

# 1. Introduction

## *1.1 Approaching the Topic*

In the beginning of 2010, I founded the social business *www.glovico.org*, a language school that allows people from Latin America and Africa to teach their mother tongues via Skype to a European and American audience and earn themselves an income while doing so. The endeavor is exciting in itself, and it is particularly fulfilling because of the interaction with fascinating people from all around the world. After having been in business for several months, one of our teachers from Senegal wrote me an e-mail saying that in teaching French she had found her new dream job and that it is not only about the additional money that she is earning but about meeting people from all sorts of places and being on par with them. Statements like this urged me to push this small social business further and the reasoning behind her words is also the leitmotif of this dissertation: that alleviating poverty in an entrepreneurial manner not only is characterized by more sustainability (in an old-fashioned economic sense) and scalability but also is a very decent way to support people in poverty.

Even after decades of development aid, the world is still affected by widespread poverty. The real average income of people in more than 10 countries in the lowest quartile of 2009's world income distribution is lower than it was in 1970. Some countries have seen steadily falling real GDP per capita since 1980. Although life expectancy at birth has risen beyond 80 years in some developed countries, there are developing countries where life expectancy has decreased since 1970 and still is below 50 years (e.g., Lesotho and Zimbabwe) (United Nations Development Program, 2010). These trends are particularly disturbing given that worldwide development cooperation has been under way for more than 50 years (taking the Marshall Plan as the first large-scale development intervention). It is estimated that more than US \$2 trillion have been transferred from the developed to the developing world in these years (Moyo, 2010).

These 50 years can be broken down into decades with different focuses for development, as announced by the United Nations (starting in 1960)

(Jackson, 2007). Maybe it is about time to take stock and evaluate whether the well-intended endeavors really show the impact intended for them. Instead of looking at any faults of the existing system, this dissertation seeks to shed light on a potential alternative. It takes a closer look at social entrepreneurs at the base of the economic pyramid. It studies how small ventures that focus on achieving a social impact are being set up in the hostile environments of developing countries.

Key authors who in recent years launched this debate on more entrepreneurial ways to alleviate poverty include Nobel Prize laureate Muhammad Yunus and the late C. K. Prahalad, a professor from Michigan University. Other authors, such as Peruvian economist Hernando de Soto, hold that a lack of land titles and complex registration procedures keep the poor from harnessing their entrepreneurial spirit, because with these titles they could use their houses as collateral to tap capital and move out of poverty through business activities (de Soto, 2000). The basic tenor of these authors is that the abilities of entrepreneurs and corporations to innovate value chains must be harnessed to create sustainable change. Sustainability is taken to mean a change that finances itself (in the long run) and therefore is not dependent on continuous support by donors.

Various reasons have been given for the shortcomings of development cooperation and the lack of progress. In this debate there are staunch defenders of the progressive powers of capitalism on the one hand, who go so far as to recommend cutting development aid. One such author is Dambisa Moyo, who considers development aid money not only to be ineffective but even to be harmful, as having the potential to foster corruption and keep poor countries from building up successful industries themselves. Her remedy is both simple and provocative: to cease all development aid funding for Africa within five years (Moyo, 2010). On the other hand are proponents of increasing development cooperation funding and creating more differentiated solutions to overcome the specific poverty traps of individual countries. Among them is the director of the Earth Institute at Columbia University, Jeffrey Sachs (Sachs, 2005). In simple terms, the debate is about less money versus more and smarter money.

It is argued that there are two particularly negative side effects of development aid that comes in the form of grants (which is not the form of all development aid). First, grants can destroy local markets. If, for example, grants are used for the construction of infrastructure projects, this might crowd out local investors aiming for the same sector, as they cannot

compete with the development aid provided for free. A local investor, however, would have had an interest in designing the project in a way that would secure a long-term revenue stream and in that way foster financial sustainability. Second, because grants typically are given to political or administrative bodies, corruption can be fostered, and money is not always dedicated to its original purpose. This latter effect of aid leading to increased corruption is discussed under the name “voracity effect” (Alesina & Weder, 2002; Svensson, 2000). Both effects together point to non-intended side effects of grants that make worthwhile a search for alternate ways to foster development.

One such alternate means that is studied here (but not evaluated as to its impact on local development (for such efforts compare Humberg, 2011)) is social entrepreneurship in developing countries. Identifying social entrepreneurs with strong leadership skills, management expertise, and a venture that is dear to them is not an easy task, yet once found, such social entrepreneurs might prove to be more efficient and effective in creating social impact than traditional development efforts, as they are more agile than government-directed projects (Priddat, 2010). On the other hand, reaching the scale that a national administration might implement with one change in regulations is often challenging for social entrepreneurs.

One such social entrepreneur who has created even more than national impact is Muhammad Yunus. Through his Grameen Bank, he has provided more than US \$8 billion in micro-credits to the poor since 1976 (Grameen Bank, n.d.). He challenged the conventional wisdom that the poor are unbankable as they hold no securities and would be reluctant to repay their credits. Proving the contrary, he has created a whole new sector of development cooperation that is more business-oriented than traditional varieties. Apart from providing micro-credit, he has founded several other companies (typically in cooperation with multinational companies) that are designed to provide a specific service or product to the poor while being profitable (although they reinvest profits rather than disbursing them). He calls such companies “social businesses” (Yunus, 2006).

## *1.2 Setting the Scene*

This dissertation is rooted in the author’s motivation to contribute to the improvement of society by generating new knowledge about alternative

ways to alleviate poverty. Informing better ways to fight poverty and providing rigorous research is the twofold aim of this study. This conception results in unconventional ways to generate data. Rather than studying a phenomenon from the outside, it was here decided to aim for deep insights and study entrepreneurship from within. This goal was realized by interacting with the individuals and organizations studied, in the form of consulting and participating, with the researcher actually starting up a social business himself. In order to triangulate the rich insights gained from the inside and to rebut the criticism of being prone to subjectivism, classical interviews also are included in the data. The multiple forms of data and data collection combine rich insights and rigor, as well as ensuring relevancy of the research results to practitioners. Another goal of this dissertation is to make a contribution to entrepreneurship research by providing a first attempt at constructing a process model of social entrepreneurship with a focus on the base of the pyramid.

The author started his own social business in the course of pursuing this dissertation. This allowed for an empirical richness that is rare in entrepreneurship research. Furthermore, it enabled aligning scientific and practical relevancy from a firsthand perspective. The process of founding the company was followed from a scientific perspective. Although running a start-up and writing a dissertation at the same time proved challenging, it is considered to have led to an empirically richer dissertation and a conceptually sounder social business. Last but not least, it taught the researcher a variety of lessons in time management that will be shared, in the last chapter, with fellow researchers who intend to follow a methodologically similar path.

Historically, the research community has shed little light on the phenomenon to be analyzed here. It is rather entrepreneurs in developed markets that hitherto attracted the main interest in research. Furthermore social entrepreneurship has only gained in interest very recently. Yet, I will show that there are a variety of characteristics that set social entrepreneurs at the base of the pyramid apart from other entrepreneurs.

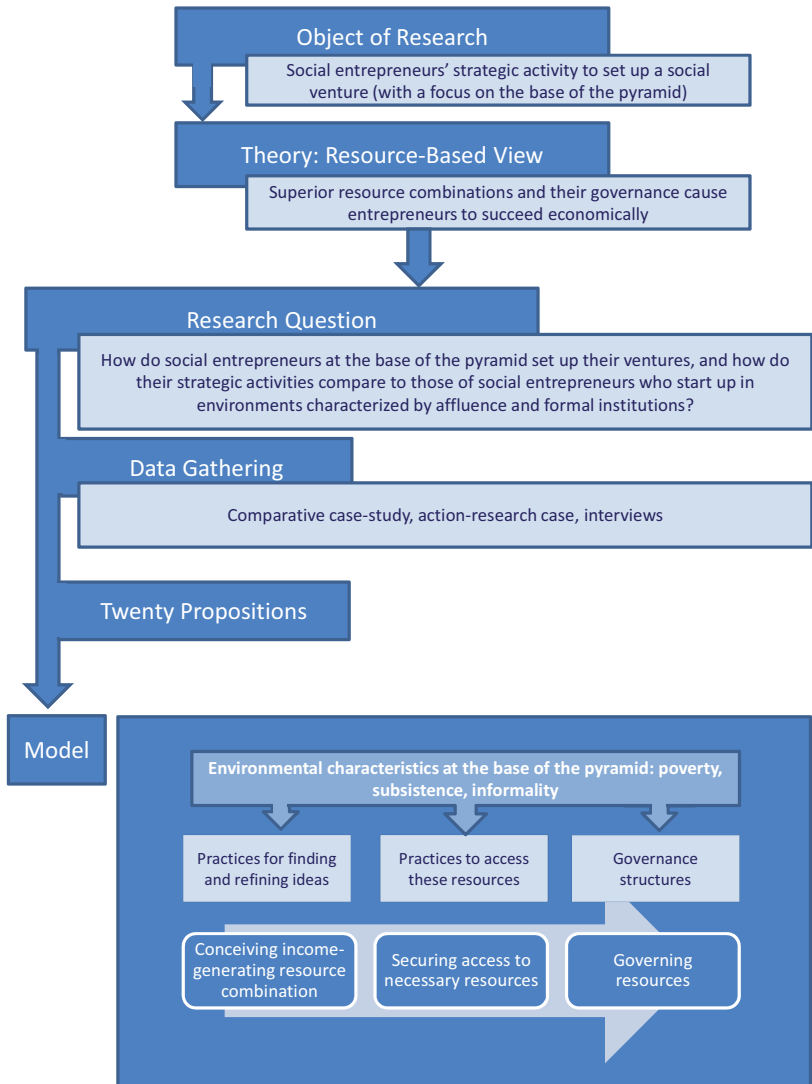
*Exhibit 1. Outline of the dissertation.*

Exhibit 1 shows an outline of this dissertation. The object of research is the strategic activity of social entrepreneurs setting up their ventures, particularly looking at entrepreneurs who are active at the base of the

pyramid. In Chapter 2, these notions will be defined to allow their application and usage in the course of the thesis. Chapter 3 will introduce the theoretical background of the dissertation and formulate the research question. The theory upon which it is being drawn is the resource-based view, which holds that it is the resource combinations that a venture holds (instead of the position it holds in a particular market or the historical development) that defines its success. Furthermore, in that chapter the research question will be posed. Chapter 5 will explicate the methodology, which is rooted in a hermeneutical paradigm and is qualitative in nature. With respect to data generation, this dissertation breaks new ground in social entrepreneurship research, in that the researcher establishes a social venture. Data from that experience are triangulated with those of other cases and interviews. Another characteristic of this research that takes it beyond conventional entrepreneurship research is its longitudinal nature. Chapter 5 displays the empirical data (drawn from a venture in the water sector in Eritrea, a venture that intends to set up an incubator for social entrepreneurs in Germany, a non-profit language school that allows people from developing countries to teach their mother tongues via Skype, and interviews with six Fellows of Ashoka Sahel) and uses the insights that can be derived from that data to develop twenty propositions regarding the start-up process of social ventures. These propositions follow the hermeneutical paradigm. In Chapter 6, a positivist turn is made to design a process model of such ventures. This process follows the three-stage model of entrepreneurship from a resource-based perspective that is derived from theory. Chapter 7 wraps up this dissertation, offers implications for practitioners, and proposes avenues for further research.

### *1.3 Acknowledgments*

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A further source of inspiration was Martin Herrndorf, who researches micro-insurance at the University of St. Gallen and with whom I had the pleasure to co-author one of the papers that led to this dissertation. Furthermore, he organized the oikos UNDP Young Scholars Development Academy 2009, which allowed for fruitful discussion with other researchers in the area of business and poverty alleviation. A word of thanks is sent to the researchers of the Berlin Forum, which discusses a variety of issues in the area of business ethics and offered a supportive forum for the development of this dissertation. I am also particularly indebted to my PhD supervisors Professor Birger Priddat and Professor Thomas Straubhaar, from whose open-mindedness and intellectual challenges this dissertation takes its life. Finally, my family and friends are to be thanked; without them, this dissertation would not have been possible.