

Poor communities a 'hotbed' of entrepreneurial creativity, but need help to grow long-term

26 May 2016

Necessity can be the mother of invention, but without financial and business development support, many impoverished entrepreneurs can't get past the start-up phase of establishing a unique new business.

Using a national survey on entrepreneurship, researcher Laura Doering showed in a recent study that low-income entrepreneurs in Panama were just as likely as wealthier people to start early-stage businesses selling new products. But they had lower rates of sustaining those businesses into long-term profitability.

When Prof. Doering interviewed low-income entrepreneurs in the Central American country, she found that their frequent urgency to quickly turn a profit so they could support themselves, as well as the longer time required for their often equally poor customers to adopt the new product, contributed to the low long-term success rate.

"Poorer entrepreneurs often don't get the chance to profit from the creativity that they're bringing to market," says Prof. Doering, who is an assistant professor of strategic management at the University of Toronto's Rotman School of Management.

"It helps us understand why entrepreneurship generally doesn't serve as an avenue for economic mobility for the poor."

That doesn't mean it can't. Prof. Doering met many entrepreneurs with promising novel business ideas, such as a woman who opened an internet café in a rural community without one and another who bought used "American" clothing in bulk in the city to sell in her rural community where it had previously been unavailable.

In another example, a former government agriculturalist who had been laid off returned to his home village and started a business educating rural coffee growers about organic farming practices he had learned about in his job in the city. The farmers valued the training—the method would eliminate the purchase of costly pesticides and fertilizers—but could not afford to pay for it initially.

The paper suggests that these entrepreneurs can be helped over the start-up hurdle through the creation of business incubation centres in which entrepreneurs can develop and refine their novel [business](#) ideas. Cash grants for the most promising ideas, rather than loans, could also ease the pressure to quickly turn a profit while also allowing the ability to give consumers discounts while they get acquainted with a new service or product.

The paper's focus on the dynamics behind self-employment among the poor highlights an area that has received scant attention by sociologists studying why poor people have difficulty breaking out of poverty.

"Most of the existing literature assumes that poor [entrepreneurs](#) aren't engaged in this kind of novel entrepreneurial process," said Prof. Doering. "I was surprised to see the extent to which they were."

The paper is forthcoming in *Sociology of Development*.

Provided by University of Toronto

APA citation: Poor communities a 'hotbed' of entrepreneurial creativity, but need help to grow long-term (2016, May 26) retrieved 23 September 2021 from <https://phys.org/news/2016-05-poor-hotbed-entrepreneurial-creativity-long-term.html>

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