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BY LAURA W. GELLER

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A marketplace developed in rural India for low-income artisans to sell their wares sits largely vacant, used only by a select group of higher-income exporters. The reason: When planning the facility, government officials consulted only with people of similar high status. Elsewhere, a Panamanian entrepreneur with a bold vision of introducing organic techniques to coffee farmers shutters his business after just a few months. Although local farmers were interested, they were unable to assume the financial risk inherent in making the change.

These are among the findings that economic sociologist Laura Doering has unearthed in her research on fostering economic development and entrepreneurship in emerging economies. Development policies may come together at a high level, but their success is dependent on the complex daily interactions among people. And these interactions — like all other human interactions — are vulnerable to bias and driven by basic needs rather than by economic theory.

Doering, an assistant professor of strategic management at the University of Toronto's Rotman School of Management, has an academic resume that spans the globe — and several disciplines. At Dartmouth, she majored in psychology and brain science. She holds a master's degree in international social development from the University of New South Wales in Australia, and a Ph.D. in sociology and business administration from the University of Chicago. She has spent a significant portion of her career doing field work in Latin America.

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With this background, Doering is able to combine the quantitative and the qualitative. The former gives her a bird's-eye view of behaviors and outcomes, and the latter ensures that she understands what people's lives and relationships are actually like. As she explained in a recent interview with *strategy+business*, such understanding is critical to creating the kinds of policies and opportunities that will support sustained economic growth.

S+B: How can bias impact economic development?

DOERING: One area where I've seen the negative effects of bias is in public–private collaborations. Collaborations between state officials and industry leaders have done a tremendous amount of good in the world and have facilitated economic growth. It's also the case, however, that these partnerships can lead to failed economic initiatives. I'm working on a project with Aruna Ranganathan at Stanford in which we take an in-depth look at a public–private collaboration in India that started out with all the right ingredients for success, and still failed.

In the initiative we're studying, Indian government officials set out to create an industrial crafts park to be used primarily by low-income artisans. But the only people who ended up using the park were higher-income traders and exporters. In other words, it worked out well for the people who already had higher status in the community, and made the rich richer in that sense.

Part of the reason it failed has to do with the relationships between government agents and members of the private sector. Government agents consulted extensively with members of the private sector who were similar to them in social status: They were well educated, had higher incomes, and had a similar religious background. What this meant was that government actors overlooked the members of the private sector who were crucial to the project, but who were different from them: low-income artisans who didn't have a lot of education and had different religious backgrounds. The government ended up designing a park that was completely ill-fitting for the individuals who were supposed to be the park's primary users. The low-income artisans wanted a park that enhanced the handcrafted work they were already doing, but instead the government designed a high-tech, fully automated park that would have fundamentally changed the bespoke nature of the artisans' handicraft.

Since status biases are highly prevalent, there are critical lessons to be learned from this example. Around the world, governments are designing policies and projects to promote economic growth among private-sector groups that have less education and income. But if the state doesn't actively collaborate with lower-status members of the private sector when designing such initiatives, the projects are quite likely to fail. Moreover, without consulting actively with the poor, the state runs the risk of cementing the very social inequalities that such economic initiatives are designed to alleviate. I think part of the challenge we all face is confronting the expectations and behaviors that guide us toward people who are familiar and comfortable, and subtly move us away from those who are different.

"If the state doesn't actively collaborate with lower-status members of the private sector when designing such initiatives, the projects are quite likely to fail."

S+B: In what other development contexts have you seen bias affect the outcome?

DOERING: I've worked on another study, with Sarah Thébaud at UC Santa Barbara, examining gender bias in microfinance. We looked at how the gender of a microfinance loan officer affects loan repayment, and found that clients were much more likely to miss payments when they were paired with female officers — although the female officers were much more experienced on average. These effects were consistent even when we accounted for other factors that might affect loan repayment, such as income and loan size.

We also found that clients afforded officers different levels of authority depending on the gender they associated with the job. In this context, the job of a commercial microfinance loan officer was relatively new and was not strongly associated with men or women. Given the gender ambiguity of the position, we followed previous research and reasoned that the first officer a client interacted with would shape the client's impression that the job was a "man's job" or a "woman's job."

Interestingly, we found that male managers experienced major differences in compliance with respect to loan repayment from clients depending on whether clients perceived their job as a "man's job" or a "woman's job." Clients were highly compliant with male officers when they had previously worked with another male officer, but were significantly less compliant when they had previously worked with a female officer and saw the job as a "woman's job."

S+B: Did it matter if the clients themselves were male or female?

DOERING: We thought that it would, but it didn't. Male and female clients were equally likely to miss payments with female loan officers, and they were equally likely to miss payments with male officers in "female-typed" roles.

I think the context is particularly interesting, because when clients miss loan payments, they harm their own credit score. Engaging in this biased behavior is costly to clients in the long run, since it makes it more difficult for them to secure future credit. So you have a situation where gender bias negatively affects certain officers' authority and also negatively affects certain clients.

Even in the academic literature, we tend to think about economic development as this macro-level, top-down process that's driven by policy. Part of what I'm trying to do is look at how development really unfolds in ways that are different from what we would expect based on policy — ways that result from micro-level interactions between human beings. That's what development is: interactions between human beings. And when we think about it in that way, it gives us a new lens for thinking about economic growth.

S+B: What are some of the key challenges facing entrepreneurs in emerging markets?

DOERING: When I was in graduate school, I went to Panama on a Ful-

Laura Doering

Photograph by Jan Doering

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bright scholarship to interview low-income, small-scale entrepreneurs. I remember interviewing one woman in her 50s who ran a clothing repair stand. At the end of the interview she asked me a question that spurred much of my subsequent academic research: "All of us, the micro-entrepreneurs, why is it that we work so hard but we never grow?"

One of the fascinating things about entrepreneurship in emerging markets is how prevalent small-scale business ownership is, but how little it contributes to economic growth at the regional or national level. The challenge is that many low-income entrepreneurs face circumstances that make it difficult to grow, even when they have all the right ingredients. For example, in my research in Panama, I found that many poor entrepreneurs had novel, creative business ideas that they initially implemented. They face conditions of necessity, and these conditions make them extremely creative — encouraging them to find solutions that other people wouldn't see. Such novel businesses have higher growth potential than businesses that simply offer more of what already exists in the market.

But the same necessity that spurs creativity also makes it difficult for these business owners to profit from the fruits of their creativity. The problem is that they need to generate profits quickly. Poor entrepreneurs don't have the luxury of waiting; they don't have the income buffers that would allow time for consumers to become familiar with new products and services. Altering their ventures to a me-too model — selling something that already exists in the market, but that has a much lower potential for growth— enables them to earn at least a little bit of money right away. You can go to the fruit and vegetable market, set up a crate, and sell a box of fruit that first day. But if you are the first person in the market to sell fruit smoothies, you have to be able to wait for people to develop a taste for fruit smoothies.

“The same necessity that spurs creativity among poor entrepreneurs also makes it difficult for these businesses to profit from their creativity.”

S+B: Is there a way to mitigate those circumstances?

DOERING: We have to create conditions that buy these entrepreneurs some time and flexibility. I think this is an area where the private sector could potentially play a role. If we could provide entrepreneurs with a small stipend while they refine their ideas and test them in the market, and support them in developing those ideas — similar to what would occur in a business incubator — I think that we would see a lot more growth among small-scale businesses in emerging markets.

The entrepreneurs would benefit from the time and support and development that an incubator like this would offer. The incubators could also allow socially minded investors to tap into some of the amazing sources of ideas and creativity that right now just aren't seeing the light of day. There may be opportunities to earn returns on some of these business ideas if they are appropriately refined and developed.

For example, I once interviewed a man who briefly ran a business training other farmers in organic farming techniques. He had taken courses in organic agriculture and wanted to teach other farmers how to cultivate coffee in a way that was more environmentally sustainable. He was from a region in Panama where people used a lot of pesticides when growing coffee. Organic farming hadn't yet caught on, although there was a lot of demand for organic beans. He started a company that lasted for maybe a couple of months, and then he shut it down. Local farmers were interested in organic methods, but they couldn't afford the training and were worried about changing their growing practices. I think this is a good example of a business that, with a bit more support — both financial support that would've given him some time to convince other farmers that organic practices were a worthy investment, and also coaching to develop his overall business model — had strong potential to take off.

The momentum of impact investing suggests that it might be a space that could drive [emerging market] incubators. Part of the reason impact investing is so exciting, even though it is just in its infancy, is that it creates funding opportunities for new types of businesses. Impact investing allows investors to earn financial returns and put their money toward causes they believe to be socially important, and it creates new opportunities for seeding and growing social enterprises. It's this neat pairing of social and financial opportunities, and one that young people in particular are interested in. +

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Laura W. Geller
geller_laura@strategy-business.com
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