, one analysis found that areas with the highest rates of entrepreneurship among the poor demonstrated the [largest reductions in poverty](#) over a six-year period.

This shouldn't come as a major surprise. After all, while people in poverty often create survival businesses that generate small profits, venture creation represents a critical vehicle for [human capital development](#). People who start businesses learn how to organize production, manage cash, serve customers, set prices and coordinate logistics.

What's more, the entrepreneurial experience can enable self-sufficiency, [identity development](#), a sense of pride and purpose, and the ability to give back.

Fact 4: Off-the-books businesses have value for society

Poor entrepreneurs often start what economists call "[informal businesses](#)"—enterprises that aren't registered with the government and that operate under the radar. These often attract criticism.

But while off-the-books businesses may not be legal, the informal sector represents 50% or more of the economy in many developing countries, and [as much as 20% in some developed nations](#). It represents a vast incubator that sustains the poor as they experiment with businesses and learn. In my opinion, this hidden enterprise culture should be nurtured.

Fact 5: The biggest challenge isn't always lack of money

People often assume that the key to helping the ventures of the poor is to provide more capital. But despite a clear need for funding, some entrepreneurs may not be ready to make effective use of additional money. Regardless of how motivated or hard-working they are, the core issue for entrepreneurs is the ability to convert means into ends.

When an entrepreneur lacks key abilities, such as bookkeeping, selling or inventory management, research suggests that to be effective, funding should be coupled with [other forms of support](#). An investment is likely to be more productive when it is tied to participation in training and mentoring programs. Access to incubators, attendance at networking events and related developmental activities are also important.

Fact 6: There's more than one way to succeed

People in the world of entrepreneurship love a big success story. It's all about picking winners. That kind of thinking works against poor entrepreneurs, who generally start basic businesses that don't employ novel technologies, and who often have severely limited resources.

To realize the potential of entrepreneurship, it's worth rethinking the definition of success. For the poor, success could be getting the business established and making sales, earning a profit. It could be changing the entrepreneur's economic circumstances, hiring employees—particularly others in poverty—or adding another location.

It could keep the business going for some number of years, providing a kind of legacy. Other success indicators can include reducing the dependency on one's own labor, satisfying customers and [the ability to give back to the community](#).

In the end, success is about having a better life. And research is demonstrating how entrepreneurship can make this possible.

Venture creation is not a silver bullet. Poverty is complex, and building a sustainable business is difficult. Realizing the promise of [entrepreneurship](#) requires that we get past these myths and develop the kinds of supportive environments that level the playing field.

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