

# Understanding Microfoundations of Entrepreneurship Development in Sub-Saharan Africa

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Voor Cesar, Julia en Rosalie.

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Ter ere van mijn opa.

## **LIST OF ABBREVIATIONS**

ADYFE: African Diaspora Youth Forum in Europe

BUS: dominant use for business

CEO: chief executive officer

DF: development facilitator

GVC: global value chain

M: married

M-CRIL: Micro-Credit Ratings International Limited

MFI: microfinance institution

MFO: microfinance organization

NONBUS: dominant use for non-business

R: South African Rand

SEF: Small Enterprise Foundation

SSA: sub-Saharan Africa

UN: United Nations

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Programme

UNICEF: United Nations Children's Fund

US: United States

USD: United States dollar

W: widowed

ZAR: South African Rand

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*“If you want to go fast, go alone. If you want to go far, go together.”*

- African proverb -

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## EXECUTIVE SUMMARY

Poverty remains a core problem for more than 800 million people around the world, and numbers are still rising in sub-Saharan Africa. Entrepreneurship is now seen as a promising tool to fight poverty in this region. But despite all good intentions, projects to stimulate entrepreneurship in more impoverished areas do not always deliver the results hoped for. How can initiatives to stimulate entrepreneurship in developing regions of sub-Saharan Africa become more effective? In this doctoral dissertation, we sought to address this issue by listening to the ‘voices of the poor’ and by placing poverty in a broader perspective.

The first question we tackled is how *individuals’ perspectives on poverty impact the development of opportunities*. Poverty is often approached as a purely financial issue. Many believe that if you provide resources to the poor to develop opportunities and increase income, the rest will follow. For example, some multinational firms try to stimulate entrepreneurship by providing poor landholders training in commercial farming and the opportunity to become part of their global value chain. Yet, these opportunities are usually not recognized by the poor. We have developed a theoretical explanation for why such initiatives are often not very successful. For people who are poor, poverty is more than a financial concept: it is a lack of quality of life in the broadest sense. Increasing income is not always a goal in itself. Money is not unimportant, but it is mostly a means to an end. However, given the prevailing characteristics of poverty-stricken regions (failing institutions, demanding family members, lack of access to financial and human capital, etc.), people might find it too risky to pursue potentially wealth-generating opportunities. In designing entrepreneurship development programs, we urge practitioners to be increasingly sensitive to the real needs of the poor. Programs should be less top-down and focus more on creating sustainable businesses

embedded in the local context. And that often means creating opportunities together instead of merely presenting them to the poor.

The second question we investigated is *how and why entrepreneurs who receive microcredit, allocate these financial resources to business or to non-business purposes*. Microcredit, which refers to the disbursement of small loans for starting or expanding a business, has often been celebrated for its positive impact on enterprise development and poverty alleviation. However, it has also been demonstrated that borrowers use microcredit to cover non-business related expenses such as building materials, food and school fees. Such observations are alarming because the absence of potential revenues to repay the loan can push borrowers into deeper poverty. In our research, we found that some entrepreneurs were narrowly focused on increasing personal income, whereas others were broadly focused on expanding possibilities for the family that could lead to a better quality of life (e.g. through education). These different foci determined to a large extent the way they looked at microcredit and how they spent it. Microfinance organizations that want to stimulate wealth-generating entrepreneurship could benefit from better control mechanisms to ensure that the money is used for the business. Yet, they could also try to become more clear in what they want to focus on as an organization: poverty alleviation or entrepreneurship. In determining this focus, the organization needs to give more consideration to individuals' different views on poverty. We believe this is a key way to ensure microfinance programs can become more effective in actually improving the poverty situations of people.

## CHAPTER 1

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### GENERAL INTRODUCTION

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## CHAPTER 1: GENERAL INTRODUCTION

Entrepreneurship is consistently considered to be a key driver of economic welfare (Kirzner, 1997; North, 1990; Schumpeter, 1934). Also in sub-Saharan Africa (SSA), home to 34 of the 48 (70%) least developed countries in the world (UNCTAD, 2016), entrepreneurship is believed to yield great potential for socio-economic reform and poverty alleviation (African Development Bank, 2016). Indeed, the prevailing view is that opportunities are abundant in sub-Saharan Africa, and that the only thing people need is a little bit of help (e.g. access to finance) to grasp these opportunities (Ruhengeri, 2016). However, if it would be so simple, why then do so many entrepreneurship development initiatives to pull people out of poverty through the generation of income and employment, largely fail to materialize (Banerjee & Duflo, 2011)? Overall, in this doctoral dissertation we aim to help solve this puzzle through *developing an enhanced understanding of the microfoundations of entrepreneurship development in SSA*.

In keeping with recent scholarship (Bradley, McMullen, Artz, & Simiyu, 2012; Webb, Pryor, & Kellermanns, 2015), in this dissertation we borrow Nobel prize winner Amartya Sen's view of "development as freedom" (Sen, 1999) to advance a multi-dimensional view of poverty (Hulme & Shepherd, 2003). Traditional welfare economics typically equate wellbeing with income, and thus emphasize initiatives to increase income through job creation (Ansari, Munir, & Gregg, 2012). Sen criticised this perspective, and advanced the view that poverty should not only be defined in terms of an individual's lack of income, but more broadly as a lack of capabilities to be able to achieve *functionings* (Sen, 1999). Capabilities refer to an individual's possibilities "to do this" or "to be that" (for example having the means of avoiding hunger; Sen, 1985: 201). Functionings refer to the actually achieved wellbeing (for example not being hungry; Sen, 1985). Sen's reasoning about the freedom to achieve wellbeing does not imply

that income comparisons are irrelevant – the lack of income can lead to serious deprivation for an individual (Sen, 2006) - but that income represents just one of the possible means to achieve functionings that people truly value in life, it is not an end in itself (Ansari et al., 2012).

To further explain and define the scope of the dissertation, the general introduction is structured as follows. First we break up the title - Understanding microfoundations of entrepreneurship development in sub-Saharan Africa - into its main constituents. We start with an overall framing of entrepreneurship development in sub-Saharan Africa. Next, we motivate why we chose to focus on microfoundations in developing our theoretical understanding of entrepreneurship development and we delineate the processes of opportunity origination and opportunity exploitation. In the final section of this chapter, we introduce the research objectives of this dissertation.

## **1.1 SCOPE OF THE DISSERTATION**

### **1.1.1 Understanding Entrepreneurship Development in Sub-Saharan Africa**

Entrepreneurship has long been considered to be a crucial driver of social and economic upliftment (Schumpeter, 1934). Indeed, empirical research has demonstrated that the emergence of new businesses is an important means to create employment and economic growth (Van Praag & Versloot, 2007; Wennekers & Thurik, 1999) and this is even more so in developing regions (Frese, 2000). The development of entrepreneurial activity is also globally promoted by governments and organizations in developing countries. Many national and international institutions have developed policies and programs to provide incentives to poor individuals to build their own businesses or to stimulate entrepreneurial activity to become part of multinationals' production operations (Naudé, 2010; Reynolds, 2012). Especially microfinance, which now reaches about 211 million people worldwide, has been lauded for its

approach in promoting small business formation in developing regions (Reed, Rao, Rivera, Gailly, Sanchez, Rogers et al., 2015). In addition to that, supporting participation in multinationals' global value chains remains a key area of interest to business executives and policy makers in efforts to alleviate poverty through entrepreneurship development (George, Corbishley, Khayesi, Haas, & Tihanyi, 2016a; Hall, Matos, Sheehan, & Silvestre, 2012; Kaplinsky, 2000).

In this dissertation, we focus specifically on entrepreneurship development *in sub-Saharan Africa (SSA)*<sup>1</sup>. Scholars have argued that part of the solution to the high levels of poverty in SSA is entrepreneurship (George et al., 2016a; Herrington & Kelley, 2012; Khavul, Bruton, & Wood, 2009). Indeed, a heightened understanding of the entrepreneurial process in the region can help tackle this “grand challenge” of poverty (Colquitt & George, 2011; George, Howard-Grenville, Joshi, & Tihanyi, 2016b), which is considered to be one of the biggest global problems of our times (United Nations, 2015).

Entrepreneurship in Africa is also increasingly viewed as an important, albeit relatively understudied, area of scholarly research (Bruton, Ahlstrom, & Obloj, 2008; George, 2015; Khavul et al., 2009; Zoogah, 2008). It has been noted that research into phenomena that are germane to Africa has the potential to extend or modify extant organizational theory or even generate new theoretical frameworks (George et al., 2016a; Zoogah, Peng, & Woldu, 2015). SSA sets it apart from other developing country contexts (Rivera-Santos, Holt, Littlewood, & Kolk, 2015), and particularly from Western research contexts (Zoogah et al., 2015) where theories of entrepreneurship find their roots (Bruton et al., 2008). Alvarez and Barney (2014) also noted that “in developed contexts, entrepreneurs forming and exploiting discovery and creation opportunities are able to do so within the context of a well-developed economic

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<sup>1</sup> In keeping with the literature, in our research we thus exclude the more northern situated countries of Africa which are considered economically and historically distinct from countries in SSA. Khavul, S., Bruton, G. D., & Wood, E. 2009. Informal family business in Africa. *Entrepreneurship Theory and Practice*, 33(6): 1219-1238.

infrastructure, with defined and enforced property rights, sophisticated financial markets, and developed human capital.” (p. 177). Indeed, poverty settings of SSA challenge our understanding of how individuals can engage in entrepreneurship because of the fierce contextual differences that often exist when compared with economically developed settings in the West (Alvarez & Barney, 2014; Bradley et al., 2012). More specifically, a first difference that has been observed is that entrepreneurs in SSA are likely to face *extreme resource constraints* (George et al., 2016a). According to the World Bank currently 389 million people in SSA - which is 43% of SSA’s total population - live below the international poverty line of US\$1.90 a day, the highest concentration of very poor in the world (Beegle, Christiaensen, Dabalen, & Gaddis, 2016). In addition to financial resource constraints, SSA remains infamous for its’ stubbornly high illiteracy rates which translate into low levels of human capital (Zoogah et al., 2015). According to recent numbers, more than half of the 59 million primary-school-aged children that do not attend school live in SSA, and the drop-out in transitioning from primary to secondary education is also globally the highest in this region (UNICEF, 2016). Second, entrepreneurs in SSA face *extreme levels of pervasive and chronic uncertainty* (George et al., 2016a; Zoogah et al., 2015). This situation is in part related to the resource constraints that they face, but is also due to a lack of property rights, widespread corruption and weak law enforcement (among other inefficient formal institutions). For example, 90 % of the people in rural SSA live and work on land they are not personally entitled to and that can be violently taken away any time (Haugen & Boutros, 2015). The World Bank also highlighted that the regulatory environment, which affects the ease of doing business, is on average the weakest in SSA compared with other economies worldwide (World Bank, 2017). Third, SSA is characterized by *extremely strong social ties* to family (Khavul et al., 2009), but also to ethnic groups and tribes (Dia, 1996; Michalopoulos & Papaioannou, 2015). Such strong social ties are important for entrepreneurs as they reduce risk for those working in uncertainty (Ingram &

Roberts, 2000). The strength of the ties to family members in SSA is exemplified by the high prevalence of large extended families living together and depending on one or more economically active members for provision. Furthermore, marriages tend to be arranged on the basis of belonging to a social group rather than individual choice (Luke & Munshi, 2006).

In sum, despite variation across and within countries in SSA (Zoogah et al., 2015), entrepreneurial processes in SSA are likely to unfold under extreme circumstances. Since resources, uncertainty and social ties are all intimately related to entrepreneurship both in developed and developing regions (Webb, Kistruck, Ireland, & Ketchen, 2010), SSA yields much potential for altering our understanding of dominantly Western-based theories of entrepreneurship. Building on the issues raised above, in the following two subsections we argue why we look at microfoundations of entrepreneurship development and we explain our focus on opportunity origination and exploitation.

### **1.1.2 A Focus on Micro-level Foundations**

In this dissertation we zoom in on the microfoundations upon which entrepreneurship development is based. Whereas in strategy and organization theory, the term microfoundations is mostly used in researching micro-level explanations for macro-level outcomes (see Felin, Foss, & Ployhart, 2015), in entrepreneurship theory, the term microfoundations has also been used in research that looks at micro-level explanations for micro-level outcomes (e.g. Krueger, 2009; Minniti & Bygrave, 1999). Here we concur with the latter interpretation and we will use the term microfoundations and micro-level foundations interchangeably as a frequent reminder of this interpretation. The implication of our “micro-micro” view of microfoundations is that we examine the individual in the context of entrepreneurship development, but that we do not really substantiate the relationship between the micro-level (e.g. entrepreneurial behaviour) and the macro-level (e.g. success of entrepreneurship development programs).



Our focus on micro-level foundations is both timely and important. Despite the alleged importance of entrepreneurship development for socio-economic reform, relatively little is known about the processes that underpin such upliftment processes in developing regions. In a review of top management and entrepreneurship journals, Bruton et al. (2008) found that less than 1% of the articles for the years 1990-2006 addressed entrepreneurship in emerging economies. Moreover, they noticed that virtually no studies were conducted in developing regions, with a total absence of research in sub-Saharan Africa, Latin America and the Middle East. Extant research that has focused on entrepreneurship and poverty alleviation has almost exclusively taken a macro-level perspective (Bruton, Ketchen, & Ireland, 2013). For example, in the context of SSA, the impact of the extreme institutional environment on entrepreneurship development has received considerable attention (Khanna & Palepu, 2013; Zoogah, 2008; Zoogah et al., 2015). While such research endeavours are valuable in their own right, it has been argued that “entrepreneurship scholars would be well served to pioneer the micro aspect of entrepreneurship as we seek to better understand how entrepreneurship can solve issues of poverty” (Bruton et al., 2013: 687). Others have also argued that listening to the “voices of the poor” (Narayan, Chambers, Shah, & Petesch, 2000) should be a key element of poverty studies. To date, we still know very little about the actual constraints the poor struggle with and “their systems of exchange, which are not always price-based and may implicate other systems of normative qualification that assign value or worth” (Ansari et al., 2012: 817, quoting Biggart and Delbridge [2004] and Boltanski and Thévenot [2006]).

Heeding to these calls, in this dissertation we aim to contribute to micro-level explanations of entrepreneurship in poverty settings. To date, the entrepreneur has been largely ignored in theorizing how entrepreneurship can contribute to economic progress in developing countries (Naudé, 2010). One notable exception is the body of work that has been generated around necessity entrepreneurship, which is often reported as being characteristic for much of

the entrepreneurial activity in developing countries. The concept was introduced in the 2001 Global Entrepreneurship Monitor and refers to individuals' motivation to engage in entrepreneurship because they perceive to have "no better choices for work" (Reynolds, Camp, Bygrave, Autio, & Hay, 2001). Necessity-motivated entrepreneurship contrasts with patterns observed in Western contexts since it's the poor (instead of the wealthy) who are more likely to engage in new venture creation and since necessity-motivated entrepreneurship does not lead to (instead of drives) economic growth (Reynolds et al., 2001). However, illustrative for the bigger lacuna in our understanding of the micro-level foundations of entrepreneurship in developing regions is that necessity-motivated entrepreneurs are in fact not driven by necessity, but rather by the aspiration to make individual and social progress (Rosa, Kodithuwakku, & Balunywa, 2008; Tellegen, 1997).

Hence, if we aim to develop valid and comprehensive insights into entrepreneurship development in SSA, we need a more fine grained image of the individual in entrepreneurship (Shepherd, 2015). This perspective also mirrors the broader movement in the field of entrepreneurship towards a deeper appreciation of micro-level processes (Zahra & Wright, 2011). Yet, while micro-level research encompasses a broad range of theoretical lenses and foci, in this dissertation we focus on psychological and social interactive processes of entrepreneurship. Psychology seeks to explain individual behaviour through the study of individual differences (Leahey, 1991). Scholars have noted that psychological theoretical lenses remain underemployed in research in developing economy settings (Bruton et al., 2008). We borrow the argument of Frese (2000) who stated that a psychological perspective is needed in the study of entrepreneurship development in Africa, since in such settings firms are *de facto* represented by the business owner. Since we are interested in "how" psychological differences impact behaviour in our research settings, we are particularly interested in the role of psychological processes (e.g. processes of cognition, perception, motivation, etc.; Baron,

Hmieleski, & Henry, 2012). In keeping with the wording and call of Shepherd (2015), we aim to complement our psychological process perspective with a focus on social (interactive) processes between the individual entrepreneur and the people in his/her environment. Processes of social interaction have been studied in multiple disciplines including social psychology and sociology, and in the papers in this dissertation we borrow from both fields. Attention to social processes are important since entrepreneurial opportunities are developed and exploited through a mutual adjustment between the knowledge structure of the individual entrepreneur and those embodied in his/her social environment (Suddaby, Bruton, & Si, 2015). This is especially so for entrepreneurs in microfinance contexts (Bruton, Khavul, & Chavez, 2011), which forms an important empirical setting for the papers in this dissertation (for a brief introduction to microfinance, see the appendix of this chapter). Moreover, numerous scholars have highlighted the importance of considering social interaction processes, which play an extraordinary role in SSA (Dia, 1996; Kiggundu, 2002) and which particularly relate to entrepreneurs' familial and other social ties (George, Kotha, Parikh, Alnuaimi, & Bahaj, 2016c; Khavul et al., 2009; Khayesi & George, 2011; Khayesi, George, & Antonakis, 2014; Mangaliso, 2001; Webb et al., 2015).

### **1.1.3 Micro-level Foundations of Opportunity Origination and Exploitation**

Since the focus of this dissertation is on microfoundations of entrepreneurship development, our work inevitably converges around the concept of opportunities. Opportunities form the most central element of entrepreneurship and according to some legitimizes the existence of entrepreneurship as a distinct field (Busenitz, Plummer, Klotz, Shahzad, & Rhoads, 2014; Short, Ketchen, Shook, & Ireland, 2010; Venkataraman, 1997). Although there is no commonly agreed interpretation of what an opportunity is (Davidsson, 2015), within the scope of this dissertation we work with the following definition: “An

opportunity is an idea or dream that is discovered or created by an entrepreneurial entity and that is revealed through analysis over time to be potentially lucrative” (Short et al., 2010: 55). This definition is useful since it takes a middle ground position in the discussion about the nature of opportunities as pertaining to an objective reality (that can be discovered) or as being a function of a subjective enactment process (resulting in a created opportunity) (Alvarez & Barney, 2007). In this dissertation we also engage with both views.

More specifically, in the papers included in this dissertation, we seek to contribute to theorizing around psychological and/or social aspects of opportunity origination (chapter 2 and 3) and opportunity exploitation (chapter 4). Together, the phases of origination and exploitation of opportunities form the key processes of entrepreneurship (Shane & Venkataraman, 2000; Short et al., 2010). In keeping with Williams and Wood (2015), we use the term *opportunity origination* to accommodate the mentioned competing views that exist around the origins of opportunities. According to one perspective, opportunities are formed through exogenous shocks that can be discovered (e.g. technological breakthroughs that can lead to new cures for diseases), whereas proponents of the other perspective state that opportunities are formed by entrepreneurs themselves through endogenous enactment and are thus the result of a creation process (e.g. the development of space tourism) (for an in depth review of the debate see Alvarez & Barney, 2010). Although retrospectively, all opportunities can be framed as originating from a discovery or creation process, drawing the distinction is important since people might pursue opportunity development differently when acting in accordance to one view of opportunities over the other (Alvarez & Barney, 2007). When following a discovery approach, one might be inclined to stick to a predetermined business plan, whereas in a creation approach entrepreneurs are only guided by a new venture idea that shapes action and responses to present contingencies. Interestingly, decisions on how to approach new venture creation do not only result from entrepreneurs’ individually held perceptions of opportunities and

uncertainty, but also from the stage of venture creation (Alvarez & Barney, 2005; Sarasvathy, 2001), perceived resource position and stakeholder pressure (Reymen, Andries, Berends, Mauer, Stephan, & van Burg, 2015). These last 2 elements become particularly relevant in the context of entrepreneurship development when external parties are involved that lend financial support.

This also brings us to the process of *opportunity exploitation*, which refers to “activities entrepreneurs pursue to gather, bundle, and leverage new and existing resources in order to develop more efficient means and/or ends” (Webb, Tihanyi, Ireland, & Sirmon, 2009: 494). In chapter 4, we specifically look at how entrepreneurs allocate financial resources. The allocation of scarce financial resources is a core task for organizations (Bower, 1970; Mintzberg, 1979), as it is for emerging firms in resource constrained environments (Kodithuwakku & Rosa, 2002). Parallel to the discussion of opportunity origination, there also exist two dominant views of how individuals decide on the allocation of resources under uncertainty such as in the entrepreneurial process. On the one hand, normative theories consider decision makers to be rational and aim to help them with frameworks to optimize their decisions given the firm’s objective, resources and constraints (Dixit & Pindyck, 1994). On the other hand, descriptive theories have emerged to explain actual resource allocation behaviour – behaviour that can substantially deviate from what would be proposed by normative modelling. Descriptive theories aim to understand how decision makers deal with cognitive constraints and information asymmetries and fully acknowledge the role of psychological perception and judgment (Tversky & Kahneman, 1986). Moreover, in contrast to normative theories of resource allocation which view resources as objective entities (Bowman & Hurry, 1993), descriptive theories hold a subjective view of resources as being the result of a creation process within a social context.

## 1.2 RESEARCH OBJECTIVES

Despite the presence of these well-established literatures on opportunity origination and exploitation, understanding entrepreneurship in poverty contexts of SSA goes not without a challenge. Most entrepreneurship theories have emerged from studies in economically developed settings, which has set certain boundaries that can make them hard to apply in economically less developed settings (Reid, Roumpi, & O'Leary-Kelly, 2015; West, Bamford, & Marsden, 2008). However, scholars have started to examine how extreme resource constraints, uncertainty and social ties impact the origination and exploitation of opportunities – theoretical insights that can subsequently inform the design of poverty alleviation programs. A key suggestion to make entrepreneurship development programs more effective in achieving sustainable growth, is that policy makers should seek to promote the pursuit of opportunities that are not already exploited by others (Alvarez & Barney, 2014; Bradley et al., 2012). Too often, the poor focus on replicating simple businesses with proven market potential (e.g. the *spaza* shops in South Africa). Such businesses are not scalable and rarely lead to the generation of paid employment beyond the founding entrepreneur. In keeping with the approach of Webb, Pryor and Kellermanns (2015), we aim to complement this emerging body of work through questioning how individuals in poverty settings of SSA deal with the development and exploitation of opportunities from an income-based or capabilities-based point of view (representing the two major views on poverty; Hulme & Shepherd, 2003). Prior research on how contextual characteristics of poverty settings (in SSA) impact opportunity origination and exploitation has generally taken an income-based view only (a notable exception being Webb et al., 2015).

Our investigation has significant potential to advance our theoretical understanding of the micro-level foundations of entrepreneurship development in SSA. First, the capabilities-based view challenges our understanding of how entrepreneurial opportunities can come into

existence. In keeping with Sen's notion of poverty as a deprivation of capabilities to function (Sen, 1999), having the means (e.g. microcredit) to engage in entrepreneurship can be seen as an example of a capability to increase income. Indeed, entrepreneurial opportunities are defined as being "potentially lucrative" (Short et al., 2010: 55), thus profits are the anticipated outcome of an opportunity development process. However, as Alvarez and Barney (2014) pointed out, most opportunities that people can develop in poverty contexts are replication opportunities with very little wealth generating potential. Furthermore, not all poor people will equal an increased income with increased wellbeing. For most poor people, income is not a goal *an sich*, but a means to attain other functionings (e.g. related to housing, education, health) (Ansari et al., 2012). An important difference with Western countries, is that an earned income in SSA is not at all a guarantee that one will be able to achieve other forms of wellbeing (because of extreme resource constraints, uncertainty and/or social ties). That individual capabilities are insufficient to achieve wellbeing in poverty contexts is an important oversight of Sen's work (Evans, 2002). When it is unclear whether or not one will be able to generate or use the expected income for achieving other forms of sustained wellbeing, it can be questioned how programs to promote entrepreneurship can help the poor in SSA to develop opportunities worth pursuing (Ansari et al., 2012). Hence, the first objective of this doctoral research is to contribute to a better understanding of *individuals' perceptions of poverty and their impact on the origination of opportunities*. In the first article of this dissertation (chapter 2) we illustrate our conceptual development with representative case examples of microcredit-supported entrepreneurs and in the second article (chapter 3) we zoom in on a case example of a multinational firm aiming to provide opportunities for poor landholders.

Second, the capabilities-based approach of poverty challenges our understanding of opportunity exploitation. In developing regions of SSA, entrepreneurs are usually expected to carry financial responsibility for (extended) family members (Di Falco & Bulte, 2013; Khavul

et al., 2009; Luke & Munshi, 2006). When external financial means have been borrowed in support of the exploitation of opportunities (e.g. microcredit), there can be a demand to redistribute those resources as well. Some might use a business loan as an argument to escape such social pressures (Baland, Guirkinger, & Mali, 2011) and focus on the generation of income through investing in business. Others, however, might hold the view that giving in to such demands is valuable to enhance their wellbeing (e.g. because it can strengthen social ties) and decide not to use the loan for business. In the latter scenario, people will need to find ways to overcome the rules that come with the exchange and that characterize the borrower-lender relationship. We believe that settings of extreme uncertainty, linked to a weak rule of law and a general mistrust in formal institutions (Gulyani & Talukdar, 2010; Khanna & Palepu, 1997; McMullen, 2011), will lead entrepreneurs to redefine the boundaries of the exchange in such a way that they expand their possibilities to use the resources for achieving functionings other than income generation. Hence, the second objective of this dissertation is to develop a understanding of *how and why entrepreneurs who receive microcredit, allocate these financial resources to income or to non-income generating purposes*. To ground our theoretical development in data, we build on multiple cases of microcredit-supported entrepreneurs (chapter 4).



### 1.3 APPENDIX

Microfinance has become a popular tool in efforts to help develop entrepreneurship since its inception by Mohammad Yunus more than 30 years ago (Yunus, 1998). We also worked hand in hand with microfinance supported entrepreneurs to gather the empirical content for the development of chapter 2 and 4. Since in both chapters the focus is on theoretical development that goes beyond microfinance settings, we feel this introductory chapter provides us with a better space to elaborate on this particular research context.

Microfinance traditionally aimed at facilitating opportunity exploitation of entrepreneurs in developing regions by facilitating access to financial capital. Currently, microcredit, which refers to “the issuance of small, unsecured loans to individuals or groups for the purpose of starting of expanding businesses” remains the core financial service of microfinance organizations (MFOs) (Khavul, 2010: 58). However, a lot of MFOs (among other organizations such as postal banks and commercial financial organizations) have also started to go beyond providing microcredits alone. In terms of financial services, some MFOs have broadened their portfolio to saving plans, insurance and other payment services (Copestake, 2007), but also set up initiatives to expand human and social capital that can impact opportunity origination, i.e. the discovery or creation of entrepreneurial opportunities (Bradley et al., 2012). In this sense, multinational firms’ aims to integrate the poor into their global value chains through help in kind, training, and access to networks could also be viewed as some form of microfinance. Yet, Karlan and Goldberg (2011) distinguish nine traditional features of microfinance (p. 21):

- (1) Small transactions and minimum balances.
- (2) Loans for entrepreneurial activity.
- (3) Collateral-free loans.

- (4) Group lending.
- (5) Focus on poor clients.
- (6) Focus on female clients.
- (7) Simple application processes.
- (8) Provision of services in underserved communities.
- (9) Market-level interest rates.

To illustrate what these features mean in practice, we use the example of the Small Enterprise Foundation (SEF), the MFO we worked hand in hand with to collect data for chapter 2 and 4. SEF is an MFO with close to 140,000 clients in South Africa and that follows an approach similar to the traditional model of Yunus' Grameen bank. According to the most recent figures (The Small Enterprise Foundation, 2016), the average loan size disbursed among SEF clients is about 3,000 South African Rand (~ 250 US Dollar) with monthly repayments of 630 South African Rand over a 6 month period (3,780 South African Rand to be repaid in total). Repayments that are scheduled weekly, overnight or monthly are common practice (Labie, Laureti, & Szafarz, 2014). In their primary financial product (microcredit), SEF requires clients to save at least R20 (~ 1.5 US Dollar) every month, with a total savings balance amounting minimum 10% of the current loan [feature 1]. Clients are encouraged to use their loans for buying business stock or assets and some loan utilisation checks are put in place [feature 2]. There are no collateral requirements for clients in taking up loans – group peer pressure to repay loans is presumed [feature 3]. Indeed, a group lending methodology is employed whereby a client forms a group with four other women whom she knows well and trusts. Although you can only join SEF as a group, each member of the group receives an individual loan for their own individual business and the loan sizes between members of the same group can differ, starting from 1,000 South African Rand (~ 80 US Dollar) up to 22,000

South African Rand (~ 1,800 US Dollar). All group members are required to guarantee timely repayments of one another [feature 4]. SEF focuses on poor clients with 57% of the incoming clients being below the national poverty line. To identify the poorest of the poor, a poverty ranking system is used whereby local residents help to identify the most vulnerable community members [feature 5]. In keeping with the idea that access to microcredit can empower women, SEF's client base is almost exclusively female (99%) [feature 6]. Applying for a loan is made simple for clients since an MFO staff member takes up almost all of the administrative burdens, and such services are delivered at the doorstep of the clients, so to speak [feature 7]. SEF tries to reach out to the unbanked by targeting the very poor and by literally exploring (e.g. driving around) rural areas to expand operations to financially underserved communities [feature 8]. Finally, the interest rates are low enough to keep financial strain on clients to a minimum, yet are high enough such that SEF can remain financially self-reliant as an organization [feature 9].

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## CHAPTER 2

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### **ENTREPRENEURIAL OPPORTUNITIES AND POVERTY IN SUB-SAHARAN AFRICA: A REVIEW & AGENDA FOR THE FUTURE**

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## **CHAPTER 2: ENTREPRENEURIAL OPPORTUNITIES AND POVERTY IN SUB-SAHARAN AFRICA: A REVIEW & AGENDA FOR THE FUTURE<sup>2</sup>**

*Jacob A. L. Vermeire<sup>3</sup> and Garry D. Bruton<sup>4</sup>*

### **2.1 ABSTRACT**

Entrepreneurship, with its focus on opportunities, is often seen as one of the cornerstones of poverty alleviation in sub-Saharan Africa (SSA). However, evidence for the positive impact of entrepreneurship programs on poverty is mixed and now widely debated. Therefore, scholars have called for a better theoretical understanding of opportunities in SSA in the face of severe resource constraints that characterize the region. In this paper, we aim to shed further light on this issue and outline an agenda for future research. To this end, we first review the current literature on opportunities (discovered and created) and poverty (income-based and capabilities-based). We next employ 4 case examples of poor entrepreneurs in SSA that challenge assumptions from Western entrepreneurship theories and illustrate what could be fruitful avenues for future research on entrepreneurial opportunities and poverty in SSA.

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## 2.2 INTRODUCTION

Scholars view opportunity as a core element of entrepreneurship (Venkataraman, 1997). Despite the scholarly interest that opportunities have received (e.g. Busenitz, Plummer, Klotz, Shahzad, & Rhoads, 2014; Davidsson, 2015), our understanding remains largely limited to those opportunities that can be created or discovered in developed market economies. Researchers have started to argue that entrepreneurship theory from developed economies are impacted by boundary conditions in developing economies that will, in turn, affect our understanding of the overall theory (Reid, Roumpi, & O’Leary-Kelly, 2015; West, Bamford, & Marsden, 2008). This could particularly be the case for entrepreneurial opportunity since the lack of access to capital and established institutions in settings of extreme poverty in many developing economies can preclude the poor from pursuing entrepreneurship in the same manner that is understood in mature economies (Bradley, McMullen, Artz, & Simiyu, 2012). In this paper we will examine what is understood about opportunities (discovered and created) in mature economies and then consider the boundary conditions of poverty and its implications for entrepreneurship. We will focus specifically on opportunities and poverty in the setting of sub-Saharan Africa (SSA) in order to contextualize this understanding. We will ground the development of a research agenda for SSA through case examples from the region.

Sub-Saharan Africa today is widely seen as the “last frontier” of the global economy and a centre of great entrepreneurial opportunity (Economist, 2013; Moghalu, 2014). The setting of abundant natural resources, for example minerals (KPMG, 2013), a highly motivated population, plus an absence of established firms to provide jobs is driving entrepreneurship among the youth in SSA (Kew, 2014). The result is that it is widely argued by scholars and others that part of the solution to the high level of poverty in SSA is entrepreneurship (Herrington & Kelley, 2012; Khavul, Bruton, & Wood, 2009). The World Bank highlights that 389 million people in SSA, which is 43% of the total population, currently live below the

international poverty line of US\$1.90 a day, the highest concentration of extreme poor in the world (Beegle, Christiaensen, Dabalen, & Gaddis, 2016). Thus, SSA offers a good setting to build an understanding of how opportunity discovery and creation changes in a setting that is characterized by severe constraints, meeting the call for more attention to the impact of such contextual elements on the entrepreneurial process (Webb, Tihanyi, Ireland, & Sirmon, 2009). Additionally, an examination of entrepreneurial opportunities in this setting responds to the call to build further understanding of how entrepreneurship can contribute to the alleviation of poverty (Bruton, Ketchen, & Ireland, 2013; Kodithuwakku & Rosa, 2002).

In summary, this research contributes to the existing literature in three important ways. First, it makes a theoretical contribution to the understanding of how severe resource constraints impact the boundary conditions of the concept of entrepreneurial opportunity. Second, and in turn, it contributes to a greater understanding of how entrepreneurship can help to solve the issue of poverty. We will, in particular, expand this understanding of entrepreneurship as a solution to poverty in light of the severely limited institutional development of the market economy that characterizes SSA in general. Finally, we contribute to the understanding of entrepreneurship and poverty in SSA. To date, the understanding of SSA in general remains very limited in scholarly journals, particularly in the domain of entrepreneurship (George, Corbishley, Khayesi, Haas, & Tihanyi, 2016). This article will help to fill that void, specifically in consideration of the domain of entrepreneurship.

## **2.3 THEORETICAL BACKGROUND**

### **2.3.1 Entrepreneurial Opportunities**

Before we can move to build an understanding of how severe resource constraints in settings of poverty can impact entrepreneurial opportunities, we first must briefly examine the

current literature on the concept of opportunity. There are two dominant views of entrepreneurial opportunities, both set in Western research traditions. These two views of opportunities, the discovery perspective and the creation perspective, have different philosophical underpinnings and make different predictions about how opportunities come into existence and how they are exploited (Alvarez & Barney, 2010).

The discovery perspective on opportunities is the oldest view of opportunities and has largely dominated the field of entrepreneurship over the last century. The roots of the discovery view trace back to the “enlightenment” period in the 18th century that was led by now famous Western philosophers such as Locke and Berkeley (Russell, 1946). These philosophers advanced the belief that a theoretical statement can only be meaningful if its elements can be verified through empirical observation (Brown, 1970). This view is also at the heart of critical realism, which now forms the cornerstone of scholarly work on discovery opportunities (McMullen & Shepherd, 2006). For example, in examining the assumptions made about the nature of discovery opportunities, its embeddedness in critical realism becomes clear (Alvarez & Barney, 2010). According to the discovery perspective, opportunities are objective entities that are “out there”, ready to be recognized and potentially exploited by entrepreneurs (e.g. Kirzner, 1973; Schumpeter, 1934; Shane & Venkataraman, 2000). Opportunities in the discovery view exist independently from the perceptions and/or actions of economic actors, thus entrepreneurs do not have to form opportunities themselves (Shane, 2000). It is commonly agreed that discovery opportunities are formed through “exogenous shocks”, i.e. unexpected events that can be the consequence of sudden changes in technology, politics, and socio-demographics, among other factors (Davidsson, 2015; Shane, 2003). Because discovery opportunities are believed to emerge independently from human actors, this also makes them “objective” and “real” (Alvarez & Barney, 2010). Hence, even when nobody discovers a certain opportunity, it is assumed that this opportunity will still exist. Because of the assumed

independency between entrepreneur and opportunity, a substantial amount of time can expire between the moment that the opportunity emerges and the moment that an entrepreneurial individual discovers the opportunity. To explain why some individuals are more capable of discovering opportunities before others do, a historically large group of researchers have attempted to demonstrate systematic individual-level differences between entrepreneurs and other groups of economic actors (e.g. managers) (Gartner, 1989).

A competing, but more recent, view of opportunity discovery is the view of opportunities as created. In contrast to the strong separation of opportunity and entrepreneur in the discovery view, the creation perspective on opportunities takes up a very different position that is strongly rooted in evolutionary realism (Alvarez, Barney, & Anderson, 2013). Whereas discovery opportunities were said to reflect objective realities, creation opportunities begin as subjective social constructions. According to the creation perspective, the formation of an opportunities is a path-dependent processes resulting in unique and subjective opportunities that could “not exist until entrepreneurs create them through a process of enactment” (Alvarez, et al., 2013: 307). Enactment here means that social constructions are shaped and moulded as individual seek to create an opportunity by testing their ideas within their idiosyncratic social contexts (Weick, 1979). Unlike discovery opportunities, those economic actors that create opportunities do not have to be constantly on the outlook out for shocks or disruptive changes to start their entrepreneurial journey. To create an opportunity, economic actors rather start with drawing on the resources that are available to them, trying to turn them into opportunities that have the potential to generate future economic wealth (Baker & Nelson, 2005; Sarasvathy, 2001). If a person does not know from the beginning what the opportunity (s)he wants to create will be like in the end, (s)he cannot really use objective historical information or make historical comparisons. As a result, too much focus on pre-existing knowledge about markets and industries can even hinder an individual in creating an opportunity (March, 1991; Mosakowski,



1997). Instead, to create an opportunity, an individual who initially only has a vague idea must act and seek feedback from potential markets to nurture the idea and to shape it further until an opportunity is “enacted” (Weick, 1979). Thus, while the discovery of opportunities requires entrepreneurs to learn as much as possible about existing opportunities, the primary aim of an individual who creates an opportunity should be to question and constantly test the held beliefs about what could be an opportunity for him or her. In the creation perspective, it is generally argued that entrepreneurs are not a special “breed” with specific characteristics and traits, yet opportunity creation scholars leave the option open that initially small psychological differences can become more outspoken as a consequence of engaging in an opportunity process (Aldrich & Ruef, 2006).

The foundations of the two views of opportunity (discovery and creation) lead to very different positions in the analysis of opportunities and entrepreneurship (Alvarez & Barney, 2007; Alvarez, et al., 2013). Currently, no one view dominates the analysis by scholars. Thus, as we consider opportunities in severe resource constraints we must take into account both views.

### **2.3.2 Severe Resource Constraints and Poverty**

Just as there are various views on opportunities, there are also various views on what is meant by scholars when they discuss severe resource constraints in poverty settings. The United Nations has established the eradication of poverty as a Millennium Development Goal which Colquitt and George (2011) refer to as the grandest challenge that academics should aim to address in their scholarly work. Like with all grand challenges, poverty is a much-debated problem with multiple explanations of it and solutions to it (e.g. Haugen & Boutros, 2015; Moyo, 2010). There are two main streams of scholarship in the conceptualization of poverty (Alkire & Santos, 2014), which we label here as the income-based view and the capabilities-

based view. We will briefly review these two streams of thought on poverty before considering how the severe resource constraints from poverty can impact the analysis of entrepreneurial opportunities, since how we define poverty will affect our analysis.

A dominant group of scholars and policymakers hold to an objective, monetary perspective of poverty (Sen, 2006). In this view, who is poor and who is not poor is based on one's income (or purchasing power over commodities) and whether or not this income is under or above a fixed "poverty line". To use poverty lines in absolute terms as the total number of people in poverty, one can typically derive such data from national account statistics which are available for most countries and tend to be updated yearly (Dhongde & Minoiu, 2013). However, if one wants to say something about the income distribution of people in a certain region (i.e. inequality), and thus use poverty lines in relative terms, there is no alternative than to use nationally representative household surveys (Chen & Ravallion, 2007). Individuals, households or regions that fall under a certain poverty line are believed to have too little money to buy even the most basic necessities to survive. One criticism of this approach to poverty is that appropriate poverty lines differ between countries (because some goods are absolute necessities in some countries, but not in others) and there can be differences among regions in countries (e.g. urban versus rural (Kates & Dasgupta, 2007)). This recognition has led Chen and Ravallion to argue that there should also be a globally lower bound because of "the cost of a nutritionally adequate diet (and even of social needs) cannot fall to zero" (2010: 1578). Despite the argument of Chen and Ravallion (2010), the \$2.00 a day benchmark, which marks the median poverty line for developing countries (Chen & Ravallion, 2010), is the most widely accepted global poverty line to date (Collins, Morduch, Rutherford, & Ruthven, 2009). However, the accepted cut off value evolves over time and among different groups of scholars with poverty lines ranging between \$1.00 and \$2.50 per day (Dhongde & Minoiu, 2013; Ravallion, Datt, & van de Walle, 1991).

Despite the widespread use of the absolute level of poverty, the validity and usefulness of income-based poverty lines for measuring global poverty is widely debated (Dhongde & Minoiu, 2013). This has resulted in a drive to a subjective, non-monetary view advanced by Nobel Prize winner Amartya Sen, a view we label as capability based (Nussbaum, 2006). Sen questioned the purpose of development and argued that the aim should be generally to increase peoples' quality of life and personal freedom (Sen, 1999). Therefore, the focus should be on improving poor peoples' *capabilities to function*, which include capabilities related to health, education and general living standards that allows a person to meet a minimum level of functioning and to be part of a community without shame (Sen, 2006). This social dimension is also key to understanding the relative character of income in conceptualizing poverty, i.e. that a person is deprived compared with the wealth of others in his or her social environment (Smith, 1776). What an improved capability to function for a person means depends on what a person values in life and this varies among individuals from different ages, geographical regions, etc. (Alkire & Santos, 2014). This also explains, for example, why many poor – to the surprise of outsiders – spend so “little” of their limited money on good nutrition at the expense of things that make their lives less boring (such as a television) or that affects the quality of their social lives (e.g. expensive wedding or funeral arrangements) (Banerjee & Duflo, 2011). But money is not just a means to an end, and thus the extent to which people with the same income-level can satisfy their goals in life vary greatly. In sum, poverty in this subjective, non-monetary perspective refers to the failure to meet a set of basic capabilities, which is highly related to, but not the same as, lowness of income (Alkire & Santos, 2014). Recently, this approach to understanding poverty has also been reflected in the Multidimensional Poverty Index that was released by the UN's Human Development Report Office (UNDP, 2010).

### **2.3.3 Entrepreneurship as a Solution to Poverty**

Extreme poverty remains a core problem for 836 million people in the world (United Nations, 2015). For decades, policymakers and researchers have looked for solutions to alleviate poverty, yet no clear answers have come forward (e.g. Banerjee & Duflo, 2011; Verhelst, 1986). The result is that it has been argued that a new approach to poverty is needed in order to eradicate poverty. This is especially true for SSA, as over a trillion US dollars has been provided in aid to the region over the last 50 years (Lupton, 2011); yet, SSA has the highest percentage of poor of all developing regions (Alkire & Santos, 2014) and is the only region in the world that has not shown a decrease in terms of poverty over time (Kates & Dasgupta, 2007).

The solutions to poverty that has been principally pursued is the systematic financial aid from developed economies to governments and organizations in developing economies. While accounts of such aid programs date back to the late 19th century, the belief in capital investments as a means for economic development (and hence poverty reduction) spurred the successful implementation of the Marshall Plan following World War II (Moyo, 2010). The Marshall Plan pumped over \$100 billion current US dollars (then US\$13 billion) to help a war-torn Europe recover to its previous level of economic development (Hogan, 2002). For more than half a century now, the World Bank has continued to follow the path of financial aid as a solution to poverty that faces regions around the world. In 2015 alone, The World Bank spent \$60 billion on loans, grants, equity investments and guarantees to help address poverty; \$15 billion in 2015 was transferred to countries and private businesses in SSA, turning the region into the largest recipient of World Bank aid (The World Bank, 2015). While some have lauded foreign financial aid (e.g. Sachs, 2006), others have raised concerns about the focus of current efforts (e.g. Haugen & Boutros, 2015), and still others have even questioned the positive impact on poverty alleviation, particularly in the case of Africa (e.g. Easterly, 2006; Moyo, 2010).

A new alternative to large government aid programs that has gained traction to address the problem of poverty in SSA is the promotion of entrepreneurship (George, Corbishley, Khayesi, Haas, & Tihanyi, 2016; Khavul, 2010). Entrepreneurship is viewed as a solution for poverty for a number of reasons. First, new businesses contribute to the development of an economy and have a long-term impact on the society as a whole through the employment they bring about (Ahlstrom, 2010; Naudé, 2010), a relationship that is also maintained in SSA (Goedhuys & Sleuwaegen, 2009). It has been recognized that without encouragement, new domestic businesses often remain micro-businesses (Mead & Liedholm, 1998). Also, micro-business owners in SSA rarely hire enough employees to grow into medium-sized businesses (Biggs & Oppenheim, 1986; Tybout, 2000). Thus, programs to promote entrepreneurship in SSA that focus on people and businesses that have growth potential and can create paid employment for others have the potential to create far greater welfare consequences. For instance, a case study of a World Bank supported firm in SSA showed that five indirect jobs were created for every direct job supported by the firm (Kumar & Abdo, 2012). Such employment multiplier effects are important, especially since incomes received by the employed tend to be shared among household members that have no jobs (Klasen & Woolard, 2009). Secondly, the movement to focus on entrepreneurship is driven by the fact that aid that goes to developing countries in SSA is primarily earmarked for public aid projects, but is also often diverted into non-productive purposes, including personal wealth accumulation (Moyo, 2010). Indeed, corruption in SSA is “widespread and deeply rooted as a social and cultural phenomenon that hinders public welfare and social development” (George, et al., 2016: 384). In part, this explains why the trillion dollars spent over the last half century has generated so little impact on poverty. Finally, this movement to entrepreneurship is also driven by the fact that it is philosophically appealing for entrepreneurship to help solve poverty in the region since then the solution is locally generated, with those effected by poverty driving their own

destiny, instead of coming from the excesses of wealthy donor countries that they have decided to share with the poor. This view is in contrast to viewing “the bottom of the pyramid” as a largely untapped market for multinational firms (Prahalad, 2004). Rather than just a market for others, it is argued by those who focus on entrepreneurship that the poor are more than customers; they are the means themselves to alleviate poverty (Karnani, 2007).

Entrepreneurship as a solution to poverty has been part of the driving force in the growth of the microlending industry. While the concept of microlending has existed for centuries, in recent years there has been a massive growth in the industry which seeks to lift people out of poverty through the provision of small, unsecured business loans to encourage new venture growth (Khavul, 2010; Yunus, 1998). It is now estimated that by 2014, microlending had reached 211 million people worldwide (Reed et al., 2015). Yet there have been serious questions raised as to whether traditional microcredit programs are in fact creating the desired effect and generating businesses that allow their owners and others to exit poverty. This due to the fact that very few borrowers from microfinance institutions (MFIs) actually form businesses that expand beyond self-employment, which brings into question whether the microloans are even generating entrepreneurial businesses (Banerjee & Duflo, 2011; Bruton, Ahlstrom, & Si, 2015). This lack of success is pushing scholars to look for a deeper understanding of how entrepreneurship works in the settings of extreme poverty. Until there is a deeper theoretical understanding, such as through the work in this paper, there will not be progress made in practice of using entrepreneurship as a solution to help solve the problem of poverty.

It has been recognized that opportunity is contingent upon the specific economic, social and institutional setting in which entrepreneurs find themselves (Mair, Marti, & Ventresca, 2012; Weiss & Montgomery, 2005). Thus, the setting of severe resource constraints that dominate SSA will shape how the opportunity is viewed and pursued. Consequently, we next

turn to a systematic assessment of the literature to see how poverty in SSA stretches or modifies our theoretical understanding of the concept of entrepreneurial opportunities.

## 2.4 LITERATURE REVIEW

To build a foundation for understanding opportunities and poverty in SSA, we looked initially to the reviews of the broad topic of entrepreneurial opportunities, specifically the set of 210 articles published between 2000 and 2014 that Davidsson (2015) had recently reviewed. Davidsson had examined leading journals in the field of management, entrepreneurship, and psychology<sup>5</sup> to identify these 210 articles. Following the same procedure as Davidsson (2015), we examined not only those 210 articles, but also relevant papers that were published in these top-tier academic outlets in 2015<sup>6</sup>. This process generated an additional 21 articles published in 2015 that were relevant for our review. The result was a final set of 231 articles on entrepreneurial opportunities for the period 2000–2015.

However, our focus here is on opportunity in settings of severe poverty. Thus, in a subsequent step, we then sought to extract all potentially relevant articles on entrepreneurial opportunities and poverty. To this end, we first searched for the word “poverty” in the bodies of the 231 publications and then examined each article that appeared in our search results to see whether the use of poverty was related to entrepreneurship. This resulted in an initial list of 19 articles. To identify additional articles that did not include poverty, yet could have

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<sup>5</sup> The list of journals that were scrutinized here include (in alphabetical order): Academy of Management Journal; Academy of Management Review; Entrepreneurship Theory and Practice; Administrative Science Quarterly; Journal of Applied Psychology; Journal of Business Venturing; Journal of Management Studies; Journal of Management; Journal of Organizational Behavior; Management Science; Organization Science; Organization Studies, Organizational Behavior and Human Decision Processes; Personnel Psychology; Strategic Entrepreneurship Journal and Strategic Management Journal

<sup>6</sup> We searched for articles with opportunit\* in the title, keywords or abstract (“opportunit” followed by the truncation “\*” broadened our search to both opportunity and opportunities). Both authors of this article then examined independently each publication to ensure its eligibility for this review (e.g. publications that were excluded included those that were referring to research opportunities, learning opportunities, etc.).

relevance, we ran additional searches with five terms that are often related to poverty in the literature: pyramid (cf. bottom-of-the-pyramid or base of the pyramid), necessity (cf. necessity entrepreneurship), developing countries, informal (cf. informal firms), and microfinance. This resulted in the identification of an additional 13 articles. It is important to note however that there was very large variation in the 32 articles in terms of how much the authors focused on entrepreneurial opportunities and poverty. For instance, the number of times that one or more of our search terms appeared in the body of the text ranged between 1 and 197. Further examination of these differences led us to drop six articles that were neither directly nor indirectly concerned with poverty, bringing our final set of articles on entrepreneurial opportunities and poverty to 26 (Table 2.2 in Appendix lists these 26 articles). Among these 26 only two publications focused specifically on SSA (i.e. Bradley, et al., 2012; Khavul, et al., 2009). Both articles are empirical contributions that extend the boundaries of established entrepreneurship theories by examining opportunities among resource-constrained entrepreneurs in Kenya and/or Uganda. More specifically, Bradley et al. (2012) demonstrated that poor entrepreneurs need more than capital alone to increase their firms' performance; they also need to focus on specific types of innovation that can work in economically developing regions (but would not necessarily work in mature economies). Khavul et al. (2009) showed that family ties of poor entrepreneurs can also hamper (not only facilitate) the exploitation of opportunities.

The set of 26 articles can be categorized into four main categories based on the article's focal field: entrepreneurship and poverty (three articles), sustainable entrepreneurship (15 papers), macro-level entrepreneurship (four articles), and finally four other articles that do not fit into a clear category. Looking deeper at these sets of articles, the three publications on poverty highlight that entrepreneurship in contexts of poverty has the potential to expand the boundaries of Western-based theories (Khavul, et al., 2009). It is agreed that simply promoting



opportunity discovery will not bring much change to the lives of the entrepreneur, if they discover and exploit replicative opportunities that are known to everyone (Alvarez & Barney, 2014; Bradley, et al., 2012). Consequently, the authors shed light on the different types of opportunities that can be discovered and created in poverty settings, and their potential for helping to solve poverty.

The largest set of articles are labelled as sustainable entrepreneurship. These articles focus not specifically on the poor, but rather on richer entrepreneurs and firms that aim to serve the poor, leaving many of the particulars about entrepreneurship in poverty unexamined. This body of literature often examines the “triple bottom line”, this is seeking to make an economic, social and environmental impact (Kuckertz & Wagner, 2010). As the authors develop theoretical contributions to the field of sustainable entrepreneurship, they only touch on poverty in a general sense (Dean & McMullen, 2007). We concur with the view that there might be systemic linkages between environmental, economic, and social problems which would indicate that there is a connection between poverty and sustainability. Yet, we argue that there is also a need for more poverty-focused research among scholars in the field of sustainable entrepreneurship, since the relationship between poverty and sustainability does not address the depth of the issue of poverty.

Finally, examining the eight remaining papers, linkages that are drawn between entrepreneurship and poverty are more indirect (e.g. Sequeira, Carr, & Rasheed, 2009). The four macro-level papers principally focus on necessity-motivated entrepreneurship and hint that poor entrepreneurs are dealing with different institutional forces than those in wealthier countries (Stenholm, Acs, & Wuebker, 2013; Thai & Turkina, 2014; Valdez & Richardson, 2013). Similarly, in the four uncategorized articles, it is suggested that informal entrepreneurship (in developing regions this often means entrepreneurship by the poor) is characterized by a different institutional setting and a different process of opportunity

origination and exploitation compared with formal entrepreneurship (Bhagavatula, Elfring, van Tilburg, & Van de Bunt, 2010; Short, Ketchen, Shook, & Ireland, 2010; Webb, et al., 2009).

The review of the 26 articles demonstrates that the discovery perspective is by far the most widely used. Although only a few articles in our review explicitly examined entrepreneurial opportunities and poverty, for most of the articles it was possible to deduce which perspective (discovery or creation) the authors had taken in the development of their papers. It should be noted, however, that for 21 of these papers no explicit attention was paid to explaining why they had chosen the perspective (discovery or creation) they had<sup>7</sup>. Nonetheless, there are five articles where both discovery and creation were explicitly recognized and embraced (Alvarez & Barney, 2014; Bradley, et al., 2012; Corner & Ho, 2010; Short, et al., 2010; Webb, Kistruck, Ireland, & Ketchen, 2010). These five articles make clear that both perspectives can lead to substantially different theorizing, and enable a fuller understanding of entrepreneurship and poverty.

## **2.5 DEVELOPMENT OF A FUTURE AGENDA**

Building on the existing literature we review above, we want to develop greater insight into entrepreneurship and poverty in SSA. Specifically, we bring together the different perspectives around opportunity (creation and discovery) and poverty (income and capability) into a 2 by 2 framework, as shown in Figure 2.1. To guide the development of this framework with its 4 different cells, we illustrate the theoretical propositions with four representative single cases (Yin, 1994) from SSA – one case for each cell.

Cases are useful to shed light on new and complex topic areas (Eisenhardt & Graebner, 2007) such as opportunity discovery and creation among the poor in SSA. This is particularly

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<sup>7</sup> Scholars should question whether taking another perspective (discovery or creation) may have affected the results found or assumptions made.

so since cases allow one to make interpretations about the data that would not be possible without a deep understanding of the social context (Glaser & Strauss, 1967). In keeping with poverty as a relative concept, we chose to collect data among the poor in South Africa, which is reported as the most unequal country in SSA and even the world (Beegle, et al., 2016). To build our cases, we first partnered up with a microfinance institution (MFI) that considers poverty alleviation through entrepreneurship of paramount importance (GiveWell, 2012; M-CRIL, 2012; The Small Enterprise Foundation, 2015). As we were seeking to shed light on how different perspectives on entrepreneurial opportunities were related to increases in income and capabilities, we purposefully sampled (Corbin & Strauss, 2015) among successful microfinance clients, which could be identified as those taking (very) high business loans. At the time of our data collection (2015), all four entrepreneurs in our cases were borrowers from the same MFI, living in the same region around Tzaneen, a small town in the heart of Limpopo. This province in the northern part of the country borders Botswana, Zimbabwe and Mozambique and has the highest level of poverty in South Africa (Statistics South Africa, 2016). For a brief overview of the characteristics of the four entrepreneurs and the number of data points collected throughout the year, see Table 2.1. These four cases help us to illustrate and generate future theory and research on opportunity and poor entrepreneurs in SSA.

The following section, which discusses the four cells of our frameworks, follows a consistent pattern. We first discuss what occurs in a cell and how this can help to build our understanding of opportunity in settings of poverty. Thereafter, we discuss the case that fits with this cell. Finally, we discuss how this case provides fresh insight into entrepreneurial opportunity in a setting of poverty.

**Figure 2.1: A 2x2 Framework on Entrepreneurial Opportunities and Poverty**

		<b>Entrepreneurial opportunities</b>	
		<i>Discovery view</i>	<i>Creation view</i>
<b>Poverty</b>	<i>Income-based view</i>	1	2
	<i>Capabilities-based view</i>	3	4

**Table 2.1: Case Characteristics and Data Points**

Case #	Name <sup>1</sup>	Gender	MFI loan <sup>2,3</sup>	Business activities	Inter- views	Field visits <sup>4</sup>	Pictures
1	Eva	Female	50,000 ZAR	Window Sills Small shop Tavern	1	1	16
2	Millicent	Female	25,000 ZAR	Baking Hot food	1	3	11
3	Patric	Male	30,000 ZAR	Small shop	1	1	7
4	Nonhle	Female	7,000 ZAR	Traditional beads Traditional alcohol Live cattle	2	4	11

<sup>1</sup> For privacy reasons, anonymous names are used; <sup>2</sup> Average business loan disbursed by the MFI was ZAR 2,912 (The Small Enterprise Foundation, 2015); <sup>3</sup> When converted at the 2015 year average of 1,00 US Dollar (USD) = 12,77 South African Rand (ZAR), loans are USD 3,915; USD 1,957 USD; USD 2,349 and USD 548 for case #1,2,3,4 respectively (<http://www.usforex.com/forex-tools/historical-rate-tools/historical-exchange-rates>); <sup>4</sup> Visits to do face-to-face interviews are also counted

### 2.5.1 Opportunity Discovery and Income-Based Poverty (Cell 1)

The most conservative approach to studying entrepreneurship in poverty contexts of SSA is the one where the dominant views of opportunity and poverty are employed, specifically the discovery perspective on opportunities and the income-based view on poverty. Given the traditional focus of entrepreneurship scholars on the “discovery and exploitation of profitable

opportunities” (Shane & Venkataraman, 2000: 217), there is a natural fit with the income-based perspective on poverty. Thus, if entrepreneurs seek opportunity exploitation for financial gain, it seems reasonable to expect that poverty can be solved when an individual successfully recognizes an opportunity and the result could lift the entrepreneur above the financial level of poverty (Figure 2.1, Cell 1).

Looking more deeply at this cell through our case, it is true that the poor are mainly motivated to pursue entrepreneurial opportunities to generate an income. Yet data from the Global Entrepreneurship Monitor consistently shows that the institutional environment that characterizes poverty-stricken regions favors replicative, rather than high-impact types of entrepreneurship (Stenholm, et al., 2013; Thai & Turkina, 2014; Valdez & Richardson, 2013). Alvarez and Barney (2014) argue that most opportunities that the poor discover are replication opportunities that are hardly profitable upon exploitation and need few resources or abilities. Thus, while most opportunities discovered by poor entrepreneurs can generate enough income to sustain the person, such undifferentiated firms are very unlikely to result in the economic change that everybody is hoping for (Bradley, et al., 2012).

When entrepreneur #1 (Eva), a poor mother of seven children started her first business, the selling of self-made window sills, she also “knew that the small business she had [...] was not bringing enough money”. Consequently, she “tried to do a lot of things to bring money in” the household, “she didn’t care the kind of job she did, all she needed was money”. Thus, to generate an income, Eva added a clothes-business, then a small shop and now she successfully runs a registered tavern as well.

Indeed, entrepreneurial success in poverty settings seems rarely to be the result of the discovery of singular opportunities. Unlike the popularized and heroic stories of entrepreneurs who stuck to one idea and now employ the whole village, we see from our case that increasing income through the discovery of opportunities requires a sequential exploitation of sometimes

highly diverse business opportunities (Khavul, et al., 2009). While diversification is well described in strategy and for large firms (Palich, Cardinal, & Miller, 2000), it is largely uncovered in the context of entrepreneurship. In addition, the extent to which such processes differ from serial entrepreneurship, which focuses on those entrepreneurs who start multiple businesses over time (Wright, Robbie, & Ennew, 1997), remains an open question to date.

### **2.5.2 Opportunity Creation and Income-Based Poverty (Cell 2)**

An individual who creates an opportunity cannot, like in an opportunity discovery process, choose the opportunity that could maximize his (her) future profits as the specifics of creation opportunities are per definition unknown at the start of the origination process (Sarasvathy, 2001). However, similar to opportunity discovery, scholars have argued that the motivation to engage in an opportunity creation process remains the formation and exploitation of a profitable opportunity (e.g. Baker & Nelson, 2005; Fisher, 2012). Thus, opportunity creation is consistent with efforts to promote entrepreneurship as a tool for alleviating income-based poverty (Figure 2.1, Cell 2).

While creating opportunities in poverty settings can indeed lead to significant financial returns that raise someone above the level of poverty (Bradley, et al., 2012), trying to raise income through opportunity creation is extremely risky for the poor. This is because the pool of resources that poor entrepreneurs have at hand (e.g. money, time) is often shared between life domains, implying that the use of limited resources for business can severely affect resource allocation to the household as well. Indeed, Webb, Pryor and Kellermanns (2015) recently pointed to the strong family embeddedness of micro-enterprises in developing countries. Thus, investing in the business without knowing the potential returns can have serious consequences when the entrepreneur, or his (her) family, is confronted with unexpected negative events such as health-emergencies, hunger or theft (Collins, et al., 2009). More than

once, scholars have pointed out that exactly such unpredictable shocks explain a large portion of the closings among (female-headed) new ventures in developing regions (e.g. Banerjee & Duflo, 2011; Mead & Liedholm, 1998).

Entrepreneurial case #2, Millicent, illustrates this cell. She started her business because “she did not like the idea of asking her husband for money [...] and with no money in the house she had to do something”. Over time, Millicent created a highly profitable and sustainable business (baking and a kitchen for hot food) through observing “every little thing that happened” in the village. Millicent introduced herself to us as a member of the Transformation Church and it became clear that her religious beliefs also helped her to persist in attempts to maintain and even grow her business. For example, while sharing the story of how her delivery van got stolen one night, she stressed the role of God to explain how everything turned out to be fine in the end: “Around 2 a.m. I sang and praised. I had no idea why but it was the spirit of the Lord that was within me. So we reported the matter at the police station and we ended up getting a new car [...]. So that did not stop me from selling the following day – this all happened in the year 2000.”

This story highlights the need for a deeper understanding by scholars of religious values and beliefs in overcoming challenges that characterize opportunity creation. Overall, scholarly work on the relationship between religion and entrepreneurship has remained very limited (Audretsch, Boente, & Tamvada, 2013). This is in part because religion is seen as too distinct from organizations that are primarily focused on profit (Tracey, 2012). However, religion is deeply rooted in SSA and permeates the everyday (working) lives of many individuals (Ellis & ter Haar, 1998; Paris, 1995). Responding to the call for more research at the intersection of religion and economic activities in Africa (Walsh, 2015), Reid, Roumpi and O’Leary-Kelly (2015) found some evidence of female entrepreneurs in Ghana who invoked spirituality particularly to cope with (business) challenges and in making future projections. Future

research among poor entrepreneurs in SSA would be particularly enlightening in the context of opportunity creation, as not knowing what the future opportunity will look like (Alvarez & Barney, 2007) gives people very little to hold on to.

### **2.5.3 Opportunity Discovery and Capabilities-Based Poverty (Cell 3)**

The consideration of capability development rather than simply focusing purely on a level of income highlights the issue of the meaning of money (e.g. Furnham, 2014; Mitchell & Mickel, 1999; Zelizer, 1989). Linking the meaning of money and the capabilities-based view on poverty, the aspiration for a better education, health or living standard generally requires those in poverty to increase income. Hence, it is reasonable to expect that capabilities-based poverty can be tackled through the profits that result from the discovery of opportunities (Figure 2.1, Cell 3).

However, there is also a potential problem in that poor entrepreneurs generally lack the resources to discover and exploit substantially profitable opportunities. Especially when profits are small, poor entrepreneurs are faced with the issue of time as a key challenging factor to invest in their capabilities (e.g. through savings) and fight themselves a way out of poverty. Savings are important, as improving education, health and living conditions requires long-term investments and are capital intensive. Thai and Turkina (2014) also point out that economic development goes hand in hand with future-oriented behavior such as future investments and delayed gratification. However, dealing with long-term plans is difficult in extreme poverty because people in such contexts tend to be focused on present scarcity (Mani, Mullainathan, Shafir, & Zhao, 2013), leading to a neglect of future issues (Shah, Mullainathan, & Shafir, 2012). Overall, the view that the poor do not care about the future, and have an “innate inclination toward short-sighted behaviour” has been widely accepted (Banerjee & Duflo, 2011: 185). Nevertheless, research among poor entrepreneurs has uncovered significant



variation in people's future time orientation and firm performance (Bruton, Khavul, & Chavez, 2011; Kodithuwakku & Rosa, 2002).

Entrepreneur #3, Patric, is our case for this cell. Patric is a man who started a "spaza" shop, which is a shop run from home and the most prominent type of small retail business in South Africa (Ligthelm, 2005). Similar business opportunities are thus easy to observe, discover and replicate. However, unlike most other spaza shop-owners, Patric managed to grow his spaza shop to a point where he could employ people. He also opened a second shop in a neighboring village and, as he says, he even has "more plans to grow myself and the business". According to the microfinance loan officer, Patric is successful as he invests in his future – an action not typically followed by others in poverty. Patric also donates "to less privileged, especially when they face problems" with socially important (and expensive) events or when parents ask for financial assistance so that they can send their children to school. Thus, Patric is focusing on building capabilities and pursuing activities other than just monetary return. However, the fact that his store is typical of so many others shows that he is pursuing opportunity discovery rather than creation.

This case example calls for further investigation into how a focus on the future can be promoted among entrepreneurs in poverty, especially since there seems to be positive spill-over effects for the capabilities of other poor members in the community. In this light, we also note that current empirical research on sustainable entrepreneurship and poverty is very much focused on Western-based firms (e.g. Gras & Mendoza-Abarca, 2014; Muñoz & Dimov, 2015; Renko, 2013). If deep knowledge about the social environment is necessary to discover sustainable entrepreneurial opportunities (Patzelt & Shepherd, 2011), we see great potential for future theory building with sustainable entrepreneurs who experience poverty themselves. SSA could be a particularly interesting context for such research, since the region is known for its

strong social pressure to share resources and to support members of the community (Mangaliso, 2001).

#### **2.5.4 Opportunity Creation and Capabilities-Based Poverty (Cell 4)**

Although the creation view on opportunities has less supporters than the discovery perspective (Arend, Sarooghi, & Burkemper, 2015), the debate between opportunity creation and opportunity discovery is mainly a philosophical debate and most authors will view both origination processes as equally valuable and even complementary in practice (Reymen, Andries, Berends, Mauer, Stephan, van Burg 2015; Sarasvathy, 2001). However, as creation opportunities lay the foundations for new markets, they are often viewed as the opportunities that have greater impact over the long haul (Baker & Nelson, 2005). Thus, from a theoretical point of view, poor entrepreneurs who create opportunities will be able to generate more profits over the long term and thus have increased chances to increase their capabilities to function (Figure 2.1, Cell 4).

Bradley et al. (2012) also demonstrated that opportunity creation among microentrepreneurs in Kenya was positively related to firm performance (and hence poverty). However, counter to what could be expected in mature economies, the authors also found that in creating opportunities, doing things only somewhat differently (e.g. trying another way to attract more customers) and not doing something completely new, had a positive impact. Indeed, given the extreme resource constraints that the poor face, and the consequences for what they can afford to lose (Alvarez & Barney, 2014), the lion's share of the opportunities created by poor entrepreneurs are more likely to bring modest changes to the markets and result in less transformative opportunities than would be theoretically expected from a creation process in a developed economy setting.

Entrepreneur #4 (Nonhle) has experienced a path as argued by cell #4. Nonhle relentlessly tried to grow her business by continuously seeking to differentiate her business from that of others. For example, after one of the interviews, she suggested that the first author buy bead collars from her and sell them in Belgium (his home country). Nonhle's past entrepreneurial actions also led her to substantially increase her living standard (e.g. housing conditions) and with the money she made she could even send her son to law school. However, her village had become less and less conducive for doing business over the last years. She also saw her income decrease, forcing her to lower her living standards as her poverty increased. As a consequence, she saw no further use of engaging in opportunity creation: "I don't really know what went wrong [...] I have been working very hard all my life so I am tired. I am tired and I don't know what to do anymore".

An important question that emerges from this case study relates to the psychological effects of failure in opportunity creation, as it can severely affect one's motivation to fight poverty. Similarly, Banerjee and Duflo note that "A sense of stability may be necessary for people to take the long view. It is possible that people who don't envision substantial improvements in their future quality of life opt to stop trying and therefore end up staying where they are" (2011: 229). Compared to discovery opportunities, failing in a creation process might be a heavier burden to carry. It is possible that bearing uncertainty (inherent to creation) is mentally more exhausting than bearing risk (inherent to discovery). In addition, because creating opportunities is a very idiosyncratic process, a person might feel more emotionally connected to the outcomes (Cardon, Zietsma, Saporito, Matherne, & Davis, 2005) and thus suffer more from its failure.

## 2.6 DISCUSSION

Poverty alleviation remains one of the biggest challenges for SSA. Economic growth is traditionally conceived as a cornerstone of poverty alleviation, and particularly the promotion of entrepreneurship has been advanced as a key tool to make it happen. However, the impact of many pro-poor entrepreneurship programs that have been carried out over the last decades (e.g. microlending) has been limited. Moreover, our literature review has pointed out that entrepreneurship and poverty in SSA is a topic that has only received scant scholarly attention. In this paper we have tried to fill this gap.

To gain a more in-depth understanding that can guide future research we have reviewed the existing literature on opportunities and poverty and used four case examples from SSA to substantiate new theoretical questions. In the development of this article, we have systematically used the different views on opportunities (discovered and created) and poverty (based on income or capabilities). Although these are fundamentally different lenses, only a handful of scholars have currently recognized the potential implications of picking one perspective over another in studying entrepreneurship and poverty in SSA. As our illustrative cases suggest, many questions remain to be answered as one examines opportunity formation and poverty from a psychological (individual-level) perspective (Frese, 2000). Looking at opportunity discovery, Cell 1 hints that to increase income in poverty, entrepreneurs need to walk different business paths over time, a finding that calls for longitudinal research designs that look beyond entrepreneurship as a single-venture effort. Cell 3 is illustrative of the poor who engage in entrepreneurship not only to grow themselves, but also the people within their community. While such stories are easily found in anecdotal accounts, academics have largely focused on outsiders in affluent countries, while ignoring those sustainable entrepreneurs that are actually experiencing poverty from the inside. Looking at opportunity creation, Cell 2 raises the question of how religious beliefs help entrepreneurs to cope with the uncertainties when

creating opportunities to raise income. Cell 4 shows that failing to create opportunities that increase capabilities can be detrimental to entrepreneurs' motivation and even pull them back into poverty, an issue that calls for a greater awareness of the “ups and downs” in opportunity formation.

All in all, we hope that our work has opened some new windows for scholars to examine entrepreneurship and poverty in their future research. We believe that SSA provides scholars with great contexts for studying entrepreneurship, and that such research is needed to inform those individuals and organizations in their relentless efforts to fight poverty.

## 2.7 APPENDIX

**Table 2.2: Articles about Opportunities and Poverty**

<b>Authors (Year)</b>	<b>Journal<sup>1</sup></b>	<b>Type (Methods)</b>	<b>Adopted Field</b>
Allison, Davis, Short & Webb (2015)	ETP	Empirical (Quantitative)	Sustainable entrepreneurship
Cohen & Winn (2007)	JBV	Conceptual	Sustainable entrepreneurship
Corner & Ho (2010)	ETP	Empirical (Qualitative)	Sustainable entrepreneurship
Dean & McMullen (2007)	JBV	Conceptual	Sustainable entrepreneurship
Gras & Mendoza-Abarca (2014)	JBV	Empirical (Quantitative)	Sustainable entrepreneurship
Hockerts & Wüstenhagen(2010)	JBV	Conceptual	Sustainable entrepreneurship
Kuckertz & Wagner (2010)	JBV	Empirical (Quantitative)	Sustainable entrepreneurship
Muñoz & Dimov (2015)	JBV	Empirical (Quantitative)	Sustainable entrepreneurship
Patzelt & Shepherd (2011)	ETP	Conceptual	Sustainable entrepreneurship
Renko (2013)	ETP	Empirical (Quantitative)	Sustainable entrepreneurship
Shepherd & Patzelt (2011)	ETP	Conceptual	Sustainable entrepreneurship
Sun & Im (2015)	ETP	Empirical (Quantitative)	Sustainable entrepreneurship
Webb, Kistruck, Ireland & Ketchen (2010)	ETP	Conceptual	Sustainable entrepreneurship
Zahra, Gedajlovic, Neubaum, Shulman (2009)	JBV	Conceptual	Sustainable entrepreneurship

**Table 2.2: Articles about Opportunities and Poverty (Continued)**

<b>Authors (Year)</b>	<b>Journal<sup>1</sup></b>	<b>Type (Methods)</b>	<b>Adopted Field</b>
Zahra, Newey & Li (2014)	ETP	Conceptual	Sustainable entrepreneurship
Bhagavatula, Elfring, van Tilburg, van de Bunt (2010)	JBV	Empirical (Quantitative + Qualitative)	Micro-entrepreneurship
Sequeira, Carr & Rasheed (2009)	ETP	Empirical (Quantitative)	Immigrant Entrepreneurship
Short, Ketchen, Shook & Ireland (2010)	JOM	Conceptual	N/R
Webb, Tihanyi, Ireland & Sirmon (2009)	AMR	Conceptual	Informal Entrepreneurship
Alvarez & Barney (2014)	ETP	Conceptual	Entrepreneurship in Poverty
Bradley, McMullen, Artz & Simiyu (2012)	JMS	Empirical (Quantitative)	Entrepreneurship in Poverty
Khavul, Bruton & Wood (2009)	ETP	Empirical (Qualitative)	Entrepreneurship in Poverty
Kwon (2010)	JBV	Empirical (Quantitative)	Macro-level Entrepreneurship
Stenholm, Acs & Wuebker (2013)	JBV	Empirical (Quantitative)	Macro-level Entrepreneurship
Thai & Turkina (2014)	JBV	Empirical (Quantitative)	Macro-level Entrepreneurship
Valdez & Richardson (2013)	ETP	Empirical (Quantitative)	Macro-level Entrepreneurship

<sup>1</sup>AMR = Academy of Management Review; ETP = Entrepreneurship Theory and Practice; JBV = Journal of Business Venturing; JMS = Journal of Management Studies; JOM = Journal of Management

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## CHAPTER 3

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### **GLOBAL VALUE CHAINS IN AFRICA AND DEVELOPMENT OF OPPORTUNITIES BY POOR LANDHOLDERS**

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## CHAPTER 3: GLOBAL VALUE CHAINS IN AFRICA AND DEVELOPMENT OF OPPORTUNITIES BY POOR LANDHOLDERS<sup>8</sup>

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### 3.1 ABSTRACT

In an effort to help address severe levels of poverty, multinational firms are increasingly seeking to include African smallholders in their global value chains (GVCs). Despite efforts of multinationals to provide such opportunities, the number of successful inclusions remains limited. We draw from the entrepreneurship domain to approach this important issue from an opportunity perspective. At the heart of our effort to develop a greater theoretical understanding is the insight that opportunities can both be discovered and created by smallholders. The key implication of this insight is that multinationals will gain more from their efforts to include small landholders in their GVCs if they adapt their value chain systems in ways that also accommodate joint creation of opportunities with smallholders rather than expect that all smallholders adapt to the systems developed by the large global firms for their large suppliers.

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### 3.2 INTRODUCTION

Multinational firms are increasingly doing business in Africa. These multinational firms contributed to the overall economic growth in Africa, which was estimated at 4.6 % in 2014 (World Bank, 2016). While there has been rapid economic growth in the region, relative poverty in sub-Saharan Africa continues to be the highest in the world (Chen and Ravallion, 2007) and the poor do not benefit typically from the presence of multinational firms other than as consumers (Prahalad, 2004). Multinational corporations are aware of global poverty issues and increasingly strive to have those in poverty to be more than consumers (Kolk and van Tulder, 2006; Newell and Frynas, 2007). The corporations are pursuing this view since they have begun to understand that the potential for the poor to also be suppliers in the global value chain (GVC) of the multinational firms will generate a means to help address poverty (Bolwig et al., 2010). Thus, for those in poverty, their role as both suppliers and consumers can generate a positive impact for the multinational firm, the poor and the overall economic growth of a nation. Research has started to emerge on how GVCs have the potential to not only bring profit to multinational firms, but also to aid the poor as producers (Bruton, 2010). Today there is still a need for far greater research on the specifics of GVCs in settings such as rural areas of Africa (Collier and Dercon, 2014; Zoogah et al., 2015). This paper aims to contribute to filling this gap. Specifically, we help to provide a foundation for understanding why those in severe poverty often decide not to participate in such GVCs even when others – including some smallholders – clearly see the opportunity initially recognized by the multinational firm.

Some multinationals are already seeking to involve poor individuals from Africa in their GVCs. We will briefly review the literature on GVCs and develop a theoretical understanding on how the poor and the firms are affected by this effort. We aim to enhance the understanding of our conceptual development by employing an actual case example of a Dutch multinational firm's effort in Africa. In conducting this investigation we acknowledge that the efforts by

multinational firms and the resulting impact on the poor remains limited at this time. We expect that our theorizing about GVCs in Africa will provide insight into the opportunities that result from such efforts, and the implications for those in poverty. In keeping with prior work, in this article we examine the micro-level foundations of entrepreneurship (e.g. Berrou and Combarnous, 2012) as they ultimately mark the beginning of developing an understanding of how entrepreneurship impacts economic outcomes at the macro level. Indeed, scholars now widely recognize that entrepreneurship has an important social and economic role in addressing poverty (Newbert and Stouder, 2012; Wennekers et al., 2005). Specifically, we will develop insights on how employing the concept of opportunity development from the entrepreneurship domain can help to create a win-win situation for both the multinational firms' GVCs and the small poor producers that dominate Africa.

### **3.3 INCREASING VALUE APPROPRIATION FOR SMALLHOLDERS**

African economies are still dominated by smallholders' agricultural activities, particularly in rural areas (African Development Bank, 2016). Here we will focus on these small landholders to understand how they can fit into a multinational's GVC. Among smallholders we focus on small, rural landholders since they form the largest core group of the poor in Africa (Chen and Ravallion, 2007) plus the characteristics of rural and urban Africa are so distinct (Kates and Dasgupta, 2007) that each merits their own examination. For example, urban markets in Africa are commercial and relatively comparable to those in European and North American contexts despite being poorer. Rural markets in Africa, in contrast, deviate strongly from what Western scholars are familiar with. Such markets can be best described as autarkic systems (systems with absence of external assistance or international trade), and further characterized by the absence of access to capital, the presence of chieftaincy and tribal

councils, subsistence economic activities and communal property rights (Zoogah et al., 2015). Informal institutions displayed through norms, conventions and behavioural practices (North, 1990) are said to have an outspoken influence on rural activities in Africa (Hydén, 2006). Zoogah et al. (2015) also note that “the traditional practices of collectivism, shared values, and disproportionate interdependence are extensive in rural Africa” (p. 12). Scholars have recently called for more research on alternative routes to tackle the challenges that such institutional settings pose for the inclusion of poor smallholders in Africa (Collier and Dercon, 2014). Hence, the concentration in this study on the group of small landholders in rural areas both takes us beyond what is already known and allows us to also bring greater focus to analysis.

In general, there are two ways that small landholders in Africa can obtain more value from their productive activities (Karnani, 2007). One means for the poor to gain such value is for the multinational to make their GVC more adaptable so that they can more easily incorporate the small landholder. Typically multinational firms’ GVCs today (can) only work with large suppliers due to economic efficiencies and as a result, multinational firms’ systems are designed for large suppliers. Technologically, multinational firms commonly have the ability to generate a system to accommodate small landholders but the investment for such access has not been engaged by those firms.

The second means for the poor landholder to gain more value from the GVC is by achieving more efficient production (process upgrading), supplying more highly valued products (product upgrading), becoming more skilled (functional upgrading) or applying capabilities acquired in one domain to another (interchain upgrading) (Humphrey and Schmitz, 2002). The upgrading of the poor landholder is the best long-term option for social and economic returns (Newbert and Stouder, 2012); however, such an investment by a multinational firm to ensure it occurs is large and more challenging than changing the multinational firms’ systems. Recent work by Khavul and Bruton (2013) illustrates the

difficulty in making these changes as the scholars highlight the difficulty organizations face when seeking to improve the lives of people at the bottom of the economic ladder while building products and services. Similarly, Lutz (2012) argued that the willingness of small landholders to participate in GVCs should not be taken for granted as they might not have the resources or capabilities to become a part of a multinational's GVC even if they desire it.

### **3.4 THE CHALLENGE OF PROVIDING OPPORTUNITIES**

Despite the debate around their potential structural impact (Nega and Schneider, 2014), businesses increasingly aim to help the poor and are lauded for such efforts by both governmental bodies and the broader society (Karnani, 2011). Governments have especially high hopes that the promotion of entrepreneurship can mark the way out of poverty and bring about the much desired social and economic developments (United Nations, 2016; Wennekers et al., 2005). The result is that those multinational firms with a desire to provide entrepreneurial opportunities for the poor in their GVCs as noted above either make the GVCs of their firms more accessible to the small landholders or/and also make resources available to small landholders so they can increase their productivity. These productivity enhancement efforts often need to include actions to increase human capital (e.g. provision of training and educational programs) and financial capital (e.g. in the form of credit or fixed assets), among others (e.g. support with getting certifications).

Multinational firms that aim to provide opportunities to small landholders by including them in their GVCs need to have appropriate systems in place that allow these to occur; such systems must be in place before more in-depth changes that come from working with the small landholder can be successfully implemented. Most multinational firms have the slack resources at hand to support their efforts to work with small landholders in rural Africa. However, it is

challenging for those firms where small landholders are seen as vital actors in the GVC since the multinational has to deal with drastic contextual differences such as the lack of public institutions that can provide assistance. Nevertheless, efforts to include small landholders in more remunerative GVCs are becoming increasingly widespread and successful among multinationals (Hazell et al., 2007). For example, small coffee farmers in Uganda who moved to organic farming (to get certifications) and were subsequently included in a multinational's GVC through contract arrangements, generated significantly more revenue compared to a group of farmers who used conventional farming for domestic markets (Bolwig et al., 2009). Significant insight about GVCs and multinationals can also be learnt from the financial services sector in Africa, where multinationals continue to reach out more to the rural poor through microlending institutions. For example, a stream of literature has emerged here on the issue of how such microlending organizations can become self-sustainable (Battilana and Dorado, 2010), thereby highlighting successful solutions of establishing operational systems in rural areas that can accommodate the high transactions costs of providing goods and services, plus enable and induce efficient use of resources (Khavul, 2010).

While some of the efforts to include small landholders in multinationals' GVCs are successful, the number of success stories stands in sharp contrast with the large number of failures (Banerjee and Duflo, 2011). A powerful problem that has been highlighted in multinational firms GVCs is that they often dictate the way how primary producers should participate in the GVC without consideration of the local setting (Bolwig et al., 2010). It is not difficult to find examples of small landholders that show the initial willingness to exploit opportunities that were presented to them by multinational firms, but ultimately there was disappointment by either the small landholders, the multinational firms or both. For example, many multinationals in agricultural GVCs initially pushed the use of modern fertilizers to increase agricultural productivity for small landholders seeking to join the GVC. Due to

structural characteristics that affect incentives to supply and use fertilizer, most successes were temporary and unsustainable without large external financial support (Morris et al., 2007). In addition to this, there are also a number of individual-level factors that can play (e.g. procrastination; Duflo et al., 2011). The result is that many efforts to bring small landholders into agricultural GVCs of multinational firms failed.

From the perspective of those who have identified an opportunity, failures can also be the result of smallholders, including small landholders, not taking up the opportunity as presented by the multinational firms. Such disappointments raise an important insight for scholars. It is often puzzling to those who study smallholders to witness the great entrepreneurial opportunities that seem to be present in Africa that individuals do not take advantage of (e.g. Duflo et al., 2011). Such perceptions are also common in multinational firms which are trying to “do well by doing good” (Karnani, 2011). Thus, a better understanding of the variation in how opportunities develop is needed, especially for those multinational firms engaging in the creation of GVCs that incorporate smallholders in Africa.

### **3.5 THE NATURE OF OPPORTUNITIES**

Opportunities created “with local customers, local networks, and local ecosystems in mind” has previously been recognized as critical to the poor (Khavul and Bruton, 2013: 295). Such a view is consistent with entrepreneurship’s overall focus on opportunities as being at the heart of entrepreneurship (Baron, 2006). We also place opportunity at the heart of our theoretical development on GVCs and the rural landholding poor in Africa. Here, the development of opportunities is impacted both by efforts of multinational firms to create better systems to aid poor African landholders and efforts to aid such poor landholders in their actions.



Currently, entrepreneurship scholars would view corporations' development of opportunities for the small landholders in Africa through two lenses; the discovery perspective which is rooted in critical realism or the creation perspective which is grounded in evolutionary realism (Alvarez and Barney, 2010). Critical realists assume that both observable and unobservable elements of our world are real, i.e. that they objectively exist outside people's minds, when they can be measured (Godfrey and Hill, 1995). In contrast, the creation school builds on evolutionary realism which argues that people construct their own reality through social interactions; but that these subjective realities are tested against objective realities or against the aggregate social constructions of others (Campbell, 1974). It is important to note that both perspectives lead people to develop very different beliefs of how opportunities come into existence. We will next focus on the processes of how the multinational firm and small landholders can form or develop opportunities (i.e. through discovery or creation). It is critical to gain such in-depth understanding because qualitative differences between how economic actors – be it an individual or an organization – perceive the world (including opportunities) around them strongly affects the way in how these actors rationalize or make sense of information. Thus, given their fundamental impact on economic and social development we will next look deeper at discovery and creation views on opportunities.

### **3.5.1 The Discovery Perspective on Opportunities**

Historically, opportunities were viewed as objective phenomena that are “out there”, waiting to be discovered and exploited by entrepreneurs (e.g. Kirzner, 1973; Shane and Venkataraman, 2000). Thus, opportunities in this view exist independently from the perceptions and/or actions of economic actors, and are more likely to be recognized by one group of economic actors (entrepreneurs), but not others (e.g. managers). Even in the case that nobody discovers a certain opportunity, it is assumed that this opportunity still exists.

Within this conceptualization of opportunities, it is assumed that opportunities have come into existence through ‘exogenous shocks’, i.e. sudden events that cannot be attributed to the entrepreneur who discovered the opportunity but are rather the consequence of unexpected events in certain markets or industries. Exogenous shocks might relate to sudden changes in technology, politics, etc. (Shane, 2003). In the discovery perspective, there can be considerable time lags between the shock that led to the objective opportunity and the actual recognition of the opportunity by economic actors.

To explain why some economic actors discover and/or exploit opportunities, but not others, scholars have tried to explicate systematic psychological differences that differentiate entrepreneurs from non-entrepreneurs (e.g. managers). A number of traits that are frequently portrayed in the literature as being distinctive for entrepreneurs include alertness (Kirzner, 1973), extraversion, need for achievement, risk-taking, locus of control and self-efficacy, among others (see Shane, 2003). Whereas this stream of research has historically attracted much attention in the entrepreneurship domain, traits have proven not to be the best predictors for the development of opportunities and subsequent entrepreneurial action (Cooper and Dunkelberg, 1987; Gartner, 1989).

Finally, in the discovery perspective, the exploitation of opportunities is said to be risky (Knight, 1921). Although alert entrepreneurs can discover opportunities through the availability of objective information, the actual exploitation remains a risky endeavour. This is because wealth creation – i.e. the expected outcome of an opportunity – is a process that unfolds in the future, and one can never exactly know how the future will look like. The information available to entrepreneurs is always embedded in the past and present. Consequently, discovery opportunities might be very temporary phenomena. New information that becomes available after the entrepreneur has started to exploit a discovered opportunity, might substantially alter the characteristics of that opportunity. For example, the opportunity cost – i.e. the foregone

value of putting resources in one opportunity but not in another – of exploiting an opportunity might change as time goes by.

### **3.5.2 The Creation Perspective on Opportunities**

Unlike the discovery perspective, the objectivity of information and hence opportunities is not taken for granted in the creation perspective. Recently scholars have started to challenge the discovery perspective by thinking about opportunities as subjective phenomena (e.g. Baker and Nelson, 2005; Sarasvathy, 2001). Creation argues that developing opportunities are idiosyncratic, path-dependent processes resulting in unique and subjective opportunities.

The roots of the creation perspective on opportunities lie in social constructionism (Bergman and Luckman 1967). Social constructionists assume the world is real, but contest the idea that perceptions of this world can be objective. These scholars argue that perceptions or meanings given to phenomena in the world are derived from social, human interactions. Opportunities, along the same lines, are seen as social constructions as well. The potential of an opportunity to create wealth cannot be objectively determined and will be perceived differently depending on the idiosyncratic histories and environments that economic actors have created in their lives (Weick, 1979). Moreover, according to the creation perspective, “opportunities do not exist until entrepreneurs create them through a process of enactment” (Alvarez et al. 2013).

With the emergence of “evolutionary realism” (Campbell 1974), scholars (e.g. Aldrich and Cliff, 2003) have moved away from pure subjectively constructed views of the world (and opportunities) by assuming that some perceptions of the world are shared by multiple people because they are objective in nature (e.g. physical laws) or because they are shared by many people and became aggregated social constructions (e.g. perceptions about certain market

demands). Such shared perceptions allow entrepreneurs to some extent to test their own assumptions about opportunities and to adapt them accordingly.

Entrepreneurs who create opportunities can, but do not necessarily, differ from non-entrepreneurs in terms of personality traits or cognitions. Some scholars have suggested that if there are such individual-level differences, these differences might be a consequence of engaging in an opportunity creation process rather than a cause of entrepreneurial action (Alvarez et al., 2013). Because of the fundamentally different nature of creation and discovery opportunities, it is likely though that some individual-level differences are functional for one type of opportunities, but not for another, and vice versa. For example, a preoccupation with the distant future and the development of long-term plans (Nuttin and Lens, 1985) might be functional in the context of opportunity discovery but dysfunctional for the creation of opportunities.

Unlike opportunities that can be discovered after an exogenous shock, creation opportunities have to be shaped and moulded by value-seeking individuals. The implications for how the entrepreneurial process looks like is substantial and challenges the classical view that breaks up the entrepreneurial journey process in three different processes: opportunity discovery, evaluation and exploitation (Shane and Venkataraman, 2000). Those economic actors that create opportunities do not have to look out for shocks in the external environment to start their entrepreneurial journey. These economic actors build on the information and resources they currently have at hand to develop future opportunities that lead to value creation. The motivation for engaging in an opportunity creation process is thus the anticipation that an opportunity will come into existence in the near or distant future, whereas for discovery, opportunities are recognized in the moment when recognized.

To create an opportunity, an economic actor must undertake action based on initial assumptions to elicit reactions (e.g. feedback) from relevant parties in order to adjust

assumptions and continue with this process until an opportunity is “enacted” (Weick 1979) that matches the objective reality and/or the socially constructed perceptions of others. The role of “others” is much more pronounced in the creation perspective of opportunities compared to the discovery perspective (Garud and Karnøe, 2003).

In line with evolutionary theories, the actions that entrepreneurs undertake can be blind or intentional. Unlike the case of discovery opportunities, entrepreneurs who create opportunities cannot draw upon objective historical information because they do not know beforehand what the opportunity will end up being like. There is also no useful historical comparison in the creation of opportunities that one can make since one does not know what to compare with. Consequently, the information where entrepreneurs draw upon while creating opportunities is likely to be very diverse and can be related to what afterwards seem to be unrelated industries or markets than the one wherein the newly created opportunity became embedded. Because one cannot explicate the different steps that have to be taken, the creation or enactment of an opportunity is said to be an ‘uncertain’ process (recall that the process was said to be ‘risky’ for discovery opportunities, because in such contexts one makes predictions based on available information). At the same time, the decision to engage in an opportunity creation process cannot be the result of an opportunity costs calculation as the outcomes of the opportunity that is yet to be shaped is not known and thus cannot be compared with the expected outcomes of alternative opportunities. Instead, the decision to start creating an opportunity is said to be determined by the perceived ‘acceptable loss’, i.e. the economic and personal loss that potential entrepreneurs are willing to accept if the investment of time and resources finally does not lead to the generation of economic wealth (Sarasvathy, 2001).

**Table 3.1: Differences between the Discovery and Creation Perspective on Opportunities**

<b>Dimension</b>	<b>Discovery</b>	<b>Creation</b>
Nature of opportunities	Objective	Subjective
Origin of market imperfections	Exogenous shocks	Endogenous creations
Psychology of entrepreneurs compared to non-entrepreneurs	Differences are present, e.g. in terms of ‘alertness’, cognitive differences,...	Differences are not necessarily (though can be) present
Human capital of entrepreneurs	Experience in, and deep knowledge about specific markets are needed.	Experience in, and general information about multiple markets are useful.
	Opportunity-specific skills need to be present at discovery.	Non-opportunity-specific skills are developed during creation.
Role of entrepreneurs	Passive: entrepreneurs wait and search for an opportunity to pop-up	Pro-active: entrepreneurs act, learn from reactions, act again, ....
Implications for opportunity evaluation	Based on opportunity costs – decision making is risky	Based on acceptable losses – decision making is uncertain
Temporal characteristics of opportunities	“Foresight” into the future is possible due to objective information available from the past and present	Not possible to see “the end from the beginning” due to lack of objective information available from the past and present
Implications for opportunity exploitation	Exploitation process can be planned	Exploitation process is path dependent and cannot be planned

Overall, a comparison of the discovery and creation perspective reveals stark differences in reasoning about opportunity development (also see Table 3.1) and scholars have typically stuck to only one view. But there is a difference based on whether individuals view opportunity as the result of a discovery and those who view it as a result of creation, which in turn impacts the discussion of GVCs among the poor in Africa. Looking deeper at opportunity

in a GVC context – as we do in the case example below – we know it is characterized by market imperfections that can be exploited by the small African landholders as they pursue economic wealth (Alvarez et al. 2013; Venkataraman 1997). In this setting, there can be both creation and discovery of opportunity that can occur for the small landholders. The view of opportunity effects whether the poor landholders in Africa discover and take advantage of changes that the multinational firm makes to seek to include the poor in the GVC, or whether the multinational firm can facilitate idiosyncratic opportunity creation by the small landholders in ways that do not necessarily develop into the opportunity the multinational firm had in mind. Put differently, opportunities are discovered in a setting where the multinational firm is an actor who provides opportunities with a specific wealth-creating goal in mind and poor landholders are “born” entrepreneurs who discover the specific opportunity as provided by the multinational. Opportunities are created when the multinational firm is an actor that proactively creates the setting wherein opportunities can grow through interaction and poor landholders are those who act entrepreneurially to take advantage of the diverse opportunity development paths that the multinational firm facilitates.

### **3.6 DISCOVERY AND CREATION APPLIED TO A CASE OF A DUTCH MULTINATIONAL FIRM**

As a backdrop for our theoretical understanding of GVCs and small landholders in Africa, we use a richly illustrated case example of a Dutch multinational firm seeking to bring small landholders from South Africa into its GVC; for confidentiality reasons, we do not provide the name of the firm here. This firm examined is over 100 years old and one of the largest supermarket chains in Europe that is active in multiple nations. The firm is pursuing an active process of seeking to alter its GVC to include small African producers of avocados. This

firm was chosen since it exemplifies the dominant international firm seeking to integrate local farmers, and in this case farmers are from a poverty-stricken region of the Limpopo province in South Africa, where one of the authors did a year of field research. For this illustrative case example, we conducted semi-structured interviews with four key informants (each representing different roles in the GVC) during three face-to-face meetings, resulting in 177 minutes of audio-recorded data. Data collection was supplemented by one day visit to the field and continued email communication with one of the key informants.

Thus, we focus here on a multinational firm's sourcing of avocados in South Africa. In the perspective of this multinational, the inclusion in an adapted GVC should give poor, small landholders in rural South Africa an opportunity to appropriate more value from their avocado farming activities under the condition that they can supply high quality, certified Hass avocados. To facilitate inclusion, the multinational had made money available for a three-year training programme directed to what they call a group of 26 "emerging farmers". What these farmers have in common is that they all "grew up with fruit around them" and that "they understand fruit". However, the farmers differ in terms of age, experience with farming and land ownership, among others. A number of locally embedded organizations and governmental bodies act as intermediaries between the multinational and these farmers. These intermediary chain actors are the ones who actually provide the training, but also expertise and equipment.

Out of the group of 26 avocado farmers who were included in the dedicated training programme to facilitate the inclusion, only three small landholders were said to be "on track" (according to the multinational) – they are the ones who discovered the opportunity. These smallholders recognized the change in the multinationals' GVC as an opportunity, went successfully through all certification processes, applied the commercial farming techniques as taught in the training, and were generating more economic wealth than before they got involved in the multinationals' adapted GVC. An insightful observation from our data was that the



farmers who recognized the opportunity saw clear future benefits from following the programme closely, rather than seeking to create an opportunity from the ground up. One of the farmers described the discovery of the opportunity as follows:

“I could see how they are doing business and then I knew that was the only way that one can be commercial. If you get access to markets and then if you know the information of how to produce your fruits, so that’s the thing that you need.[...] Because around you, there are lots of fruits, all kind of fruit, but then without the information, there’s, there’s no way you can get to this markets.”

The three commercial farmers also built up hands-on-experience with international export in the past, enabling them to make historical comparisons with what this new opportunity could bring. However, it is important to note here that the opportunity provided by the multinational was not recognized immediately by the smallholders. Mindful of the possibility of inclusion in the multinationals’ GVC, the opportunity development process that led to the discovery in our case characterizes the dynamics that also typify opportunity creation (also see Table 3.1). For example, one of the three farmers initially followed the acceptable loss principle and learned by doing:

“At first, I didn’t spray the whole farm, because I knew the cost would be like high, and I don’t know what’s gonna happen, so what I did was, I sprayed some of the blocks [...] But then after that, I knew that, no man, there’s a good market and after spraying I get good quality fruit, and then I get um ... good fruits to the market and the returns are good. So if I can spray the whole farm, then it will be better.”

The 23 other small landholders in the training programme did not recognize the change in the multinationals’ GVC as an opportunity for them, despite their willingness to produce more and higher quality avocados. These farmers followed an opportunity creation process.

According to one of our informants, what this group of farmers believed to get out of the training is “hopefully assistance with upliftment of their existing enterprise”. Given the vagueness of this goal, it can be expected that the future actions that the landholders undertake will divert into many different paths, which will not per se resemble the path that the multinational had in mind. For this group of farmers, the training programme is a valuable, but “finite project” and not the ultimate missing piece to realize an elaborate future idea for commercial farming. While the multinational firm seemed to be aware that the opportunity for these smallholders did not develop the way they anticipated, resources were diverted towards facilitating opportunity discovery at the expense of opportunity creation:

“I [*representative of the multinational*] said, look we need to sit down and see where the priorities are and then we need to sit down with [...] the people from head office, and say, right, how do we go forward? [...] we need to see what the, what training that people need here as it is at the moment [...] we need to confirm if that is what the people still want, how they want to go, and we will just need to hear from the farmers what their issues are.”

It was evident from the interviews, that whether an entrepreneur discovers or creates an opportunity depends much on the specific context of the individual including idiosyncratic backgrounds, experiences and social networks. In the view of the multinational firm, growing Hass avocados could result in substantial economic returns for the farmers because there is a big market demand for this avocado variety and an almost guaranteed purchase of the fruits. The farmers’ lower quality fruits can only be brought to domestic markets and have to be sold with low profit margins. On the other hand, Hass cannot be sold profitably at domestic markets at all due to their high productivity costs. Thus, if one decides to invest in Hass and things turn out different than planned, farmers are putting themselves at great risk because they might even lose the subsistence income that they could have otherwise generated from growing and selling common avocado varieties. In addition to these elements, the case hints that much of the

variation in the farmers' response to the multinationals' effort to include them in the altered GVC can be explained from the differences in land ownership between the farmers. The 23 farmers who did not recognize the commercial farming opportunity as an opportunity for them, owned (much) less land compared to the three farmers who saw the opportunity. Limited economies of scale, together with the delayed payments structure, capital-intensive certification processes and farming techniques that the multinational imposed, made it more challenging for the smaller landholders to see the potential of commercial farming. The multinational firm tried to take away some of these pains by creating awareness and involving other partners (e.g. community leaders, government representatives, avocado growers' association, etc.) who could help with further shaping the context so that more landholders, would be able to recognize opportunities in the future. But the context the 23 farmers were in proved to be too constraining for opportunity discovery. The data suggest that this situation would appear to be accentuated since many small farmers are not entitled to the land they use. These farmers occupy the land but do not hold legal title. The result is that they have to deal with many parties in the community who make formal and informal challenges to their occupancy. Thus, these individuals feel even at greater risk particularly because if they experience great success it may in fact bring further challenges to their occupancy.

### **3.7 DISCUSSION**

One of the key issues that the poor in Africa face is that often opportunities are not recognized. There are many opportunities that appear obvious to an outsider who is used to taking advantage of entrepreneurial opportunities, but such recognition is generated by decades of development of a culture in which risk is valued as is working for the reward. Such settings do typically not characterize rural Africa.

Thus, while multinational firms like the Dutch case examined here have a desire to incorporate the poor increasingly in their GVCs, they must approach such issues with a clear understanding that opportunities can both be discovered or created. The changes in the multinationals' systems to accommodate small landholders as noted is the easiest part of the process. The multinational firm must also ensure that the products entering the GVC meet the needs of the smallholder. Such movements often require education and support to the small landholder. However, the multinational firm must also anticipate that even given this setting, only part of the suppliers will discover the opportunity. Many others will not reach the point where they value or see the opportunity that has been provided, despite the multinationals' attempts to make small landholders recognize the future economic wealth that can be generated. In these cases, the multinational firm must be aware that other people can hold different beliefs about information and resources provided to them. If such beliefs are not aligned (over time), opportunities for the smallholders will not develop through a discovery process. Rather, for those smallholders who never discover an opportunity of being included in a GVC, the focus of the multinational firm could be on becoming a key partner in the idiosyncratic opportunity creation process which has the potential to lead to other valuable social or economic outcomes. The case examined here for avocado farming demonstrates the need and relevance of such thinking. The multinational firm finds itself sourcing avocados from a handful of small landholders who eventually discovered the opportunity, which is not much given the relative level of investment of time and effort by the firm. However, for those who did not discover the opportunity but engaged in an opportunity creation process, the outcomes of the multinational's investments are having an indirect impact on the exploitation of other opportunities in the future through strengthening the partnerships with intermediary GVC actors or by growing specific human capital (experience, knowledge, skills, etc.).

In sum, the systematic, contextual differences that characterize rural Africa and the depth of change processes that small landholders sometimes have to deal with when provided with resources by the multinational firm is deeper than most can realize initially when sitting on the outside. It can even hamper opportunity discovery by the small landholder. However, initiating change and providing certain resources can lead to the creation of an entrepreneurial opportunity by the smallholder that does not per se mirror the opportunity that they had in mind, yet still lead to other valuable social and/or economic outcomes. Thus, the multinational firm who aims to include small landholders in their GVCs and increasingly help alleviate poverty must also question how to deal with those who do not (immediately) discover the opportunities they see, yet are eager to engage in an opportunity creation process.

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## CHAPTER 4

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### **FOOL, FOUNDER OR FAMILY MEMBER? THE ROLE OF SOCIAL IDENTITY IN EXPLAINING THE SOCIAL MEANING AND ALLOCATION OF FINANCIAL RESOURCES**

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## **CHAPTER 4: FOOL, FOUNDER OR FAMILY MEMBER? THE ROLE OF SOCIAL IDENTITY IN EXPLAINING THE SOCIAL MEANING AND ALLOCATION OF FINANCIAL RESOURCES**

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### **4.1 ABSTRACT**

We conducted a field study of seven small firms in a poverty setting to build an understanding of how and why entrepreneurs vary in the allocation of microcredit to business and non-business related purposes. Our grounded theory builds on social identity theory and the theory of the social meaning of money. We discovered that entrepreneurs developed different interpretations of ambiguous financial resources to be able to achieve what was important to them as a founder or family member in running their firms. The paths we describe help explain the allocation of financial resources (e.g. microcredit) in resource constrained environments. Our study also provides a platform for research that may generate new insights into the role of entrepreneurs' social identity in the social construction of financial resources.

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## 4.2 INTRODUCTION

Most organizations that are new or small find it difficult to attract financial resources (Penrose, 1995 [1959]). Both in developing and developed economies around the globe, microcredit – “the issuance of small, unsecured loans to individuals or groups for the purpose of starting or expanding businesses” (Khavul, 2010: 58) – has emerged as one way to accommodate those organizations who experience great difficulties in obtaining capital in settings where other forms of credit are scarce or unavailable (Bruton, Khavul, Siegel, & Wright, 2015). Yet, while recent scholarship has generated great insight on how institutional logics (e.g. financial and development logics) affect the development of the supply side of microcredit (Battilana & Dorado, 2010; Cobb, Wry, & Zhao, 2016; Zhao & Wry, 2016), we know surprisingly little about the key dynamics taking place at the demand side of microcredit. Even though the microbusinesses that are on the receiving end of microfinance loans resolve some of their resource problems, our understanding of the mechanisms involved in spending and repaying those loans in the process of enterprise development in poverty is still limited. Such an understanding is important, as the impact of microcredit on enterprise development and poverty alleviation is mixed at best (Banerjee, Karlan, & Zinman, 2015b; Chliova, Brinckmann, & Rosenbusch, 2015), and the way microfinance loans are spent plays an important role in this perspective (Banerjee, 2013; Karlan, Osman, & Zinman, 2016).

Studies that demonstrate a positive impact of microcredit on enterprise development and poverty alleviation have shown that microfinance loan recipients use microcredit to increase working capital expenditure (Pellegrina, 2011) or to make investments in durable business assets (Banerjee, Duflo, Glennerster, & Kinnan, 2015a; Hartarska & Nadolnyak, 2008). As a result, small business loans by MFOs have often been publicly celebrated, culminating in the 2006 Nobel peace prize for Muhammad Yunus’ pioneering work with the Grameen Bank. Other studies, however, have demonstrated that borrowers use their expensive microloans to

cover non-productive investments or expenses: i.e. from which no income can be generated that can help repay the loan (Collins, Morduch, Rutherford, & Ruthven, 2009). For example, it has been observed that loan recipients allocate their loan mainly to non-business related applications such as building materials, food, education and health for the household members (e.g. Bruton, Khavul, & Chavez, 2011; Premchander, Prameela, Chidambaranathan, & Jeyaseelan, 2009) or use it as an alternative way of saving (Rutherford, 2000). These non-productive resource allocation strategies are surprising and alarming, because the absence of potential revenues turns the microfinance loan into an expensive cost for households that are already in poverty.

Extant research, however, has largely focused on explaining ultimate social (e.g. empowerment) and economic (e.g. business growth) outcomes of microcredit, and only little attention has been devoted to developing a theoretical understanding around the deeper question of how or why microbusinesses come to spend their loans in such different ways (Banerjee, 2013). Indeed, it has been noted that the vast majority of research on resource allocation of entrepreneurial firms in the informal economy – in which most microbusinesses operate – lacks academic foundation (Webb, Bruton, Tihanyi, & Ireland, 2013). More specifically, the argument has been raised that theoretical underpinnings are missing to understand the role of individuals' cognitive factors in the demand for new entrepreneurial finance alternatives such as microcredit (Bruton et al., 2015). Given that microcredit now reaches about 211 million people worldwide, with more than half of the borrowers estimated to live under the US\$1.90/day poverty line (Reed, Rao, Rivera, Gailly, Sanchez, Rogers et al., 2015), this raises an important question on which we focus in this study: *How and why do entrepreneurs who receive microcredit in poverty contexts allocate these financial resources to business or non-business applications?*

We investigate this question through an inductive field study of seven small resource-constrained entrepreneurs in a developing economy that all received microcredit from the same microfinance organization (MFO). This was a strategic research context because it allowed us to examine variation in microcredit allocation among entrepreneurs that had access to a very similar type of financial resource in a very similar economically disadvantaged environment. Our findings highlight that the MFO's institutionalized mission of poverty reduction *through* enterprise development created an ambiguous message on the possible uses for the microloan, which the entrepreneurs interpreted differently in the construction of their cognitive resource allocation schemata. Furthermore, these interpretations were in turn influenced by the entrepreneurs' attempts to enact salient social identities that acted as a lens through which the ambiguity was channelled.

Our findings help to bridge psychological and sociological explanations of financial resource allocation by showing that “money” is not a static and invariable object for which optimal allocation strategies can be calculated. Rather, micro-entrepreneurs develop different “meanings of money” that are the result of how their social identity as a founder or family member imposes itself on the ambiguous rules that the MFO sends out. By bridging social founder identity and the social meaning of money we show that for firms in extreme resource constrained environments, an integration of psychological and sociological theories are useful for understanding the patterned connections between institutional resource prescriptions and variation in the allocation of scarce resources.

#### **4.3 THEORIES OF FINANCIAL RESOURCE ALLOCATION DECISIONS**

The strategic allocation of scarce resources such as financial capital is a key task for organizations (Mintzberg, 1979) and the study thereof lies at the very heart of the study of the

economy (Colander, 2000) and organizations (Bower, 1970). A central notion of neoclassical economic decision theory is that individuals allocate resources in such a way that they maximize a particular objective (e.g. profit), while taking into account the constraints they are faced with. Mathematically, this is often formalized as an *objective function* which links a defined output (e.g. profit) with a set of input variables (e.g. resources) and constraints to those input variables (e.g. access to resources) through “mathematical programming” (Kirzner, 1997). Each of the input/output coefficients in the objective function represents a *production* or *utility function* that reflects the technical frontier of how much inputs are needed for a given output. Such constraint optimization remains a widely accepted method in theorizing about organizational resource allocation decisions under uncertainty (Dixit & Pindyck, 1994), especially in such fields as decision sciences, operations management and statistics, but also in other fields such as entrepreneurship (e.g. Baumol, 1993; Douglas & Shepherd, 2000). An important outcome of mathematical programming is that it leads to normative insights about resource allocation, in the sense that it suggests how individuals – who are presumed to be rational - should make decisions to reach allocative efficiency given the firm’s objective, resources and constraints (Tversky & Kahneman, 1986).

Prominent normative theories of resource allocation that have explicitly engaged with financial resource allocation decisions include finance theory of discounted cash-flow and real options theory. Put simply, first, in finance theory, discounted cash-flow is used as a tool to decide on financial resource allocation by calculating the net present value (i.e. estimated future value of a product or service subtracted by the required investment) of investments (Myers, 1984). Second, real options is useful to explain rational choices of making small investments prior to making major investments (Bowman & Hurry, 1993; McGrath, 1999; Myers, 1977). While both normative economic theories advance a different view on how financial resource allocation decisions are made, they share the same (implicit) three foundational assumptions

(Demsetz, 1997). The first assumption is that markets function freely, often suggesting that all economic actors have the same objective function: profit maximization. The second and third assumption are that all economic actors have the same production function because there is information symmetry about prices and technology in markets and because input and output variables can be objectively measured and controlled. However, these three assumptions of normative economic theories do not always hold in real-life markets. As a consequence, descriptive theories have emerged to provide an alternative theoretical perspective on actual financial resource allocation decisions – decisions that can substantially deviate from what would be proposed by normative modelling.

Descriptive theories of financial resource allocation decisions can help to understand how decision makers deal with different objective functions (e.g. social progress) that are difficult to model as a quantifiable production function. In addition, descriptive theories can also account for subjective perceptions and biased judgment over production functions (Tversky & Kahneman, 1986) when information asymmetries in markets exist and when resources and constraints are not objective entities (cf. Bowman & Hurry, 1993). In the light of the observed uses of microcredit allocation that sometimes could be perceived as irrational or even foolish from the outside, descriptive theories provide us with a solid basis to start building an understanding of financial resource allocation in resource-constrained environments. We now describe the most prominent descriptive theories of resource allocation decisions that can provide theoretical explanation for when the assumption of uniformity of objective and productive functions among decision makers do not hold.

#### **4.3.1 Alternative Objective Functions**

In normative economic theories, management is presumed to have no real influence (Demsetz, 1997), and it is generally assumed that organizational decision makers seek to



optimize profit. Yet, one could easily think of instances where profit optimization probably does not represent the objective function. For example, alternative objective functions could be decreasing work-family conflict (Thebaud, 2015), preserving socioemotional wealth in the family (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011) or increasing social value for a society at large (Austin, Stevenson, & Wei-Skillern, 2006). A number of alternative explanations exist to explain the origins of alternative objective functions, and in this section we discuss the most seminal works.

According to a first stream of research, not everybody has the same objective function because people differ in terms of their cognitive capacities. It was Simon (1956) who coined the term *satisficing* to describe decisions (such as resource allocation decisions) in contexts where optimization of the objective function was impeded. The explanation for why people develop satisfactory instead of optimum solutions was also captured in Cyert and March' (1992 [1963]) behavioural theory of the firm. In their view, managers have limited information processing capabilities, leading to the development of rationally bounded views of the world, which in turn steer cognitively biased resource allocation decisions. The information processing capability could further be exacerbated in circumstances where decision makers face extreme resource constraints. Mani et al. (2013) demonstrated that when there is a gap between one's needs and the resources to fulfil them, a cognitive preoccupation with this pressing situation of concern decreases the amount of cognitive resources available to optimize (financial resource allocation) decisions.

Secondly, in addition to the role of limits in cognitive abilities on resource allocation decisions, prospect theory of Kahneman and Tversky (1979) has shown that, when managers make decisions under uncertainty, managers will have different objective functions for the same decision problem as a result of how the decision problem is framed. More specifically, prospect theory suggests that managers will make more risk averse decisions when the decision

is framed as a gain, while they will be more risk seeking when the same decision is framed as a loss. Prospect theory was later incorporated and extended in the behavioural agency model (Wiseman & Gomez-Mejia, 1998) to explain variable risk preferences in principal-agent relationships. More specifically, the behavioural agency model has shown that a firm's board (i.e. the principal) can have an impact on the CEO's (i.e. the agent) decisions by shaping the CEO's framing of contexts as being gain or loss contexts (Zona, 2012).

Finally, social identity theory (Tajfel & Turner, 1979) was employed by Fauchart and Gruber (2011) to explain financial resource allocation decisions of firm founders. Compared to established organizations, decision makers in emerging firms are even more likely to experience uncertainty (McMullen & Shepherd, 2006), leading to objective functions that once again deviate from theoretical profit maximizing objective functions. Indeed, it was noted that founders do not make resource allocation decisions in a "calculating manner" (Fauchart & Gruber, 2011: 952), but in a way that there is a fit between decisions and their founder social identity. To fully understand where this variation in sought utilities comes from and how it impacts financial decisions, we need to give a bit of background information. A social identity is defined as "that part of an individual's self-concept which derives from the knowledge of his membership of a social group (or groups) together with the value and social significance attached to that membership" (Tajfel, 1978: 63). When people identify themselves with a certain social group or category (e.g. a profession, a family, etc.) they integrate perceived prototypical attributes of that group or category into their self-concept, considering them as being characteristic of their own and shared with others (Ashforth, 2001). As people feel belonging to multiple groups, a social identity needs to be salient to steer decisions. Salience refers here to the "readiness to act out an identity" (Stryker & Serpe, 1994: 17). An important note is that whereas salience of a role identity (Stryker, 1980) is carried over from situation to situation, salience of a social identity depends on the presence of self-categorization cues in

the situation (Owens, Robinson, & Smith-Lovin, 2010). Individuals are generally motivated to confirm their salient identities (Brewer & Gardner, 1996) through enacting the prototypical beliefs, feelings, attitudes and behaviours that they derive from their salient social identity and which sets them apart from other social groups (Hogg & Terry, 2000). Such enactment takes place through a sensitivity for identity-related cues and the definition of situations to make them fit with the identity (Hogg, Terry, & White, 1995). Finally, Sleesman et al. (2012) also posited that social pressures are potentially powerful drivers of resource management decisions, particularly if such pressures “emanate from a group with which an individual strongly identifies” (p. 553).

#### **4.3.2 Alternative Production and Constraint Functions**

Similar to the notion of alternative objective functions, people can also have different production (or utility) functions – how much of a resource is needed to produce a particular desired output – and have different views on what constrains them in their choices. Such variation is possible when the normative assumption of information symmetries and/or the objective nature of input/output variables is violated. In practice, both assumptions are interlinked because if input/output variables are subjective entities, it almost automatically follows that this information cannot be known to all. In this light, scholars have long stated that a difference should be made between organizational resources and the different applications they might serve (Penrose, 1995 [1959]). Indeed, resources do not allocate themselves (Sirmon, Hitt, & Ireland, 2007) and it has been argued that more attention should be given to the role and characteristics of organizational actors in understanding variation in resource allocation. For example, in explaining the allocation of financial slack in firms, it has been demonstrated that managers’ discretion over slack (Vanacker, Collewaert, & Paeleman, 2013) and managers’ market sensing capacity (Simsek, Veiga, & Lubatkin, 2007) impact how slack is allocated

within the firm. Furthermore, scholars have shown that to find explanation for how firm financial resources are deployed, more explicit consideration has to be given to the managers' broader social context such as institutional legal frameworks (Vanacker, Collewaert, & Zahra, 2016). Institutions, however, operate at regulatory, normative and cultural-cognitive levels, shaping the behaviour that is considered to be socially legitimate or appropriate (Scott, 2008). The extant literature describes multiple theoretical rationales for understanding the existence of alternative objective and constraint functions, and here we discuss the most prominent streams of scholarship. We begin with a brief discussion of the impact of information asymmetries and then continue with the constructed character of input/output variables.

In an organizational context, the allocation of financial resources comes with transaction costs that need to be governed (Williamson, 1981). Agency is one type of transaction cost that has received considerable traction, both within and outside the boundaries of the organizational literature. Agency theory focuses on relationships whereby a principal delegates work (such as decision making) to an agent (Jensen & Meckling, 1976). At the heart of agency theory is the assumption that all individuals seek to increase their own desires and live up to their own risk preferences. This may result in an agency problem when the self-serving interests between agent and principal conflict, and when the principal lacks information about the actual interests and behaviour of the agent (Eisenhardt, 1989b). Hence, agency problems lead individuals to develop different production functions since the set of input and output variables, or the weight given to those variables, cannot be assumed to be the same for everybody.

The variation in production functions is further complicated when we follow Weick's (1993) work on sensemaking, who advanced the notion that "reality is an ongoing accomplishment that emerges from efforts to create order and make retrospective sense of what occurs" (p. 635). In keeping with this notion, scholars have tried to understand the mechanism

of how characteristics of organizational actors in their social context affect resource allocation decisions. Recent work has looked at cognition (e.g. Benner & Tripsas, 2012; Gavetti, 2005; Tripsas & Gavetti, 2000) and particularly social cognition (Mitchell, Busenitz, Bird, Gaglio, McMullen, Morse et al., 2007), defined as “the way in which we interpret, analyse, remember, and use information about the social world” (Baron, Byrne, & Branscombe, 2005 cited in Mitchell et al. 2007: 5). For example, an important way through which organizational members learn about what they can do with firm resources is by benchmarking their firms against relevant others (e.g. competitors) and see how others use their firm resources. Managers select firms to be included into these “cognitive strategic groups” (Eggers & Kaplan, 2013; Reger & Huff, 1993) based on the firms’ identities. The more firms look like the prototype firm of the cognitive strategic group, the more likely they are to be considered as relevant for comparison (Porac, Thomas, & Baden-Fuller, 1989). In a similar vein, strong identity beliefs leads managers to develop an in-group bias, such that strategic focus becomes very much on what in-group members do, while ignoring cues from out-group members (Porac, Thomas, & Baden-Fuller, 2011).

Sociological theories go even further in their unpacking of the social construction of resource allocation decisions, by focusing on the interpretation of the resource itself. While in economic theories money is presumed to be understood as a profane, invariable commodity with only quantitative meanings (Furnham, 2014; Mitchell & Mickel, 1999), Zelizer (1989) challenged this perspective by suggesting that individuals’ perception of money stretches beyond the economic meaning of money. The notion of “special monies” accounts for the qualitatively different meanings about money that individuals develop or adopt from institutionalized templates and share with others and that can vary along multiple dimensions. As a result of these different qualitative understandings, people can earmark different moneys based on their source, purpose, users, mode of allocation (e.g. children have to ask their father

for pocket money on Sunday mornings) and control, along other dimensions (Zelizer, 1989; Zelizer, 1997), making resource allocations and the constraints placed upon them dependent on the qualitative meaning attributed to them.

Similar qualitative understandings have also been explored by entrepreneurship scholars, who have been particularly interested in how people may differ in the resource allocation possibilities they imagine from these resources. An important theoretical vehicle in this stream of work is the notion of *bricolage*, defined as “making do by applying combinations of the resources at hand to new problems and opportunities” (Baker & Nelson, 2005: 333). Scholars in the field of bricolage have found that entrepreneurs vary in financial resource allocation strategies when they develop different interpretations about the potential uses of resources in their social context (Baker, 2007). Bricolage requires entrepreneurs to bend or ignore institutionalized rules or templates about what is commonly accepted to be an appropriate or possible use of a resource.

Together, these separate streams of literature have provided important insights into the decision mechanisms that go into resource allocation processes. Remaining elusive, however, are the processes that connect these mechanisms together, reinforce or balance each other and together explain behaviour that we could consider erratic or foolish from a purely normative profit maximizing point of view. It is this interplay of mechanisms that emerged as an important explanation of resource allocation decisions among the recipients of MFOs in the poverty context we studied empirically, to which we turn next.

#### **4.4 METHODS**

To address the central research question of this study, we used qualitative data to develop grounded theory (Glaser & Strauss, 1967; Suddaby, 2006). Over a course of nearly

two years, the first author spent 12 months in a rural part of sub-Saharan Africa to collect archival data, interact, observe, and interview entrepreneurs who were all receiving microcredit from the same MFO. In the remainder of this article, we also refer to these entrepreneurs as borrowers. The MFO in our study uses a standard microcredit methodology whereby small unsecured business loans are disbursed to individuals who form groups of 5 and whereby group members are held liable for one another's monthly repayments (The Small Enterprise Foundation, 2016). To develop our theory, we used an inductive multiple case-study design (Eisenhardt, 1989a; Yin, 1994). To facilitate the observation of contrasting patterns (Eisenhardt & Graebner, 2007), we theoretically sampled (Glaser & Strauss, 1967) seven extreme polar cases of entrepreneurs who used their microcredit dominantly for business related purposes or dominantly for non-business related purposes.

Our inductive research method is particularly useful to answer “why and how” questions about complex social processes (Eisenhardt, 1989a; Glaser & Strauss, 1967; Suddaby, 2006; Yin, 1994) such as firm development in poverty contexts (Eisenhardt, Graebner, & Sonenshein, 2016). Moreover, since our literature review uncovered substantial theoretical divergence that constrained an in-depth understanding of variation in the contextualized allocation of firm financial resources, we favoured a case-based qualitative approach over a hypothesis-driven, quantitative research design (see Eisenhardt & Graebner, 2007; Suddaby, 2006).

#### **4.4.1 Empirical Setting**

Given our research question to understand *how and why entrepreneurs who receive microcredit in poverty contexts allocate these financial resources to business or non-business applications*, we sought to collect data through a partnership with an MFO in South Africa. We chose a country in sub-Saharan Africa, since this is a developing region with globally the

highest level of poverty (Alkire & Santos, 2014). This situation of being resource constraint is magnified for many black South Africans, since the country is ranked as one of the most unequal countries in the world (World Bank, 2016). Moreover, South Africa provides us with a unique setting to study and observe individual and social drivers of microcredit allocation to business and non-business applications. During South African apartheid (a politic of racial segregation that was most outspoken during 1948 and 1994) entrepreneurship and consumption were severely repressed due to widespread proletarianization (black South Africans represented the working class) and exclusion from financial services (James, 2012; Posel, 2010). With the end of apartheid, black South Africans gradually started to gain access to formal loans such as microcredit and had to find new ways to earn a living. While policy makers intended microcredit to be used for slow but structural social mobility through enterprise development, black South Africans see the long denied credit opportunities as an enabler to rapidly bridge the gap between income and long-held aspirations (James, 2015). Indeed, when compared to forms of credit aimed at setting up businesses, black South Africans predominantly borrow to live up to the unleashed aspirations they hold for their relatives and children - a situation perceived as one of the “most dramatic developments in the landscape of access” (Porteous & Hazelhurst, 2004: 77) and unparalleled in other parts of Africa (James, 2015: 22, 27). Thus, South Africa was selected as a research setting since its recent historical setting provides us with an appropriate, extreme and unique setting to investigate our research question.

All entrepreneurs in our cases were sampled among individuals who were loan-recipients of the Small Enterprise Foundation (SEF), which is the biggest MFO in South Africa (Centre for Inclusive Banking in Africa, 2014). Although it is hard to compare poverty contexts, because poverty is always relative to the social context a person finds him or herself in (Sen, 1985), the borrowers of SEF are likely to be representative for *entrepreneurs that*



*receive microcredit in poverty contexts* (see our research question). We say so because SEF has been repeatedly acknowledged for its close adherence to the Grameen Bank's group lending methodology (e.g. The Small Enterprise Foundation, 2016), which is a pioneer in the MFO landscape with similar activities in Asia, Latin America, sub-Saharan Africa, Middle East and Northern Africa. Moreover, SEF is one of the 442 certified MFOs worldwide that uses Grameen's Progress Out of Poverty Index to measure household poverty (Grameen Foundation, 2017; The Small Enterprise Foundation, 2016). SEF is headquartered in Tzaneen, a town in the heart of rural Limpopo, which is the most northern province of South Africa and also the poorest (Statistics South Africa, 2016). According to 2011 census data about Tzaneen (Statistics South Africa), only 21.8% of all people aged 20 years passed their matric (grade 12), and the rate of unemployment (economically active and looking for work) was as high as 36.7%. After a short visit to SEF in 2014, the first author of this paper went back to Tzaneen in 2015 and lived there for 11 months. A year later, in 2016, the first author returned for another month to do more data collection. Together, these stays were invaluable to gain an in-depth understanding of the research context (Lofland, Snow, Anderson, & Lofland, 2006) and increase theoretical sensitivity (Suddaby, 2006).

#### **4.4.2 Sampling Approach**

To select cases for this study, we used a theoretical sampling approach whereby we sought to minimize unwanted differences between cases and maximize differences in resource allocation between cases (Glaser & Strauss, 1967). In developing grounded theory, the comparison of extreme cases is crucial to discover the theoretically relevant categories that are important to understand variation in the phenomenon of interest (Glaser & Strauss, 1967). Because in a multiple case-study research design, one can only dig into a limited number of cases, extreme polar cases also help to make the mechanisms that underlie differences between

cases more readily observable (Eisenhardt, 1989a). Relatively early in the research process, we classified NONBUS-4 (we use this label to refer to one of our informants, see below) as an extreme case of an entrepreneur who dominantly used her microloan for applications other than her own business. NONBUS-4 is a borrower who was borrowing the highest possible loan from the MFO at the time of our visit, and we were shocked by the contrast between her shop and her house. NONBUS-4 had a small ramshackle *spaza* shop, which is a small market run from home, yet at the same time she was living in an enormous villa in good repair. It was hard for us to understand how she was able to repay the loan with the business she had..

From that field visit onwards, we decided to start sampling only in the pool of loan recipients in SEF's joint liability program of two comparable operational branches who were currently taking R20,000 (~ \$1,730 in January 2015) microloans. This allowed us to have an objective point of comparison in terms of how much the entrepreneurs spent on business and non-business applications. Moreover, by focusing on entrepreneurs receiving the maximum loan amount of R20,000, we ensured that the borrowing decision was significant and important, and reflecting a significant financial obligation towards the MFO. Every month, entrepreneurs who were borrowing R20,000 had to make a repayment of R4,144 (in the 6-month repayment scheme) or R2,633 (in the 10-month repayment scheme). The high loan amount also allowed us to actually observe how loans were spent when we visited entrepreneurs' businesses, which helped us to validate self-reported loan utilisation emerging from the interviews (Karlan et al., 2016; Karlan & Zinman, 2012). During the two year span wherein we collected first-hand data, the loan amounts that some of the borrowers were taking decreased whereas others increased (the latter was possible since the maximum loan amount increased over time). These changes were not a threat to our theoretical development – on the contrary – they significantly added to our understanding of borrowers' microloan use.

Within a pool of initially 48 borrowers we mainly looked for “polar types” in terms of what the microloan was spent on (dominantly on business purposes or dominantly on non-business applications). Because we did not know *a priori* for which applications borrowers actually used their loans, we tried to identify the theoretically most interesting cases by collecting such insights from interviewing borrowers and/or their development facilitators. Development facilitators (DFs), also known as loan officers, can be considered key informants, since they represent the MFO staff members who are actually working with borrowers in the field on a day-to-day basis. Through this approach, we managed to gather insights about microloan utilisation for 28 of the 48 borrowers in our initial sampling pool (we did not collect loan utilisation data about the 20 others). Within this subgroup of 28 female borrowers we then selected seven borrowers that appeared most extreme in terms of spending the loan to business-related applications or to non-business related applications. With these seven borrowers we had 29 semi-structured interviews in total (22 in 2015, and 7 in 2016), which were supplemented with archival material collection and additional interviews with DFs about the 7 cases, to reach a total of 40 interviews. In Table 4.1 we describe the seven borrowers along a selection of key dimensions (business activity, demographics, etc.). In Table 4.2 we detail differences in microloan utilisation among our seven cases.

#### **4.4.3 Data Collection**

In keeping with the literature on case-study research (Eisenhardt & Graebner, 2007; Yin, 1994), we sought to collect data from a broad spectrum of sources including (repeated) interviews with multiple key informants during multiple loan cycles, observations in various settings, archives, and pictures, among others. However, of all data sources, interviews proved the most efficient way to collect rich empirical accounts to ground our theory. To overcome potential resistance among interviewees (Hammersley & Atkinson, 2007) and because none of

the female borrowers spoke (fluently) English, all interviews with borrowers were conducted by a local research assistant who had the same mother tongue as the borrowers (i.e. Sepedi). The research assistant received substantial training in interview techniques by the first author and became very skilled in probing deeper in the informants' answers or having things clarified (McCracken, 1988). To make sure that the research assistant covered all major issues, she followed an interview guide developed by the first author and which changed hand in hand with our improved theoretical understanding (Gioia, Corley, & Hamilton, 2013). The interviews with borrowers lasted 45 minutes on average, and were recorded and translated by the same research assistant who also conducted the interviews. Since Sepedi is dominantly an oral language (Pretorius, 2013), we decided not to transcribe the interviews, but to directly translate them. In accordance with established procedures for qualitative research (Corbin & Strauss, 2015; Hammersley & Atkinson, 2007), we further triangulated our data with interviews with SEF staff members (N=21; excluding the 11 interviews with the development facilitators of our seven cases), observational data, photos, financial history data (recorded by the SEF) and SEF corporate documents (such as manuals, annual reports, etc.), among other sources (e.g. papers in local newspapers). For a brief overview of data collected for each of the seven cases, see Table 4.1.

#### **4.4.4 Data Coding and Analysis**

We first analysed the variation in the use of microloans that would allow us to make comparisons across and within cases. The data was scrutinized to reveal how microloans were exactly used. In keeping with our sampling approach, we could then split up our borrowers in two polar groups of cases: those who used their microloan dominantly for business applications and those who used their microloan dominantly for non-business applications (also see Table 4.1).

**Table 4.1: Selection of Case Descriptions and Data Sources**

#	Case label	Case descriptions					Data sources			
		<i>Principal product/service offerings</i>	<i>Year of birth</i>	<i>Household size<sup>1</sup></i>	<i>Schooling grade<sup>2</sup></i>	<i><u>Married</u>/<u>Widowed</u><sup>1</sup></i>	<i>Interviews borrower</i>	<i>Interviews DFs<sup>3</sup></i>	<i>Loan application files</i>	<i>Field notes (pages)</i>
<i>1</i>	BUS1	Food market Lottery Tavern Moneylending Bricks	1984	4	12	M	4	1	4	11
<i>2</i>	BUS2	Sewing Property rentals Clothes	1942	5	none	W	4	2	3	7
<i>3</i>	BUS3	Sewing Religious services	1947	5	4	W	4	2	2	12
<i>4</i>	NONBUS4	Food market Caregiving Car rental Moneylending Food market	1958	4	8	M	5	2	3	12
<i>5</i>	NONBUS5	Fish oil Caregiving	1950	3	none	W	4	1	4	8
<i>6</i>	NONBUS6	Traditional healing Thermo boxes Household items	1957	7	10	M	4	1	4	9
<i>7</i>	NONBUS7	Soft drinks Household items	1953	9	5	W	4	2	2	11
<i>1-7</i>	-		-	-	-	-	29	11	22	70

<sup>1</sup>Household size and Marital status (Married/Widowed) as in November 2016; <sup>2</sup>Grades 1-12 are used in South Africa to label the level of educational achievement. Primary school grades start from grade “R” and continue from grade 1 to 7; secondary/high school grades include grades 8 to 12. <sup>3</sup>We have only five recorded interviews with five different DF’s (development facilitators), but some DF’s knew multiple borrowers.

**Table 4.2: Financial Resource Allocation and Case Separation**

First-order categories <sup>1</sup>	Self-reported applications <sup>1</sup>	Overarching dimension: Financial resource allocation						
		<i>BUS1</i>	<i>BUS2</i>	<i>BUS3</i>	<i>NONBUS4</i>	<i>NONBUS5</i>	<i>NONBUS6</i>	<i>NONBUS7</i>
<i>“Doing business”</i>	Business stock	✓	✓	✓	✓	✓	✓	✓
	Paying employees		✓					
<i>Loan sharking</i> <sup>2</sup>	Lending with interest				✓			
<i>Saving money</i>	Savings		✓	✓		✓	✓	✓
<i>“Eating the money”</i>	Repayments to SEF					✓	✓	
	Home renovation				✓			✓
	Insurance				✓		✓	
	Electricity/Firewood					✓		✓
	Groceries				✓	✓		✓
	School fees				✓		✓	
	Other household expenses					✓	✓	✓
<i>Lending to family</i>	Lending to family members				✓		✓	✓
<i>Dominant</i> <sup>3</sup> <i>use of microcredit for business</i>		✓	✓	✓				

<sup>1</sup>The first-order categories represent codes that were used to label the borrowers' self-reported applications of the microcredit. First-order codes put between brackets denote in vivo codes, meaning that they mirror the exact words of our informants. <sup>2</sup>Loan sharking is per definition a business activity since profit is sought through the lending of money with interest, but we differentiate it from “doing business” because our informants did as well. <sup>3</sup>Based on a triangulation of data sources, we say microcredit use is dominantly for business when more than half of the R20,000 loan is used for business-related applications.

**Figure 4.1: Data Structure**

Definitions first-order categories	First-order categories →	Second-order themes →	Overarching dimensions
The extent to which the borrower uses the microloan to cover their <i>own</i> business-related expenses	“Doing business”	Spending on business applications	Financial resource allocation
The extent to which the borrower uses the microloan to lend out to others at an interest rate higher than the one employed by the MFO	Loan sharking		
The extent to which the borrower uses the microloan to save money	Saving money	Spending on non-business applications	
The extent to which the borrower shares the microloan to cover non-business expenses (that also benefit household members).	“Eating the money”		
The extent to which the borrower uses he microloan to support financial needs of family members	Lending to family		
The borrower’s rationale behind the decision to lend a certain amount of money (not more, not less) from the MFO	Reason for “taking the money”	Purpose of financial resources	Financial resource allocation schema
The borrower’s restricting of possible purposes for which the received microloan could be used	Restriction to the “usefulness” of the SEF money		
The extent to which the availability of the microloan is a personal matter or a family matter	From informing others about the SEF loan to obeying	Social control over financial resources	
The extent to which the allocation of the microloan is controlled by the borrower or distributed among relevant others in the social environment	From self-control to shared control		
The rationale behind the decision of the MFO to lend a certain amount of money (not more, not less) to the borrower	“Determination of next loan”	Organizational rules about applications of financial resources	Institutional prescriptions about resource allocation
The MFO’s restrictions on possible purposes for which the borrower could use the received microloan	Using the loan for business and “other reasons”		
The extent to which the MFO wants borrowers to involve relatives in decisions about taking the microloan	Asking approval vs. empowerment	Organizational rules about social control over financial resources	
The extent to which the MFO wants borrowers to involve other borrowers in controlling decisions about spending the microloan	Individual or collective loan		
The extent to which the borrower holds an affective, behavioural and/or normative engagement towards enacting a social identity	“Loving” business vs. “keeping busy”	Subjective importance	Salient social identity
The extent to which the borrower’s business activities take place inside or outside the residential dwelling	Business location	Situational relevance	
The extent to which the borrower has paid employees who are present at the business premises	Presence of employees		

Business applications were almost exclusively related to buying stock for the borrower's own business, whereas non-business applications were more diverse, yet mostly related to covering expenses that also benefitted near family (e.g. household expenses). Hence, we say that microloan use is dominantly for business for those borrowers who used more than half of the R20,000 on business-related applications whereas microloan use is dominantly non-business for borrowers who used more than half of the microloan for non-business related applications. Similarly, in this paper, we refer to our cases using the labels BUS (dominant use for BUSiness) and NONBUS (dominant use for NON-BUSiness), directly followed by the number of the case. Where applicable, we also add a dash and number of the interview with the borrower in the case. For example, "BUS1-2" refers to the second interview with borrower 1, who belongs to the group of cases where the microloan was dominantly used for business.

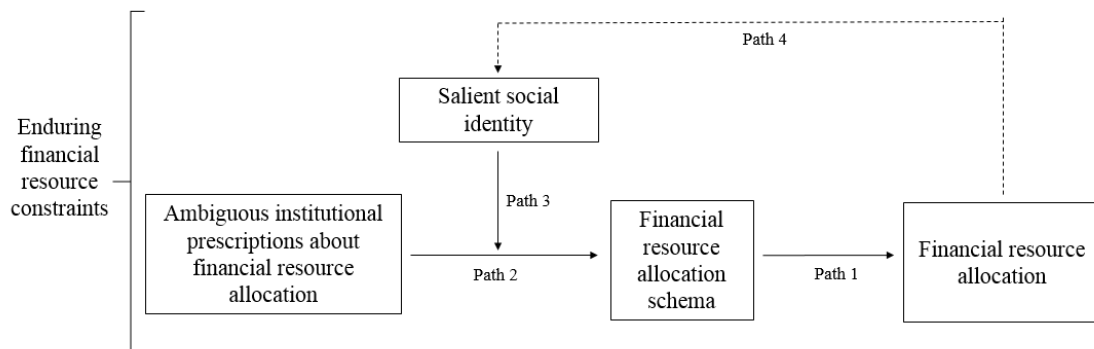
In a second step, we analysed our data with the aim to uncover systematic patterns that could explain the observed variation in the microloan use. In keeping with the literature on qualitative research (e.g. Miles & Huberman, 1994; Van Maanen, 1979) and following a grounded theory approach (Corbin & Strauss, 2015; Glaser & Strauss, 1967), we used descriptive, informant-centric codes to label the different constructs that are potentially informative for why and how the microloans are used differently by the seven borrowers. Much of our initial coding was *in vivo* coding (Corbin & Strauss, 2015) meaning that we tried to keep as close as possible to the data, thereby enforcing ignorance of priori constructs that we know from the literature (Gioia et al., 2013). To move from initial first order coding, to higher-order conceptual codes (Corbin & Strauss, 2015), we constantly compared cases and made numerous diagrams trying to model the data. The resulting data structure with first-order codes, second-order themes and the overarching theoretical dimensions is shown in Figure 4.1.



## 4.5 FINDINGS

Our primary finding is that the salient social identity of entrepreneurs functions as a cognitive lens in the interpretation of financial resource allocation rules. Figure 4.2 is a visual representation of our theoretical model. To put things briefly, the starting point is an enduring situation of financial resource constraints which was also the context of our study. The resource allocation schemata held by the entrepreneurs guides the actual financial resource allocation (Path 1). The resource allocation schemata are in turn shaped by the financing body's ambiguous institutional prescriptions about the allocation of the financial resources (Path 2), yet this relationship is influenced by the entrepreneurs' salient social identity in running their firms (Path 3). In turn, entrepreneurs' salient social identities are influenced by the purposes to which financial resources are actually allocated (Path 4).

**Figure 4.2: Model and Pathways of Entrepreneurs' Financial Resource Allocation**



In the following sections, we theorize and substantiate each building block of our model and the paths that connect them. We start with entrepreneurs' cognitive resource allocation schema since we discovered this to be the most proximal determinant of financial resource allocation.

#### 4.5.1 Cognitive Resource Allocation Schema: A Social Interpretation

We found that differences in the allocation of the microloan was primarily a result of differences in the borrowers' resource allocation schemata. A resource allocation schema refers here to the borrowers' cognitive model of firm resources and the understanding of their fungibility (Danneels, 2011). Applied to money we talk about *shared* cognitive resource schemata since money is a social construct that facilitates exchange between people and thus requires a shared understanding to be meaningful (Simmel, 2011 [1907]). Indeed, the cognitive resource allocation schema around the microcredit was shared and constructed through interactions with relevant others in the social environment of the borrower (household members, SEF's development facilitators, etc.). Similar to Zelizer's observations (1989; 1997), our data revealed that the cognitive resource allocation schemata of the two groups of cases differed along two dimensions: "microloan purpose" and "social control over the microloan". Microloan purpose refers here to the uses to which the borrower plans to apply the microloan. The social control over the microloan refers to the extent to which people in the social environment of the borrower can affect decisions of using the microcredit for business or not (Aldrich & Cliff, 2003; Steier, Chua, & Chrisman, 2009). We now illustrate the different interpretations that the borrowers in the two polar groups of cases constructed in terms of the purposes and social control over the microloan. The first group of cases (BUS1, BUS2 and BUS3) consists of borrowers that dominantly used their microloan for business applications. The second group of cases (NONBUS4, NONBUS5, NONBUS6 and NONBUS7) consists of borrowers that, in contrast to the first group, dominantly used their microloan for non-business applications.

***Purpose of financial resources.*** In the group of BUS cases, the reason for taking R20,000 was motivated in terms of the size of their business, which could easily absorb the

amount. Consequently, the usefulness of the SEF loan among the BUS cases was primarily framed in terms of business investments, as one of the borrowers explained: “Some people do not understand what the SEF money is for and they should know it's for business. I mean they buy fridges and all sorts of things with the money and at the end of the day they do not have the money to pay SEF back because they do not have any income at all” (BUS1- 4). In contrast, in the group of NONBUS cases, the main reason for taking R20,000 was to keep up with a standard of living in the household. One of the borrowers who decreased her loan to R15,000 motivated that decision as follows: “It’s because I saw a bit of an improvement in the family...That is why we decided to reduce the money, because there is progress in the family” (NONBUS6-3), meaning that she used (parts of) the loan from SEF for family-related purposes: “[the SEF money] is useful in all places in my family household” (NONBUS6-4). Indeed, for borrowers in the NONBUS group, the SEF money was useful in terms of its potential to be used for diverse non-business purposes, as one of them also explained: “the SEF money works in all departments here at home” (NONBUS4-5). Furthermore, borrowers in the NONBUS group explained that they wanted to use the money for non-business applications, and that business investments were made to keep up appearances:

“They [*SEF*] also know that we are not selling what we write on those things [loan application forms]; [...] some of us, we just want to use the money [...] They do not tell us on how much we should spent [on the business] [...] Even if they come here right now and get two to three things here that has to do with a business, then they will just write it down - and it is a business to them - at least it looks like it.” (NONBUS7-4)

Similarly, another borrower only had a minimum of stock in house to have something to show to:

“At any time they [*SEF staff members*] can show up to my house and have questions for me, or even ask what I do with the money and examples on what we do. If I do not have those then what will I show them if there is nothing here? (*Laughs*) So I do that [*using some of the SEF loan to buy business stock*].” (NONBUS6-4)

***Social control over financial resources.*** In terms of the social control over the microloan, BUS borrowers did not tell people in their social environment when they were receiving loans from SEF (except for BUS1 whose husband was directly involved in her business). One of the borrowers explained that she did not tell anyone because those who do “get mugged, such things happen to them because they tell everyone their business” (BUS2-4). Borrowers in the BUS group also strictly wanted to control the microloan themselves – an understanding that was shared by others in their social environment. Questioning BUS1 whether she sometimes felt the pressure to share the microloan with family, she responded “No, they do not bother me with such [requests]” (BUS1-4). Borrowers in the BUS group also limited their attendance to centre meetings where issues around loan utilisation were discussed in group (except for BUS3 who had to attend centre meetings because she was the centre chair) (archival source: loan application forms). Moreover, all three borrowers in the BUS group sought to overcome the issue of being controlled by group members in their use of the microloan, since they repeatedly expressed interest in the possibility of getting an individual loan (BUS1-1, BUS1-3, BUS2-1, BUS3-1, BUS3-2). In contrast, looking at the social control over the microloan among cases in the NONBUS group, we observed close involvement of the social environment. Family members were habitually informed about loans received (even those living outside the household) and control over the allocation of the loan was to a certain extent shared among family members. Attendance to centre meetings among borrowers in the NONBUS group was also vastly higher compared to those in the BUS group (archival source: loan application forms). This increased the likelihood of being controlled by group members

on loan utilisation and pushing them to use at least some of the loan for productive purposes, just like they do themselves: “Right now we have Leshabane, she is new, she is new, so we are still watching her. [...] We want a person that pays people whenever she owes them money and a very hard worker” (NONBUS5-1). Furthermore, except for NONBUS4, none of the borrowers in the NONBUS group showed interest in the possibility of getting an individual loan.

Thus, our assessment of the data revealed that borrowers and their family members held qualitatively different interpretations of the purpose and social control over the microloan. Representative quotations for each of our seven cases are bundled in Table 4.3. Together, these different interpretations characterized borrowers’ social cognitive resource allocation schemata, the resource allocation options that were considered by the different borrowers. These resource allocation schemata, in turn, explained why microloans were dominantly used for business applications by borrowers in the BUS group and for non-business related applications by borrowers in the NONBUS group. This finding also clarifies the first mechanism of our theoretical model (see Figure 4.2, Path 1).

In light of the observed differences, the question then becomes why borrowers differ in terms of their resource allocation schemata. In seeking an answer to this question we uncovered the role of two key building blocks – the MFO’s institutional prescriptions about resource allocation and borrowers’ social identity – that together explained why borrowers developed different resource allocation schemata. We first discuss our findings concerning the MFO’s institutional prescriptions about resource allocation, and next we turn to findings about borrowers’ social identity.

**Table 4.3: Resource Allocation Schema**

<b>2<sup>nd</sup> order theme and 1<sup>st</sup> order category: Representative quotations</b>	
<b><i>Purpose of financial resources: Reason for “taking the money”<sup>15</sup></i></b>	
BUS1	“[Sometimes I would like that] the money was more than what I am taking now. But unfortunately it ends there. [...] when you do not have [the SEF money] then you really cannot do some things in the business.” (Int. 4)
BUS2	“I would [take a higher loan than 20,000] and I have applied for it, but my loan was denied. 20,000 is not enough for my business - I use it all and it finishes. People once came to my house and made me fill out some papers for the loan, but it was not approved.” (Int. 2)
BUS3	“[I want to take 25,000 because] I have to get more clothes, so I need that money to get a lot of stock. So in times like these, I usually want so many things, but at the end of the day I find that the money is really not enough. [...] And next year I want to sell meat as well. When I am here at home sewing, then someone comes through saying they need meat, then I will just get up and sell the meat to them.” (Int. 3)
NONBUS4	“I cannot get into SEF with all my children. I do not want my children to go into groups with other people because I know how it is. So if I could get 20,000 then I know that I can give my other children the money. This other child of mine is in the same group as me but I knew that they wouldn't allow her to do so, so she signed in using her husband's names, but she is the one taking the money and she is taking an amount of 12,000.” (Int. 4)
NONBUS5	“I do not want to decrease the money because when you do, then it's not going to be like you used to get it before [...] If you decrease it, and then want to increase later on, the process will take time.” (Int. 4)
NONBUS6	“ I took R15000 now [...] [I reduced my loan] because I saw a bit of an improvement in the family. So that is why we decided to reduce the money, because there is progress in the family.” (Int. 3)
NONBUS7	[Interviewer: why don't you decide you take less than 20 000?] No, I am used to taking that amount of money already. ( <i>Laughs</i> ) so I am used to it [...] it does help me, so I might as well [take that amount].” (Int. 4)

<sup>15</sup> We define ‘Reason for “taking the money”’ as the borrower’s rationale behind the decision to lend a certain amount of money (not more, not less) from the MFO. The criterion entrepreneurs use to lend the money from the MFO can be the same as the purpose, but this is not necessarily the case.

**Table 4.3 (Continued): Resource Allocation Schema**

<b>2<sup>nd</sup> order theme and 1<sup>st</sup> order category: Representative quotations</b>	
<b><i>Purpose of financial resources: Restriction to the “usefulness” of the SEF money</i></b>	
BUS1	“One thing people don’t understand about SEF is that as soon as clients get money and use it for the wrong reasons, like groceries, then there is no growing [of the business] with that [money] happening, but if it is used wisely then progress will be there.” (Int. 1)
BUS2	“The decision [on how to spend the money] is all about knowing what you want at the end of the day. So if you are in a different business than mine, then you just continue buying those cabbages, onions or whatever that you sell. Use the profits to buy all that you need on the side. People end up saying that SEF is very problematic - it is not SEF, it is yourself. When you pay on time and do what's right then you will enjoy SEF.” (Int. 4)
BUS3	“SEF money is not money for loan sharks, it [SEF] can’t lend you money and then you do the same as well. That is not how things are done. It is no good and that is the biggest mistake that people can make. The SEF money is used to buy stock, and then after you have bought that, then use the money you have made from the business and put it to good use.” (Int. 3)
NONBUS4	“The SEF money works in all departments here at home. Some of my children still go to school, so I use some of that money [to cover tuition fees] [...] Yes, yes [the SEF money works for everyone in the family].” (Int. 5)
NONBUS5	“[The SEF money] is very useful, because when I want something then I will be able to get it [...] and if one still has children that still go to school, then you will be able to pay the school fees and of course pay SEF back.” (Int. 4)
NONBUS6	“[The SEF money] is useful in all places in my family household - it is useful and it made me who I am today.” (Int. 4)
NONBUS7	“When it comes to the business - I do not get a lot of things really, that really covers all that money [ <i>the R20,000 loan from SEF</i> ], no. But most of the money comes here at home, so I know what I bought and I can finger point all that I used the money for. I do not play with it.” (Int. 4)

**Table 4.3 (Continued): Resource Allocation Schema**

<b>2<sup>nd</sup> order theme and 1<sup>st</sup> order category: Representative quotations</b>	
<i>Social control over financial resources: From informing others about the SEF loan to obeying</i>	
BUS1	“[Interviewer: Do you sometimes take the SEF money without your husbands consent?] No he knows everything [...] He knows I am with SEF [...] He shouldn't be surprised with such things.” (Int. 4)
BUS2	“No! I do not do that [ <i>telling her children or grandchildren when she receives money from SEF</i> ]. So when people get mugged, such things happen to them because they tell everyone their business.” (Int. 4)
BUS3	“When it comes to the SEF money, I do not want anyone to be involved there at all [because then] my business will suffer.”(Int. 4)
NONBUS4	“[When I get the money from SEF] I withdraw it and come home with it, because here at home I still have a husband and he should know what I do and when I have receive the money. Afterwards we see what to do with the money. Here at home we do not keep things from each other, we tell one another everything. In that way your family has the strength to work along with each other.” (Int. 5)
NONBUS5	“My son and I get along and we talk about anything to each other [...] I don't [take money from SEF without telling him], but I do not give him my money (Laughs). [...] Yes, he does [give me advises]. He tells me that when I buy something then I shouldn't use all my money, I should save some of the money in case I have an emergency to deal with.” (Int. 2)
NONBUS6	“When I get the money I come back straight home and then sleep on it ( <i>laughs</i> ) [...] [next, I] call my husband, and we start talking through our plans and all that we spoke of before we got the money.” (Int. 4)
NONBUS7	“I would just leave [SEF] if ever my children start saying that I should leave it, then I would [...] But now I am still good. Yes, it is just that if things do not go right along the way, then I will not be able to continue [borrowing money from SEF] and my children will tell me to leave [SEF] as well.” (Int. 3)



**Table 4.3 (Continued): Resource Allocation Schema**

<b>2<sup>nd</sup> order theme and 1<sup>st</sup> order category: Representative quotations</b>	
<b><i>Social control over financial resources: From self-control to shared control</i></b>	
BUS1	[Interviewer: Do you feel you can use the SEF money any how you like?] Yes, for business yes [Interviewer: When the money is in your hands, they do not have a say on what needs to be done as long as it goes to business?] Yes. [Interviewer: So do you sometimes feel the pressure to share the SEF money with your family?] No, they do not bother me with such [requests].” (Int. 4)
BUS2	“No, I will not share with them [ <i>relatives</i> ]. When I share something with them, then it is food. I buy food using my grant money and then I buy food and then I share with them, that is if they do want food.[...] the SEF money doesn't go to anyone but me. So if it happens that I do give someone that money [ <i>from SEF</i> ], then I will struggle.” (Int. 4)
BUS3	“[Interviewer: You said that sometimes you do lend relatives money but only if the reason is valid?] Funerals, only if it has something to do with funerals, then I will. Not to buy coke (Laughs). Yes, when you are a human being you need to ask if you have a valid reason then you will get the help that you need. [Interviewer: So the money that you borrow them, is it the SEF money or your own?] My own money, not the SEF one. (Int. 4)
NONBUS4	“[Interviewer: Let’s say, maybe a family member comes through and says to you, please lend me R5000. Would you take from that SEF money?] No I will not, they will not be able to bring it back. [...] You do understand that R5000 is a lot of money and my business will collapse. [...] so I will not give anyone that kind of money, <i>less, yes</i> , but that much that is just too much. It will not be good for business at all.” (Int. 5)
NONBUS5	“[Interviewer: When you get the money who do you use it with?] The boy that lives here at home with me [...] he is the one that knows everything that happens around here.” (Int. 4)
NONBUS6	“[Interviewer: When your money comes ...who is the one who uses the money [...]?] It’s me and my husband. Usually my kids are not in use of this money, we just provide for them.” (Int. 4)
NONBUS7	“I always tell my kids as soon as I am getting the money and they always tell me I should use the money wisely and always remember it is not my money to use, but for my business.” (Int. 2)

#### **4.5.2 Institutionalized Prescriptions about Resource Allocation**

According to institutional theory, organizations who are highly dependent on resource providers are more likely to conform to the prescriptions of these resource providers (Dimaggio & Powell, 1983). In our study, the organizations are represented by the seven small firms and the resource provider in this study is SEF. Since SEF's rules on borrowers' allocation of the microloan are embedded in formal structuring devices (e.g. manuals), we refer to such rules as institutionalized prescriptions (Zucker, 1987).

Many MFO's around the world struggle to combine institutional development logics (to help the poor) and banking logics (to be financially healthy) (Battilana & Dorado, 2010), and so does SEF. Our interviews revealed that, in dealing with this challenge, SEF institutionalized prescriptions about the allocation of the microloan that were not without ambiguity. On the one hand, microloan utilisation for enterprise development was the dominant prescription, but on the other hand alternative allocations of the microloan were also accepted. Current empirical research has demonstrated that organizations respond to institutional ambiguity by defying prescriptions (e.g. Khavul, Bruton, & Wood, 2009; Uzo & Mair, 2014). Indeed, scholars have noted that institutional ambiguity of prescriptions allows organizations to define their own meaning of compliance within the broad boundaries of the institutional prescriptions, yet secure the organizational interest (e.g. Edelman, 1992; Thiemann & Lepoutre, 2017). In all, this institutional ambiguity in prescriptions about the allocation of the loan resources provides a distal, but root explanation for the observed variation in the allocation of the loan among borrowers.

*Organizational rules about the applications of financial resources.* Retrospectively, the ambiguity in rules about the applications of the microloan could already be discovered from comparing the MFO's name and baseline: The Small *Enterprise* Foundation - Freeing the world

of *poverty* (The Small Enterprise Foundation, 2016; italics added). Indeed, in the determination of borrowers' eligibility to enter a new loan cycle, the 2 main criteria that SEF used were the current value of the business (compared to the received loan) and the extent to which the borrower had been able to save (to cover emergencies in the family) (archival data: loan application files). Thus, the message that SEF brought is that lending money from SEF must be reflected in terms of increasing business value and decreasing poverty outlooks for the family. Furthermore, the earmarking of approved applications was not clear-cut. For example, in the training of new development facilitators – MFO staff members who are most frequently in contact with borrowers - the following was said about loan utilisation: “The usage can either be for the business or other reasons, but we want the client to use at least 80% of the money for business purposes.” (archival source: training materials). Thus, from the very beginning, MFO staff learnt that the business purpose is important, but that other uses are also allowed. Moreover, earmarking the SEF loan for business purposes only was not without debate as a senior manager at SEF explained: “You know, we had a big debate internally. If clients were using loans for other things, should we just say, look, we'll provide you with a good loan and good terms, and we'll allow you to use the loan for what is the best thing, what you judge is the best thing to use the loan for” (SEF Senior manager 1). When we next questioned how he would feel like if borrowers were using the SEF loan for non-business purposes, but for anything else that improved peoples' lives, he responded: “That's great, you know, that's alleviating poverty. I think we are trusting the people will make good decisions. They might not make good decisions a 100% of the time, but they generally will make good decisions [...] so we accept that. But, there is a kind of this tension between, we know that people would do that but we still want to be about business” (SEF Senior manager 1). Furthermore, one of our informants at SEF explained that the business purpose “remains important”, but that, “as you get lower [in SEF's hierarchy], it becomes a little bit less important.” Particularly development facilitators are not

that strict when it comes to the business purpose and allow borrowers to use money for other purposes “if they feel like” borrowers have put the loan to “good use” (SEF Employee 1). Thus, our data suggests that next to enterprise development, using the microloan for the purpose of poverty relief was also widely accepted throughout SEF.

***Organizational rules about the social control over financial resources.*** In addition to the above, SEF also held multiple rules about the social control over financial resources. We found that there was ambiguity in terms of the role of family in the allocation of the SEF loan. On the one hand, it was stressed that family members had to be involved in the decision to loan from SEF:

“[The role of the family members] is the key one, of all [relationships], because that is the start, that is the foundation. [...] The clients' husband and children, it's very key, because if they don't want you to start, to go there, you don't have the support. If they don't want you to join SEF, then... [...] you cannot join - a good client will not join the organization without telling her husband [...] So to get the approval from her husband is very good, because that is when maybe they will be able to support you, whenever she - a client has got a problem, that's when the husband also come in, to assist...” (SEF Senior manager 2)

On the other hand, SEF prohibited that borrowers transferred their loans to a “third person” (archival source: training materials), since one of the key aims of SEF was to empower female borrowers:

“We want to make sure that especially we empower women because of the limited status where they often times - sometimes it's not the case - often times they don't have big say in the relationship or in the way their life is turning out so by giving them these business loans we do not only want them to start a business but also take more charge within their families and empower them.” (SEF Employee 2)

In addition to the ambiguity about who to involve in taking the loan, there was also ambiguity about whom to spend the loan with. For more than two decades, SEF only offered microcredit through group liability schemes whereby group members were incentivized to know and control the microloan use of each other during centre meetings and beyond. However, over the last few years, SEF started to consider individual liability as an alternative to group liability. In individual liability, borrowers can lend as an individual instead of as part of a group, thereby transferring much of the control over the loan to the individual borrower. Moreover, SEF started to institutionalize individual liability as an alternative allocation mode by rolling out two new loan programs that built on this lending system. While all of our seven cases were in the same joint liability program, the existence of the individual liability program made borrowers aware that SEF also promoted the idea of concentrating control to the individual borrower.

Thus, our data demonstrated that the MFO held various rules about the possible applications of, and social control over the microloan. This set of institutional prescriptions, in turn, was an important breeding ground for borrowers in the development of their cognitive resource allocation schema. This finding also substantiates the second mechanism of our theoretical model (see Figure 4.2, Path 2). However, while all seven borrowers built a cognitive resource allocation schema drawing from the MFO's institutional prescriptions, by incorporating some rules, they had to defy others (and *vice versa*). In the next section we discuss patterned observations of how borrowers dealt with the MFO's ambiguous institutional prescriptions about financial resource allocation.

#### **4.5.3 Family Member Social Identity and Founder Social Identity**

While we can see now that SEF's ambiguous prescriptions about the use of the

microloan set the boundaries for borrowers' resource allocation schemata, it remains unclear where variation in borrowers' resource allocation schemata came from and thus why borrowers in the NONBUS and BUS group interpreted SEF's institutional prescriptions about microloan use differently. In this section we provide an answer to this question through our finding that borrowers' social identity served as a filter in the interpretation of SEF's ambiguous institutional prescriptions about microloan utilisation. More specifically, we observed that borrowers perceived SEF's microloan as an enabler of their social identities (Tajfel & Turner, 1979). We found that among all seven borrowers, the microloan received from SEF was used to enact to varying degrees their "family member social identity" and "founder social identity".

***Family member social identity.*** Relatively early in the research process, SEF staff members confirmed our observation that "when you meet clients it looks like you meet mothers, you meet grandmothers...you seldom meet business people" (SEF Senior manager 1 and SEF Employee 2). The family member social identity was central to borrowers' self-definition in running their firms, since all our seven borrowers had family for whom they were taking financial responsibility. With SEF they could borrow money to enact their family member social identity. In this light, some borrowers also referred to SEF as their "husband" (NONBUS6-4, NONBUS5-4) and others confirmed that the analogy of a husband represented their relationship with SEF well (NONBUS7-4, BUS2-4, BUS3-4). For example, one borrower described her relationship with SEF as follows:

"SEF, I see it as my husband [...] I still see SEF as my husband because it helped, and still helps me a lot [...] Even when my husband was still alive he really didn't give me money to do anything, even 5 Rand [~50 dollarcent] he never did." (NONBUS5-4)

Indeed the husband metaphor represented the relationship between the MFO and loan recipients well, since the microloan provided borrowers with a relatively secure source of

income that helped the borrowers to cope with the responsibilities inherent to their family membership. Furthermore, development facilitators promoted the family member social identity in the lender-borrower relationship. Development facilitators were trained to treat borrowers “like your parents”, like in a “mother and daughter” relationship (SEF Senior manager 2). In sum, we observed that for all seven borrowers, the family membership was important in running their firms and formed the *baseline* social identity for interactions related to SEF.

***Founder social identity.*** Despite the centrality of the family member social identity in the context of SEF - “the family is more important than anything else” (SEF Employee 2) – we learned that some borrowers also categorized themselves as business women in the context of SEF. For example, one of the borrowers noted:

“With SEF, and the centre that I am a part of, there is no one [that I feel similar to] but there is this one woman [...] I see her business is moving forward. So it is just one that I see, her business is doing good. But the others, I do not see [their businesses moving forward]. When I meet her [*this one woman*], she is going around - always busy with her business [...] it's just that people are not really serious when it comes to their businesses.” (BUS1-3)

Triggered by these observations, and mindful of the burgeoning literature on founder social identity (e.g. Fauchart & Gruber, 2011; Sieger, Gruber, Fauchart, & Zellweger, 2016), we set out to assess differences in the type of founder social identity of our seven borrowers. In keeping with the literature, to assess founder type we looked at variation in borrowers’ *basic social motivation* which “describes the main reasons why people engage in new firm creation, *the basis of self-evaluation* [which] describes the elements that the founder uses to judge him/herself upon, or believes others will judge him/her upon, and the *frame of reference* [which] describes the way in which and in relation to whom the founder derives self-worth” (Sieger et

al., 2016: 247). All seven borrowers closely resembled what Fauchart and Gruber (2011) labelled a *Darwinian*, representing a type of founder who pursues business mainly out of self-interest, who seeks to be professional in what he/she does and who consider competitors as a reference point. More specifically, we found that all seven borrowers shared the main social motivation - wealth creation - which was in turn connected to their basis of self-evaluation. Two self-evaluation rules that were consistently used across our cases to judge themselves upon as founder of a business was the extent to which they “worked hard” and used money “wisely”. Working hard and using money wisely were thus perceived as key principles to make it in business. The founders’ frame of reference were competitors and they sought to be distinct from them. Yet, competition was also tolerated and sometimes even stimulated. For illustrative quotes supporting our analysis, see Table 4.4 (due to space constraints we only compare one borrower from the BUS group with one borrower from the NONBUS group). Since all seven borrowers shared the same founder social identity, the Darwinian type, we would expect from the literature that they would all be very much focused on making profits in the allocation of the microloan (Fauchart & Gruber, 2011). However, we already know that the borrowers in our seven cases varied substantially in terms of the allocation of their microloans. Keeping in mind that the family member social identity was a fundamental driver of borrowers’ decision to borrow from SEF, we found that differences in the relative salience of the founder social identity as compared to family member social identity brought a valuable explanation to our observations.



**Table 4.4: Founder Social Identity - Identity Dimensions and Similarity in Meanings**

Case	Basic social motivation	Basis of self-evaluation		Frame of reference	
	<i>Wealth creation</i>	<i>Working hard</i>	<i>Using money wisely</i>	<i>Seeking distinctiveness</i>	<i>Supporting competition</i>
BUS1	“So right now I do loan people money [...] I get boosted with the money I make from being a loan shark. I make a lot of money from it” (Int. 2)	“If you do not do anything then you will feel like there will be no money and that is time wasted right there [...] one has to be busy all the time that is why we do not have a day off” (Int. 3)	“When one has a business then money needs to be used carefully, in a proper way -because if you just decide to use it in a useless way then the business will not move forward at all” (Int. 3)	“I do good with alcohol and food, but when it comes to groceries [shops run by Indians] are winners. But when their shops are closed then people buy at my shop.” (Int. 2)	“There should be competition for you to see how it goes for you, so you have to have competition. Every business needs competition” (Int. 4)
NONBUS7	“Poverty, that is what gave the energy to work. You know, the money that we get from the government that is not enough [...] With the business, I buy things and sell - more money comes in” (Int. 3)	Other people in the SEF centre “do respect me [for the amount of work that I show and do] and I respect them. There is really not a problem at all” (Int. 3)	“When you have a business then you should always save some money on the other side and always stock with it - if not, then it means you are playing around” (Int. 2)	I am different from competitors because “they sell in schools and I am here at home [...] and now I decided to buy bathing cloths and I want to go to each and every house to show them that I have bathing cloths” (Int. 3)	“A person might approach me and say to me that she has money but does not know how and what to spend the money on. Then I will advise that person and tell [her] that you can buy coke, airtime, cigarettes and then that person will start selling the same things as me” (Int. 1)

#### 4.5.4 Social Identity Salience

Social identity salience is typically the result of the situational relevance, which is defined as “the degree to which a given identity is socially appropriate to a given situation (i.e., a specific context, setting, of encounter)” (Ashforth, 2001: 32). According to social identity theory, invoking a certain social identity as situationally relevant is triggered by the presence of institutional symbols (e.g. artefacts) or the presence of people or both. In addition to that, Ashforth (2001) proposed that a social identity is more likely to be believed to have situational relevance when the subjective importance attached to that social identity is greater. A subjective important social identity refers to a social identity that is “highly central to an individual’s global or core sense of self”, or put simply the importance attached to a certain identity (Ashforth, 2001: 30). In the measurement of subjective importance, scholars have also highlighted the difference between subjective importance based on affective (“I like”), behavioural (“I do”) and normative (“I should) commitment (Meyer & Allen, 1997), which can be maintained by respectively intrinsic satisfaction, extrinsic rewards and normative expectations. Applied to our data, we found that the three borrowers in the BUS group had a highly salient founder social identity - compared to the four borrowers in the NONBUS group. For all seven borrowers, we examined cues that could impact the mentioned situational relevance and subjective importance of the founder social identity.

***Situational relevance.*** In our examination of situational relevance, we compared the presence of institutional symbols among our seven borrowers. One of the key differences we observed related to the physical context from where borrowers ran their businesses. For all three borrowers in the BUS group, a substantial part of their business activity took place outside the home dwelling. As a consequence, the institutional artefacts (building, work tools, stock, etc.) present in these settings were business related and chronically reminded of the business

environment. This was most outspoken for BUS1 and BUS2 with their businesses removed from their home dwellings, but also BUS3 travelled to other places such as mining areas, to sell her second hand clothes (BUS3-3). In contrast, for all four borrowers in the NONBUS group, a substantial part of their business activity took place inside the home dwelling, where family related cues were abundant (furniture, domestic appliances, kids' toys, etc.). In terms of the presence of people in a situation, we looked at one important cue that enhances the salience of our borrowers' founder social identity: the number of employees. Employees increase salience of the founder social identity because their presence makes borrowers aware of who they are supposed to be like in that social context. None of the 4 borrowers in the NONBUS group had, or wanted to have, employees. In contrast, the 3 borrowers in the BUS group had multiple paid employees (BUS1 and BUS2) or were thinking of having employees in the near future: "I want to go far and better my business I really do see myself having a shop in town, having employees" (BUS3-1).

***Subjective importance.*** To assess the subjective importance of the founder social identity, we examined variation in borrowers' commitment towards this identity. The three borrowers in the BUS group exhibited an affective commitment to their founder social identity, meaning that they truly loved being in business. For example, BUS1 told us: "I have the passion for business. It started at a very young age and I always said to myself that I would never be employed by anyone. All I needed was business in my life" (BUS1-1). Borrowers in the BUS group were passionate about their business and could not see themselves having a paid job, even if being an employee is often both socially as well as financially more attractive in South Africa (James, 2015). In contrast, the four borrowers in the NONBUS group had a behavioural commitment towards their founder social identity, meaning that they were committed to business because it was part of their daily routine, not because they chose for it. For example,

when asked whether she would call herself a business woman, NONBUS7 responded: “Who me? [...] Just because I am selling that means I am a business woman?” (NONBUS7-3). Put differently, the three borrowers in the BUS group were committed to business since they saw it as an important part of their identity, whereas the four borrowers in the NONBUS group saw business merely as an occupation. We summarize our assessment of the founder social identity in Table 4.5.

Overall, our data thus suggests that the salience of the founder social identity was high for the three borrowers in the BUS group and low for the four borrowers in the NONBUS group. This variation in founder social identity salience is key to our understanding of variation in microloan allocation. In the social construction of resource allocation schemata that guided microloan allocation, borrowers’ salient social identity served as a filter in the interpretation of ambiguous institutional prescriptions. The three borrowers in the BUS group looked at SEF’s institutional prescriptions through the lens of their highly salient founder social identity. They only adopted institutional prescriptions in their cognitive resource allocation schemata that would allow them to spend the microloan for business and independent from others in their social context. One of the borrowers explained that SEF is not very strict on spending the microcredit in business, leaving much room for interpretation by the borrower, which was a business-centred interpretation among those in the BUS group:

“SEF tells us to buy business things, right, but they do not keep track or put pressure on us to buy something. You are the only one that should think on what is good for your business and what to buy in order to make more money [...] They [*SEF*] are not specific on what to buy and what not. They give us money and there is where we sign and write down (*yawns*). All they want is seeing that you are indeed in business.” (BUS3-4)

**Table 4.5: Founder Social Identity: Salience Determinants**

Case	Situational relevance		Subjective importance	
	<i>Business location</i>	<i># Employees (2015/2016)</i>	<i>Type of commitment (and representative quote)</i>	
BUS1	Outside dwelling	3/3	Affective (“I like”)	“I have the passion for business it started at a very young age and I always said to myself that I would never be employed by anyone all I needed was business in my life” (Int. 1)
BUS2	Outside & inside dwelling	12/15	Affective (“I like”)	BUS2 praised herself very lucky to be a business woman: “Before one goes to sleep then you always need to [...] call him [God], say to him God you are the reason am who I am today and without you I wouldn't be here today” (Int. 3)
BUS3	Outside & inside dwelling	0/0	Affective (“I like”)	“I grew up in this business, and I really do not envy people that go to work every day. To me it is just wasting time, I am better because I do what I love at the same time I make money which I get at any time” (Int. 4)
NONBUS4	Inside dwelling	0/0	Behavioural (“I do”)	“I was a person that needed to use my own hands to make a living - not work for anybody else. God has made me make a living with my own hands, do things on my own [...] So that is why [I am still running this business]” (Int. 5)
NONBUS5	Inside & outside dwelling	0/0	Behavioural (“I do”)	“I am a going up and down, yes, going up and down to make things happen.[...] P. No [I do not call myself a business woman now] [...] I am still getting there, to be called a business woman” (Int. 3)
NONBUS6	Inside dwelling	0/0	Behavioural (“I do”)	“I wouldn't call myself that [a business woman], because not a lot of people know me ( <i>Laughs</i> )” (Int. 3)
NONBUS7	Inside dwelling	0/0	Behavioural (“I do”)	“[Interviewer: Would you call yourself a business woman?] Who me? [...] Just because I am selling that means I am a business woman?” (Int. 3)

In contrast, the four borrowers in the NONBUS group looked at SEF's institutional prescriptions through the lens of their family member social identity, which they perceived to be more important and relevant in running their business compared to their lowly salient founder social identity. They only embraced institutional prescriptions in their cognitive

resource allocation schemata that would facilitate spending of the microloan across the household (including the household enterprise) and in mutual agreement with important others in their social environment. While borrowers in the NONBUS group were clearly aware of the importance SEF attached to business - “they want us to sell as much [as possible]” -, they also noticed that spending on non-business applications was accepted -“we do qualify either way”- , allowing them to pursue their own needs -“some of us, we just want to use the money”- (NONBUS 7-4). Overall, the perception among borrowers in the NONBUS group was that SEF allowed them to use the microcredit the way they wanted as long as they paid it back and used some of the money in business:

“I think it is okay to use it [the SEF money] anyhow I like because when it is time for me to pay it back then I do it without any hesitations at all. On Wednesdays that is when we bank the money, so we take a bath, look good and then we go the bank and then pay it the money. That is how it is [...] it is good [that SEF tells how to use the money] - they only tell us because we shouldn't lose focus on what the money is meant for. So with me, I repair my house where it is needed to be repaired, and I use another amount for business as well.” (NONBUS 4-5)

Together, these patterned differences illuminate the third mechanism of our theoretical model (see Figure 4.2, Path 3) and its interaction with the second mechanism of our theoretical model.

#### **4.5.5 Resource Allocation and Social Identity Salience**

While more difficult to show with our available data (therefore we used a dotted line in Figure 4.2 for Path 4), microloan utilisation affected the salience of borrowers' social identity. For example, theoretically, it can be expected that the founder social identity will become more situationally relevant for those borrowers who use the microloan dominantly to buy stock for

their business. This is because the stock serves as a physical reminder of one's social identity in a given environment. In comparison, if a borrower uses the microloan dominantly to cope with family responsibilities this will lead to an increased salience of the family member social identity. This is because other family members will need to be involved to make repayments which makes the family member social identity situationally relevant again (NONBUS7-4).

## **4.6 DISCUSSION**

### **4.6.1 Understanding Financial Resource Allocation in Financially Resource Constrained Settings**

In this paper, we posed the question: *How and why do entrepreneurs who receive microcredit in poverty contexts allocate these financial resources to business or non-business applications?* The answer we found is that differences in social identity salience influence the social construction of cognitive resource allocation schemata from the available institutional prescriptions about resource allocation.

We observed that borrowers in the BUS group, those who dominantly used the microloan for business applications, mainly understood the microloan as a resource that could serve business purposes with centralized control (i.e. self) over allocation decisions, while borrowers in the NONBUS group, mainly understood the microloan as a resource that could serve household purposes with de-centralized control (i.e. self and others) over allocation decisions. The socially constructed resource allocation schemata of borrowers in the BUS group and NONBUS group then formed the most proximal explanation for *why* the microloan was used differently by the borrowers in the BUS group and NONBUS group.

Understanding the answer to the *why* question in turn brings us to the question of *how* entrepreneurs developed different resource allocation schemata since they all had access to the

same type of microcredit. The model we inferred answers the *how* question by theorizing the process leading from institutional prescriptions about financial resource allocation to the *de facto* resource allocation by entrepreneurs in financially resource-constrained environments. This finding is important because small firms in financially resource-constrained environments in both economically developed and less developed regions are increasingly financially serviced by organized financing bodies (Bruton et al., 2015) and little prior theory is available to help us understand variation in the allocation of firm financial resources. For example, MFO's now reach more than 211 million small firms around the globe (Reed et al., 2015), but little is known about what firms actually do with the firm financial resources that they borrowed. This in turn impedes a deep understanding of how financial services impact valued social and economic outcomes (e.g. poverty relief, job creation, etc.). Our findings suggest a promising path for future research on the role of social identity and social cognitive resource allocation schemata across a broad range of empirical settings of financial services towards small, resource-constrained, founder-run firms.

#### **4.6.2 Contributions to Resource Allocation Decision Theories**

In our research we aimed to shed light on the role of the entrepreneur in the allocation of microcredit. Normative theories assume that decision makers are homogeneously rational (Demsetz, 1997), making such theories ill-suited to provide explanations for individual differences in financial resource allocation decisions. Hence, our work does not speak to this literature stream. However, in our theoretical development we have engaged with multiple descriptive theories of financial resource allocation decisions. Since we followed a grounded theory approach (Glaser & Strauss, 1967), the literatures we consulted changed hand in hand with the analysis of the data and emerging theory. It is a misunderstanding that in developing



grounded theory, extant theory should be ignored (Suddaby, 2006). Consequently, throughout the theory development process, we employed different theoretical concepts (e.g. agency problems, social identity, etc.) in trying to better understand our data. We found no prior theories that on their own could fully explain the socially complex patterns that we observed in our real-life setting. To come to a complete understanding we needed to bring several theories together that were previously disconnected. Other theories that we looked into during our theory development process were dropped (e.g. behavioural theory of the firm, prospect theory, agency theory), because they did not provide additional explanation to the observed variation in the allocation of microcredit.

Our resulting theoretical model extends three descriptive theories of financial resource allocation decisions: bricolage theory, founder social identity theory, and the theory of the social meaning of money. First, while it has been long recognized that heterogeneity among firms with similar resources – people and physical objects, including money (cf. Mishina, Pollock, & Porac, 2004) - arise from how firms use their resources, current theories about the nature of resources offer little guidance to our understanding of how firms also imbue apparently identical financial resources with different meanings (Eggers & Kaplan, 2013). Perhaps the most useful basis for understanding this observation is the theory of bricolage in resource constrained environments (Baker & Nelson, 2005). Their work details how entrepreneurs combine and reuse resources, including financial resources (Baker, 2007), through socially constructing new meaning of the resources at hand. Baker and Nelson (2005) theorized that through the process of bricolage across multiple domains, firms develop a bricolage social identity. Our theory confirms this reasoning by suggesting a feedback loop between financial resource allocation and social identity salience. Whether borrowers used their microcredit dominantly for business or non-business applications enhanced the situational relevance of respectively the founder social identity or family member social identity. More

importantly, however, is our extension to bricolage theory through our observation that entrepreneurs' social identity serves primarily as an important antecedent and bridge to the social construction of resources, not a consequence. More specifically, an entrepreneur's salient social identity in running the firm allows us to see how the same institutional prescriptions about financial resource allocation are interpreted differently and lead to different socially shared, cognitive resource allocation schemata. Our advanced understanding of the role of entrepreneurs' social identity in the social construction of resources marks an important contribution to bricolage theory which has largely ignored the alleged important role of individual-level characteristics in the bricolage process (see Senyard, Baker, Steffens, & Davidsson, 2014; Welter, Mauer, & Wuebker, 2016).

Second, in developing an explanation for financial resource allocation in constrained environments, we also contribute to the emerging literature on founder social identity. Powell and Baker (2014) found that many business owners have multiple salient social identities, an observation congruent with Fauchart and Gruber's (2011) notion of *hybrid* types, referring to those individuals whose social identity contains elements of multiple pure founder types. We build upon this work and extend it through our finding that to explain the resource allocation of some entrepreneurs (here: NONBUS cases) it was necessary to go beyond the founder social identities (here: Darwinian), and also to look at those social identities that were *in se* not related to the business activity. Whereas in other research streams it has been long acknowledged that identities pertaining to non-work life domains can be important to explain organizational outcomes (Ramarajan & Reid, 2013), to date, the founder social identity literature has remained largely silent about this line of reasoning.

Finally, we also add to the work of Zelizer (1997), who noted that "people adopt especially elaborate controls over money and establish differential earmarks when and where they are engaged in delicate or difficult social interactions [such as] establishing or managing

individual or group identity” (p. 24-25). Similarly, Belk & Wallendorf (1990) posited that subjective “sacred” interpretations of money are individually and socially defined since money is a resource that has the power to transform oneself into the person one aims to be. Thus, although these scholars have identified the likely existence of a relationship between social identity and social meaning of money, they have not linked them theoretically. Hence, our empirical findings contribute to this line of reasoning through detailing the theoretical bridge between both theories. Our study demonstrates that when a social identity is salient in dealing with money, the members of the group to whom one feels belongingness, will also be the ones involved in the social construction of a cognitive resource allocation schema. Furthermore, the social motivation that is central to an entrepreneur’s salient social identity will form the basis for the earmarks applied in the social construction of a cognitive resource allocation schema.

#### **4.6.3 Microloan Utilisation and Founder Social Identity**

Our research extends current theoretical understandings of microloan utilisation. Recently, a series of randomized control trials published in *American Economic Journal: Applied Economics* (2015, Volume 7, Issue 1) provided compelling evidence about the effectivity of microfinance as a tool to combat poverty. Overall, the six studies showed “a consistent pattern of modestly positive, but not transformative, effects” (Banerjee et al., 2015b: 1). To nuance our understanding of why the impact of microfinance remains limited, in this study we responded to the call for more scholarly focus on the micro-level aspects of entrepreneurship in poverty (Bruton, Ketchen, & Ireland, 2013; Frese, 2000), such as “the personal characteristics, motivation and actions” of individual entrepreneurs (Chliova et al., 2015: 480). More specifically, we extend current understandings of how microfinance can be

optimized, by developing an explanation for how borrowers actually use the loans received from an MFO, instead of focusing on developmental outcomes.

#### **4.7 BOUNDARY CONDITIONS AND FUTURE RESEARCH**

This research was based on an in-depth study of seven entrepreneurs in a rural area of South Africa who were all facing enduring financial resource constraints. Although we have strictly adhered to the principle of theoretical sampling in developing our grounded theory to allow for theoretical generalizability (Eisenhardt, 1989a), the choices made also set boundaries to that generalizability. For example, we chose to sample only among resource-constrained firms that received a loan from a MFO. While borrowing money is extremely common among new and small firms, the *modus operandi* of MFOs are very different from other financing bodies (e.g. commercial banks) that give out loans for firm development. The MFO setting thus creates a first boundary condition for our study. Second, and linked to the previous, is a boundary condition related to the type of firm. Much of the business activities of the firms we studied were embedded in an informal economy setting and it has been suggested that the process of new firm development in such settings is different compared to the process in a formal economy setting (Webb, Tihanyi, Ireland, & Sirmon, 2009). For example, research has demonstrated that in informal economy settings, psychological factors such as time-inconsistent preferences play out more strongly in the allocation of firm financial resources than would be expected in formal economy settings (e.g. Baland, Guirkingier, & Mali, 2011; Fafchamps, McKenzie, Quinn, & Woodruff, 2014). A third consequence of our sampling approach among loan recipients of an MFO concerns the amount of money borrowed. In our study we focused on entrepreneurs borrowing R20,000 (~ \$1,730 in January 2015). It is possible that among MFO loan recipients who receive a much lower loan size (the average loan

size among SEF clients in 2015 was R2,939; The Small Enterprise Foundation, 2016), the amount of money is not perceived as a valuable enabler of business and dilute the effect of founder social identity salience. Future research could test the validity of our model or seek to extend our theory in other settings and with other type of firms.

In addition to the above, our study can be an impetus for several other future research paths. Firstly, we have observed the impact of social identity for resource allocation in its simplest form. For borrowers in the BUS group, only the founder social identity structured cognitive resource allocation schemata about the microloan, whereas for borrowers in the NONBUS group, this was only the family member social identity. Other scholars have described more complex identity makeups among entrepreneurs that steer strategic behaviour in organizational contexts. For example, we know individuals can have hybrid founder social identities whereby multiple social identities are concurrently highly salient (Alsos, Clausen, Hytti, & Solvoll, 2016; Fauchart & Gruber, 2011; Powell & Baker, 2014; Sieger et al., 2016). Others have observed identity structures comprising both role identities and social identities (Powell & Baker, 2014). This opens up important new avenues for research on how entrepreneurs with more complex identities interpret and allocate financial resources.

Secondly, prior research on the social construction of resources has focused on how organizational actors add meaning to the means at hand (Eggers & Kaplan, 2013). For example, in the seminal paper of Baker and Nelson (2005), it was demonstrated that in a resource-constraint environment, entrepreneurs created resources by “exploiting physical, social, or institutional inputs that other firms rejected or ignored” (p. 329). In contrast, our findings suggest that resource constraints can also drive subtraction of meaning. We found it interesting how “money”, an incredibly fungible resource (the use of which is in itself not – by definition – constrained by any particular condition) seemed to be earmarked for certain uses by some borrowers, while other borrowers had a very different view on what could be done with MFO

money. Indeed, money is not a fixed commodity, and its meaning and value is embedded in a network that is driven by the interaction between individual identity-cues and the socio-cultural or institutional context in which these are formed (Belk & Wallendorf, 1990; Graeber, 2011; Mitchell & Mickel, 1999; Zelizer, 1989). Consequently, what seems to be occurring for certain borrowers is a process we tentatively call *reversed* bricolage: a resource for which the uses should be boundless, is constrained through a social construction. Put differently, the entrepreneurs in our study constructed new meanings around the resource that actually limited the range of possible interpretations rather than extending it. The idea of reversed bricolage opens up a broad spectrum of questions for future research related to the conditions under which reversed bricolage happens and when or how it hampers or advances firm development.

#### 4.8 CONCLUSION

Our exploration of *how and why entrepreneurs who receive microcredit in poverty contexts allocate these financial resources to business or non-business applications* led us to discover the important role of social identity and the social meaning of money. Entrepreneurs' salient social identity serves as a structuring device in the social construction of a cognitive resource allocation schema around borrowed financial resources. In turn, the entrepreneurs' cognitive resource allocation schema guides the actual allocation of the borrowed financial resources. The mechanisms we describe help explain financial resource allocation among entrepreneurs in resource-constrained environments. Our research provides an impetus for research that may generate new insights into the role of identity in purposefully constraining the interpretation of resources and its consequences for organizational outcomes.

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## CHAPTER 5

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### CONCLUDING REMARKS

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## CHAPTER 5: CONCLUDING REMARKS

In the previous three chapters, we have described three different studies that were designed to enhance our *understanding of microfoundations of entrepreneurship development in sub-Saharan Africa*. In this concluding chapter we highlight how these three studies have actually contributed to achieving this aim. In the next sections, we first briefly recap the findings of our three theory-building studies and their contributions. Next, we outline a strand of research – the role of temporal cognition in entrepreneurship - that has remained underexplored in this dissertation, yet can be seen as a promising avenue for future research (beyond other suggestions for future research formulated in chapter 2, 3 and 4). We close this final chapter with practical implications and a general conclusion.

### 5.1 THEORETICAL CONTRIBUTIONS

A stubborn myth that permeates public discussions on entrepreneurship development is that of the natural-born entrepreneur who only needs a little bit of support to get started (Banerjee & Duflo, 2011). In keeping with this rationale, proponents of poverty alleviation through entrepreneurship development have emphasized an allocative view of markets (Bruton, Ahlstrom, & Si, 2015). In the allocative view, both supply (e.g. capital) and demand (e.g. existing market needs) are considered to be objective entities that merely need to be matched. Similarly, a traditional view in entrepreneurship is that opportunities are formed when an individual recognizes the possibility of putting scarcely available resources to a better use to achieve given ends (Kirzner, 1997; Sarasvathy, Dew, Velamuri, & Venkataraman, 2003). Given the presumed objective character of supply and demand, expanding resources to meet

existing market needs (e.g. through microcredit) has been a much tried recipe to poverty reduction (Yunus, 1998). Yet, scholars have started to voice concerns about the stimulation of the allocative process, since it is considered unlikely to lead to the intended social and economic development (Alvarez & Barney, 2014).

The outcome of merely providing some resources to poor entrepreneurs often leads to situations whereby individuals pursue proven opportunities that are obvious to everybody and that have minimal entry barriers (Alvarez & Barney, 2014). It is not hard to find examples of such easy to replicate opportunities on street markets in developing regions around the world, where you typically have one vendor after the others selling the very same assortments of fruits, vegetables or consumer goods. Yet, the higher the rate of replication of such existing opportunities, the more subsistence oriented the business activity becomes for those pursuing such opportunities, with little value remaining for the entrepreneur and the society at large (e.g. through employment creation) (Viswanathan, Echambadi, Venugopal, & Sridharan, 2014). In the light of these observations, the articles in this dissertation add to a stream of micro-level foundational research that theoretically complements the allocative view of entrepreneurship in poverty contexts (e.g. Alvarez & Barney, 2014; Bradley, McMullen, Artz, & Simiyu, 2012) and as such improves our insights about poverty alleviation at large. We particularly challenge the view that opportunities and resources (needed to exploit opportunities) are objective entities, by emphasizing their subjective, interpretative character.

The most important theoretical contribution of this dissertation, however, does not reside in the mere observation that opportunities and resources can be subjectively constructed. This is something that has been long known. We make a theoretical contribution by showing that *cognizing (i.e. making cognitive conceptualisations) around opportunities and resources* is essential to integrate entrepreneurship theories and economic development studies. This process of cognizing explains *why* the provision of opportunities and resources do not always

work in poverty settings, and *how* the poor develop “capabilities to function” from the means they receive. Thus, instead of focusing on the provision of opportunities and resources to the poor, we must understand how they are cognized by the poor. As such, we can make entrepreneurship development a more effective tool in combatting poverty.

We now look at the specific theoretical contributions that we made in each of the three papers. We would like to stress that the concept of *cognizing around opportunities and resources* is only used here to describe the overarching theoretical contribution of this dissertation. We do not explicitly use this term in the papers. More specifically, in chapter 2 and 3, we zoom in on discovery and creation as two alternative views on opportunity origination that challenge the objective nature of demands. In chapter 4, we focus on the social construction of resources in opportunity exploitation that challenge the objective nature of supply.

### **5.1.1 Connecting Psychological Foundations of Perceptions about Opportunity Origination and Poverty**

In chapter 2, we discussed how differences *between individuals’* perceptions about opportunities and poverty impact entrepreneurship in poverty settings of SSA. Our systematic review of the literature revealed that to date, only limited attention has been paid to different epistemologies poor individuals hold about opportunities and how they relate to poverty alleviation (income-based or capabilities-based). Our review showed that most scholars implicitly assume that opportunities are discovered. However, some previous work has demonstrated the importance of differentiating discovery from creation in poverty settings (Alvarez & Barney, 2014; Bradley et al., 2012; Corner & Ho, 2010; Short, Ketchen, Shook, & Ireland, 2010; Webb, Kistruck, Ireland, & Ketchen, 2010).

The primary contribution of this article is an extension of previous work through building a theoretical understanding of what opportunity origination through discovery and creation means when entrepreneurs want to escape poverty through increased income or through achieving other forms of wellbeing. By considering boundary conditions present in poverty settings of SSA (e.g. extreme resource constraints, extreme uncertainty), we also uncovered underresearched elements that can play out in the discovery and creation of entrepreneurial opportunities, thereby furthering our theoretical understanding of opportunity origination. More specifically, we highlighted the issue of entrepreneurs' present bias and the low profitability potential of some types of discovery opportunities. For created opportunities, we stressed the high risk that the poor face of investing in business and the importance of differentiation-related innovation. We complemented our conceptual understanding with case examples representative (Yin, 1994) for successful entrepreneurs in rural South Africa to illustrate how poor individuals who follow a discovery or creation approach can actually decrease their poverty levels despite the particular challenges they face in poverty settings. We also employed the examples to make various suggestions for future work on entrepreneurship and poverty, including important research topics such as serial entrepreneurship, religious values and beliefs, time orientation, and the psychological impact of failure.

A major strength of this paper lies in making explicit theoretical connections between different perspectives on opportunity origination and poverty. Yet, we realize that the conceptual nature of this paper might have drawn somewhat artificial boundaries between these perspectives and the examples employed to illustrate them. It is known that in practice, entrepreneurs mix epistemologies (e.g. Reymen, Andries, Berends, Mauer, Stephan, & van Burg, 2015) and views on poverty (e.g. Ansari, Munir, & Gregg, 2012). Therefore, future empirical research should seek to account for such complexities.

### 5.1.2 Social Interactive Foundations of Opportunity Origination in Global Value Chains

In chapter 3, we discussed how differences in perceptions about opportunities *between socially interacting individuals* impact entrepreneurship in poverty settings of SSA. More specifically, we looked at the epistemologies of opportunities held by poor rural landholders and representatives of multinationals in the context of GVCs (global value chains). Multinationals increasingly consider the poor to be more than potential consumers as advocated by Prahalad (2004) and seek to include small landholders in their GVCs as a way to help reduce poverty (Bruton, 2010; Kolk & van Tulder, 2006; London, Anupindi, & Sheth, 2010; Newell & Frynas, 2007). Scholars have stated that much research remains to be done to understand the specifics of GVCs in settings such as rural Africa (Collier & Dercon, 2014; Zoogah, Peng, & Woldu, 2015).

This work theoretically contributed to help filling this void through developing a conceptual understanding for why poor landholders in SSA often decide not to participate as a producer in GVCs even when the multinational clearly considers this to be an opportunity for them. By taking into account the presence of strong social ties that entrepreneurs in SSA typically have (among other contextual features), we also extended our theoretical understanding of why people apply different epistemologies to entrepreneurial opportunities, thereby going beyond the argument that it depends on the interpretation of the context (Alvarez & Barney, 2007). To come to this understanding, we have first detailed epistemologies of opportunities to reveal the stark differences between creation and discovery along multiple dimensions and to shed light on the challenges of merely providing opportunities to poor landholders in Africa. Second, we used this in-depth understanding as a schema for interpreting a case example of a Dutch multinational firm seeking to bring small landholders from South Africa into its GVC. The case example illustrated that a core explanation for why poor landholders often do not share the multinational's view on the opportunity presented, traces

back to the different epistemologies about opportunities that people might hold depending on the situation they are in (e.g. property rights, strength of social network ties, etc.). Drawing on the case example, we also suggest that multinational firms who discovered an opportunity should be open to facilitating opportunity creation among poor landholders as well, to maximize the potential economic and social benefit. While such support is less likely to develop into the entrepreneurial activity the multinational firm initially envisioned, it can have an indirect impact on the exploitation of other opportunities in the future (e.g. through developing human capital or strengthening ties with intermediary GVC actors).

Overall, this study has focused on the social interactive dimension of epistemologies in the origination of opportunities. As such, it complements the previous study where we have focused on the individual entrepreneur and mainly looked at underresearched elements of the psychological dimension of opportunity discovery and creation. A limitation of this conceptual study for theory building are the boundaries set by the phenomenon of interest. While tying our theoretical development to a practically relevant issue is important (Corley & Gioia, 2011), social interactions in GVC development carries certain attributes (e.g. a paternalistic relationship between the multinational and the small landholders, pushing towards opportunity discovery) that might have impacted the generalizability of our theoretical explanation. Yet, future scholarly work in other settings could build on our study to further elaborate the question how interactions impact the epistemologies that socially embedded individuals apply in the origination of opportunities.

### **5.1.3 Psychological and Social Interactive Foundations of Financial Resource Allocation in the Exploitation of Entrepreneurial Opportunities**

In chapter 4, we demonstrated how individuals' social identity and social meaning of money impact entrepreneurship development in poverty settings of SSA. We came to this understanding through investigating the question how and why entrepreneurs who receive microcredit in poverty contexts allocate these financial resources to business or non-business applications. In answering this research question, we used psychological and sociological theories that informed us on how individuals decide to allocate scarce resources when multiple alternative uses are possible. Extant theories acknowledge that variation in the allocation of resources can be attributed to differences in people's objective functions (i.e. what is aspired) and production functions (i.e. how to attain what is aspired with the resources and constraint available). More specifically, because individuals have limited cognitive capabilities (e.g. Mani, Mullainathan, Shafir, & Zhao, 2013; Simon, 1956) and different preferences (e.g. Kahneman & Tversky, 1979; Tajfel & Turner, 1979), profit optimization is likely to be just one of the alternative objective functions people have. Similarly, it is known that information asymmetries in markets exist (e.g. Jensen & Meckling, 1976) and that the input/output variables that feed production functions are open to interpretation (e.g. Baker & Nelson, 2005; Weick, 1969; Zelizer, 1989). This can lead people to develop different production functions, even among those holding similar objective functions.

The empirical research that informed this theoretical development was an inductive field study among founders of seven small firms in rural South Africa who all received the same microcredit from the same microfinance organization, yet who showed strong variation in the allocation of the borrowed financial resources to business and non-business applications. The theoretical mechanisms we describe in this study help explain financial resource allocation among small firms in resource-constrained environments. Our core contribution is that we

theoretically explained how the interpretation of ambiguity around the constraints and value of resources (i.e. the inputs of the production function) leads people to develop different social meanings of money (Zelizer, 1989), and that this process is influenced by an individual's social identity (Tajfel & Turner, 1979). Put differently, we found that variation in resource allocation was driven by differences in entrepreneurs' socially constructed cognitive schemata that they developed around the received microloan. Ambiguous institutional prescriptions about the microloan, as seen through the lens of entrepreneurs' salient social identity, in turn steered the development of these cognitive resource schemata. Thus, entrepreneurs developed different interpretations of the received financial resources to be able to achieve what was important to them in running their firms.

Our finding that people hold different interpretations about resources resonates with the notion of *resource cognition*. Recently, Danneels (2011) coined this term to help explain how firms use their resources in response to changes in the environment. Danneels (2011) refers to resource cognition as “the identification of resources and the understanding of their fungibility and results in resource schemas [...] [These schemas] contain(s) answers to questions such as ‘what are our resources?’ and ‘what are the potential applications of our resources?’”(p. 21). The concept of resource cognition also sheds light on how poor entrepreneurs can expand their capabilities in practice. When a resource can be imbued with multiple meanings, this expands an individual's capability set, or the freedom to achieve wellbeing. However, since money is per definition an extremely fungible resource, it is counterintuitive to see that the poor borrowers restricted the set of potential applications of the resources rather than expanded it. We believe that in our research, the setting of enduring financial resource constraints has played an important role here, since it forces poor people to be very thoughtful on how to spend the little money they have (Collins, Morduch, Rutherford, & Ruthven, 2009). In addition to these contextual characteristics, our finding that salient social identities determined how



entrepreneurs interpreted the institutional prescriptions that came with the microloan, further contributes to our understanding of *resource cognizing*, and lays a foundation for answering Danneels' (2011) question for how a firm "come(s) to understand what its resources are and what alternative uses could they be put to?" (p. 26).

A potential weakness of our research is the grounding of our theory in cases of microfinance supported entrepreneurs in one region of SSA. While our theoretical sampling might set boundaries to the generalizability of our findings to other organizational settings, questions could also be raised about how representative our empirical setting was as a poverty setting. Indeed, understanding similarities and differences between poverty settings could be particularly needed for those seeking to use our findings in designing programs to help alleviate poverty in other developing regions around the globe. Nevertheless, our research can be an impetus for research that may generate new insights into the role of identity in purposefully constraining the interpretation of resources and its' consequences for organizational outcomes.

## **5.2 AVENUES FOR FUTURE RESEARCH**

In this section, we want to propose avenues for future research beyond those already explicated in the three separate studies of this dissertation. An important avenue for future research in the context of entrepreneurship development in sub-Saharan Africa centres around subjective perceptions of time. There is a little history to this idea. The initial title of this doctoral dissertation was "Future time perspective and small business growth in developing regions: Evidence from microfinance entrepreneurs in South Africa". We wanted to explain why so few micro-businesses in developing regions grow into small or medium-sized businesses (Banerjee & Duflo, 2011). We assumed that entrepreneurs' future time perspective, i.e. the degree to which people are oriented towards future goals and anticipate upon these goals

in the present (Lens, 1986; Nuttin & Lens, 1985), would be important to understand small business growth. An empirical investigation of this relationship in a developing region of Africa seemed particularly interesting since it is known that people who are living in developing economies are more likely to be process oriented rather than deadline oriented, which has implication for how they look at the future (Reinecke & Ansari, 2015). Nevertheless, when the focus of the PhD shifted from small business growth to questions about the origination and exploitation of opportunities, the issue of time perception also moved more to the background. However, in each of the 3 papers in this dissertation, there is implicit or explicit reference to the role of time in the entrepreneurial process. In the first study of this dissertation (chapter 2) we highlighted the potentially important role of future time orientation (Nuttin & Lens, 1985) for impoverished entrepreneurs who aim to improve their quality of life over the long haul. In the second study (chapter 3) an interesting contrast is that the multinational who discovered an opportunity has a clear future end goal in mind, whereas poor landholders are often much more focused on the present. In the third study (chapter 4) we suggested that it would be interesting for future research to look at the role of time-inconsistent preferences, referring to the notion that “people are often more impatient with regard to current trade-offs than with regard to future trade-offs” (Bauer, Chytilová, & Morduch, 2012: 1120).

Although the perception of time is only discussed in the margins of this dissertation, we believe the topic merits further attention for understanding the entrepreneurial process in settings of economic development. Scholars have argued that the perception of time is a key element in the discovery and/or creation of opportunities (Korsgaard, Berglund, Thrane, & Blenker, 2016) and in the allocation of financial resources (Reilly, Souder, & Ranucci, 2016). We think the main reason that we did not find time perception to play a key role in understanding the allocation of microcredit in chapter 4 (understanding the role of time perception was deliberately not the focus in chapter 2 and 3) is because we only sampled in the

pool of borrowers taking the maximum loan amount of R20,000. Although borrowers differed in their investment behaviour, the financial obligations towards the MFO were similar for all cases. The repayments that needed to be made every month were too substantial to ignore (or not to anticipate) and all cases had been clients of the MFO for many years. It might be that the comparison of borrowers who take a very high or a very low loan, or who have substantially different repayments schedules, would lead us to see more clearly the role of time perception (and its connection to social identity for example).

In all, we have reasons to believe that perceptions of time have an important role to play in the development of firms in resource constrained environments (Bruton, Khavul, & Chavez, 2011; Kodithuwakku & Rosa, 2002). However, the potential theoretical contribution of future research endeavours into this area could extend beyond the research setting of SSA and move forward the field of entrepreneurship as a whole, as we will argue next.

### **5.2.1 Time and Entrepreneurship**

Entrepreneurship is a process that unfolds over time (McMullen & Dimov, 2013). New ventures take time to emerge (Bird, 1992) and thrive on entrepreneurs' continuous considerations of the past, present and future (Haynie, Shepherd, & McMullen, 2009). Despite the fact that scholars have widely acknowledged the central, explicit, and unique character of the time dimension in the entrepreneurial process (Busenitz, West, Shepherd, Nelson, Chandler, & Zacharakis, 2003) we know surprisingly little about how entrepreneurs deal with the dimension of time and its impact on the entrepreneurial process.

To date, most entrepreneurship theories have built on the implicit assumption that time is an objective given and have ignored individuals' subjective cognitions of time (Tumasjan, Welpe, & Sporrle, 2013). Objective time is the standard that we all know from clocks and calendars, and that divides time in measurable, regular and homogeneous units (like seconds,

days, years; Ancona, Okhuysen, & Perlow, 2001). However, people do not necessarily perceive time as an objective reality that progresses in a unidirectional way. The individual experience of time is rather subjective, people move back and forth between the past, present and future (Shipp, Edwards, & Lambert, 2009) and individuals' temporal cognitions can strongly vary across cultural contexts (Barkema, Baum, & Mannix, 2002). Consequently, because of its inherent temporality, the course of the entrepreneurial process is at any moment susceptible to how one psychologically perceives time (cf. Shipp et al., 2009).

Existing research indeed suggests that there is a strong impact of individuals' temporal cognitions on various aspects of entrepreneurship such as risk behaviour (Das & Teng, 1997), venture effort (Foo, Uy, & Baron, 2009), corporate entrepreneurial activities (Chen & Nadkarni, 2017) and new venture performance (Bruton et al., 2011; Kodithuwakku & Rosa, 2002) among other outcomes (e.g. Bluedorn & Martin, 2008). However, the current literature lacks a coherent theoretical foundation and remains largely silent about perceptions of time in key aspects of the entrepreneurial process such as the identification and evaluation of entrepreneurial opportunities (Shane & Venkataraman, 2000). Borrowing from the rich literature on the (social) psychology of time, future research could fill these gaps. In short, the state of the art could be challenged, firstly, by empirically examining the role of temporal cognitions among entrepreneurs embedded in non-traditional, African settings (first and second new avenue for research), and secondly, by developing a conceptual model that clarifies the role of temporal cognitions throughout the entrepreneurial process (third new avenue for research).

### **5.2.2 The Role of Temporal Cognition in Opportunity Identification among Immigrant Entrepreneurs**

The first avenue for future research we propose here is to develop an empirical understanding of how immigrant entrepreneurs' temporal cognitions affect opportunity identification. Opportunity identification refers here to the conceptualization of new future ventures through an imaginary combination of “product/service offerings; potential markets or users, and means of bringing these offerings into existence” (Davidsson, 2015: 684). The identification of an opportunity, even if it is only a raw venture idea, can be considered an important first step in the entrepreneurial process. Scholars could investigate how immigrant entrepreneurs identify opportunities in the face of different temporal logics that exist between the individual's home and host country institutional environments—logics that are embedded in people's cognitive schemata.

Immigrant entrepreneurs in affluent host countries often identify opportunities that reflect high aspirations to help solve grand societal challenges in their home countries (e.g. poverty, education) over the long haul (Hart & Mickiewicz, 2016). For example, an immigrant entrepreneur presenting at an EU-supported pitch competition described his idea as follows: “My project is about how to better the structure surrounding informal economy in Senegal. The main objective is to officialize informal activities in order to recover tax payments that will enable the government to build infrastructures such as hospitals, schools, universities” (ADYFE, 2016). Such ambitions can be understood from immigrants' strong desires to build a better life and to 'give back' to their families in the home country (Bolívar-Cruz, Batista-Canino, & Hormiga, 2014). However, resource-holding actors in the host country (e.g. funding bodies) often do not recognize the opportunities that immigrants identify because for those actors, the offering is vague, the potential beneficiaries are hard to define and/or it is unclear how the offering can be made happen. Such conflicting views might affect immigrants'

entrepreneurial pursuits in terms of their perception of available resources and identified opportunities.

It can be argued that the different contents of the identified opportunities stem from different temporal cognitions between immigrant entrepreneurs and actors from the host country. Indeed, according to Reinecke and Ansari (2015), people in industrialized countries often hold a linear, clock-oriented view on time whereas in emerging countries a process (non-linear) event-oriented view on time is more prevalent. This might explain why actors in the host country generally see opportunity in tackling issues that can be well planned for, while immigrant entrepreneurs tend to see opportunity in addressing complex social needs that have no clear start or ending. Thus, responding to the calls for more research on the role of time for how opportunities come into existence (e.g. Davidsson, 2015), scholars could contribute to the literature on opportunity identification by elucidating its temporal underpinnings and by demonstrating how individuals deal with different perceptions of time in developing new future venture ideas.

### **5.2.3 The Role of Temporal Cognition in Opportunity Evaluation among Poor Entrepreneurs**

The second avenue for future research is to develop an empirical understanding of how temporal cognitions of poor entrepreneurs in developing country settings affect opportunity evaluation. Opportunity evaluation can be defined as the assessment of the attractiveness (for me or my firm) of introducing new goods, services, or business models to one or more markets in the future (Haynie, Shepherd, & McMullen, 2009). The evaluation of opportunities can be considered as an important second step in the entrepreneurial process and is critical to inform

the actions that individuals undertake to exploit identified opportunities (Williams & Wood, 2015).

Scholars could study how poor entrepreneurs in developing countries evaluate opportunities since it is shown that individuals who experience extreme resource constraints tend to be more focused on present problems of scarcity which results in a neglect of future issues (Shah, Mullainathan, & Shafir, 2012). Thus, if opportunity evaluations require future-focused judgments whereby one has to imagine what the future returns could be if one actually exploited an identified opportunity (Williams & Wood, 2015) then it should logically follow that poor entrepreneurs are unable to evaluate opportunities. However, many individuals in poverty contexts do run their own enterprises. Despite the fact that most of these enterprises are very small and subsistence-oriented (Webb, Pryor, & Kellermanns, 2015), it still means that they must have gone through a process of opportunity evaluation to decide to exploit “Opportunity A but not Opportunity B” (cf. Haynie et al., 2009). Moreover, it is very unlikely that poor entrepreneurs are reckless about opportunity evaluation and how they spend their scarce resources.

Hence, it is likely that to evaluate opportunities in poverty contexts, entrepreneurs use modes of reasoning that require less future thinking. Indeed, scholars have argued that there are alternative ways to how entrepreneurs evaluate opportunities. A distinction is generally made between deliberate analytical reasoning (rule-based) and automatic associative reasoning (intuition-based) (Williams & Wood, 2015). It might be that the actual use of different modes of reasoning in opportunity evaluation are related to entrepreneurs subjective perceptions of the future. Overall, we note that interest in improving our understanding of opportunity evaluation is rising among entrepreneurship scholars and it is now recognized as the most critical element in the process between opportunity identification and exploitation (Wood & McKelvie, 2015). Future research could advance the understanding of the process of

opportunity evaluation in poverty contexts and thereby contribute to the explicit call for “a more nuanced understanding of the applicability of analytical versus associative reasoning (or other relevant cognitive processes and structures) in opportunity evaluation” (Williams & Wood, 2015: 229).

#### **5.2.4 The Role of Temporal Cognition in the Entrepreneurial Process**

The third avenue for future research is to develop a theoretical model around the role of individuals’ temporal cognitions throughout the entrepreneurial process. Currently, entrepreneurship is conceived as a process that unfolds over an objective timeline (e.g. McMullen & Dimov, 2013) and that consists out of a holistic sequence of problems and the actions undertaken to solve those problems (Dimov, 2016). However, it is important to look beyond this objective time dimension. Analogous to Ocasio’s (1997) understanding of organizational attention, individual entrepreneurs can also differ in the perception and processing of problems (past, present and/or future problems) and solutions to those problems (past, present and/or future solutions). Yet, the important role of individuals’ subjective time perceptions in the entrepreneurial process remains widely recognized as not understood (Perry, Chandler, & Markova, 2012).

Future studies could fill this gap by developing a theoretical understanding of the role of individuals’ temporal cognitions over the course of the entrepreneurial process, including the intermediate processes of opportunity identification and opportunity evaluation. As the entrepreneurial process unfolds, entrepreneurs are repeatedly confronted with constraints that need to be overcome to move forward (Venkataraman, Sarasvathy, Dew, & Forster, 2012). Empirical research demonstrated that in the face of uncertainty, individuals’ varying perceptions of the past, present and future lead to different judgments and actions (Kaplan & Orlikowski, 2013). Consequently, whenever a solution is needed to determine new action, an



individual's temporal cognitions become key in channelling the entrepreneurial process into one of many possible paths (cf. Lord, Dinh, & Hoffman, 2015). Moreover, these temporal cognitions could bring a patterned influence – and hence explanation - to the entrepreneurial process, as they steer attention to mental representations of the past, present and future (which are used to frame situations and solve problems). Thus, if every solution to encountered problems are to a greater or lesser extent rooted in subjective perceptions of the past, present and/or future, this might have important consequences for how and why exactly entrepreneurs move forward in different ways. However, while each way is valid in its own right, some temporal cognitions might be more suitable than others to live up to entrepreneurial aspirations (i.e. if you want X, then you need to think about time Y) (also see Nadkarni & Chen, 2014).

Future theoretical development has the potential to lay the foundation for more research on time and entrepreneurship in at least two ways. First, through the conceptual work proposed here, scholars could address the call to challenge dominating views on time (objective/subjective and Western/non-Western) in the field of entrepreneurship (Bird & West III, 1997; Haynie et al., 2009). Second, by developing theory on how and why subjective and objective time dimensions play out together, our understanding of the nature of entrepreneurship as a temporal process could be substantially advanced.

## **5.3 PRACTICAL IMPLICATIONS**

### **5.3.1 Towards a Microfoundational Research Agenda in Policy**

International organizations such as the United Nations and the World Bank traditionally look at the economics of development from a macro-level point of view. Indeed, development economics have long shied away from the field of entrepreneurship, because of its focus on the entrepreneurial process and the role of the individual therein. The field of entrepreneurship is

not so much concerned with explaining variation in the economic performance of countries (Naudé, 2010). Macro-level research is also useful to uncover structural problems in economies that can guide focus and support. For example, the observation of a missing middle in developing countries with many informal microbusinesses operating alongside a number of large firms (Biggs & Oppenheim, 1986; Sleuwaegen & Goedhuys, 2002), resonates with MFOs focus on growing micro-enterprises. However, macro-level research in development economics is less appropriate to find solutions to grand challenges such as poverty. Recently, Eisenhardt, Graebner and Sonenshein (2016) argued that micro-level research using inductive methods might be essential to make progress on grand challenges. Therefore, our main advise to international aid organizations would be to complement their macro-level studies with research efforts at a micro-level. Both research agendas can remain separated (similar to this dissertation where we only studied phenomena at a micro-level) or move towards a type of microfoundational research that focuses on the relationships between the micro- and the macro-level (Felin, Foss, & Ployhart, 2015).

### **5.3.2 Combining Perspectives on Opportunities and Poverty in Entrepreneurship Development**

Chapter 2 and 3 suggest that the effectiveness of entrepreneurship development programs (in SSA) could be increased when programs combine multiple perspectives on entrepreneurial opportunities (discovered and created) and poverty (income and capability-based). While these perspectives might be hard to reconcile in theory (e.g. Evans, 2002; Garud & Giuliani, 2013), in practice they might strengthen each other (Ansari et al., 2012).

It is known that people tend to mix discovery and creation approaches to opportunity development (Reymen et al., 2015; Sarasvathy, 2001) and that poor entrepreneurs seek both

ways to increase income and to achieve other forms of wellbeing (Rosa, Kodithuwakku, & Balunywa, 2008; Tellegen, 1997). Hence, in the design of entrepreneurship development initiatives, one should try to accommodate this complexity. More specifically, a balance should be sought between facilitating the discovery of opportunities (e.g. easy to replicate opportunities) and supporting a creation approach to opportunities by helping entrepreneurs find ways to slightly deviate from the beaten tracks (Bradley et al., 2012). A long-term impact of such combined opportunity discovery-creation efforts could be realized through collaboration with supportive stakeholders in the social environment of the poor individual (Chambers, 1983; London, 2009), particularly when such environments are characterized by high mutual trust and interdependencies (Ansari et al., 2012; Coleman, 1990).

### **5.3.3 Increasing the Use of Microcredit for Opportunity Exploitation**

The study in chapter 4 contributes to the understanding of microfinance as “a promising tool for addressing the grand challenge of global poverty” (Cobb, Wry, & Zhao, 2016: 2103). In recent years, multiple calls have been raised for more scholarly work that can help tackle “grand challenges” (Colquitt & George, 2011; George, Howard-Grenville, Joshi, & Tihanyi, 2016). In this light, our findings have important practical implications for MFOs’ strives to more effectively address the “grand challenge” of poverty. In keeping with the call for developing theory that has practical relevance (e.g. Corley & Gioia, 2011), we have continuously engaged in dialogues with MFO practitioners to check issues of validity and relevance of the emerging model. The first implication that emerged from these conversations is that our measurement of borrowers’ social identities salience could be used by MFO’s in the development of financial services that aim to target different types of founders (e.g. family-oriented or business-oriented). More specifically, our measurements of social identities could help answer the important question that also Banerjee (2013) posed on how MFOs can identify

those individuals who are suitable for larger loan programs, since for those borrowers, using the loan for business becomes even more crucial to be able to make repayments.

The second implication of our study is that MFOs should be aware of the effect of institutionalized prescriptions concerning their financial products. In the case of SEF, ambiguous rules might have decreased the MFO's potential to stimulate enterprise development, since borrowers are inclined to focus on the rule they find most useful to enact their salient social identity. The result for some of SEF's borrowers was that the loan contributed less to providing a structural solution for the poverty situation they found themselves in. However, also the MFO itself could experience negative consequences of ambiguous rules, since finding that many of the microloans are not used the way they were supposed to be (i.e. for business) could scare away funders who supply capital to the MFO and want the money to be well spent (Reinecke & Ansari, 2015).

## **5.4 GENERAL CONCLUSION**

The development of entrepreneurship is considered to be a key element for poverty alleviation. Particularly the inclusion of the poor in global value chains and the disbursement of microcredit have emerged as popular tools to bring about socio-economic progress in developing regions around the world. However, the impact of such initiatives are not without debate. It has been noted that the poor often do not recognize opportunities or do not use microcredit for business purposes. To improve our understanding of entrepreneurship development in poverty-stricken regions of sub-Saharan Africa, we have looked at underresearched psychological and social microfoundations that play a key role in how the poor develop and exploit entrepreneurial opportunities. Our findings highlight that not all poor entrepreneurs recognize opportunities that are obvious to outsiders (e.g. becoming a producer

in a multinational's global value chain) because some individuals seek more than just an income increase or prefer to create their own opportunities together with the people in their social environment. We also find that borrowed business-resources (e.g. microcredit) are often diverted towards non-business purposes when the lender's communication about the purpose of the resources are ambiguous, and when people primarily seek to advance their social identity as a family member rather than as an entrepreneur.

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