Entrepreneurship for social impact: encouraging market access in rural Bangladesh

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Abstract

Purpose – In many developing countries those living in poverty are unable to participate in markets due to the weakness or complete absence of supportive institutions. This study aims to examine, in microcosm, such an institutional void and to illustrate the strategy and activities employed by an entrepreneurial actor in rural Bangladesh in addressing it.

Design/methodology/approach – The paper is based on an in-depth case study. Data were gathered over two years from field interviews, archives, and secondary sources.

Findings – The data illustrate how market access for the poorest of the poor is facilitated through the creation of platforms for participation in the economy and broader society. The authors conceptualize this process as the crafting of new institutional arrangements and as resource and institutional bricolage occurring in parallel.

Practical implications – The study offers insights for development agencies, policy makers and companies on how to combat poverty, fight corruption, and stimulate social and economic change.

Originality/value – The paper enriches current thinking on institutions and entrepreneurship as well as strategies for social impact.

Keywords Design and development, Entrepreneurialism, Organizations, Markets

Paper type Research paper

The positive correlation of entrepreneurial activity with economic growth, prosperity and wealth creation has been long noted (Baumol, 1996; Schumpeter, 1934). Markets play an important role in driving this process and, as specialized social structures and important exchange mechanisms, they require specific institutions and rules in order to come into existence and to function properly. One of the most prominent factors preventing many developing countries from advancing along the road towards a market economy is the inchoate nature of their institutional fabric. What we observe in developing countries is that institutional arrangements that support markets are either absent or weak, and often the pervasiveness of constraining informal institutions impedes full market participation.

The effect of institutions on economic activity and wealth creation has been studied by economists, economic sociologists and organization theorists. Although these scholars have based their analyses on different dimensions and definitions of institutions, the main message is the same: institutions constrain and determine action and behavior. Institutional arguments have largely emphasized the durability and stability of institutions. A significant critique to institutional theory is that relatively little attention has been paid to the enabling role of institutions and to institutional change. In addition, most research to date has focused on the developed world. As a result, we still know relatively little about how entrepreneurial actors attempt to transform institutions and to substitute them with new ones in developing countries where institutional arrangements are much less mature.

This paper introduces a new type of actor who, driven by a holistic approach to development, creates, transforms and de-institutionalizes rules and norms and thereby...
allows the impoverished in developing countries to enter the virtuous circle of economic and social development. This phenomenon has recently been described as social entrepreneurship. For the purpose of this paper we use the terms social and institutional entrepreneurial actor interchangeably. Our main objective is to understand some of the institutional impediments to economic development and how this new breed of entrepreneurs manages to address those impediments.

We employ the notion of an institutional void to describe a situation where absent and/or weak institutional arrangements prevent those excluded by poverty from participating in market activities. What many developing countries have in common is that although institutions exist they do not allow for and often even hinder economic and social development. The focus on developing countries allows us to examine entrepreneurial processes in an environment where resources and supportive institutions are scarce. This characterization is important because it permits us to conceptualize the entrepreneurial processes around a concept first introduced by anthropologist, Lévi-Strauss (1966): that of *bricolage*. Within this context we examine Bangladesh and illustrate the institutional entrepreneurship processes with data derived from a qualitative case study of the activities of BRAC, one of the world's largest NGOs.

**Markets and institutions**

Over the last decade development efforts have increasingly focused on developing and transforming the institutions needed for engaging the poor in market activities. The assumptions underlying such efforts are that markets are an effective mechanism to attain sustained increases in living standards around the world; and institutions constitute the ‘rules of the game’ (North, 1990). Defined this way, institutions are omnipresent, and institutional vacuums hardly exist. In developing countries social and economic reality is shaped by a complex set of informal and formal institutions yet we observe that specific institutions, those that would support a modern economy based on market principles, are missing. Scholars from different disciplines have studied extensively how to create markets and how to make them more efficient by strengthening institutions such as property rights, governance structures and rules of exchange as preconditions for markets to exist.

Who is responsible for the creation and development of such institutions? It is widely agreed that this role corresponds primarily to the state, and therefore the government. However, what happens if government structures are weak or corrupt – or both, as it is often the case in developing countries – and the conditions under which economic actors organize, compete or cooperate, tend to favor some actors over others?

A growing body of research on developing countries suggests that when the government fails to assume this role business groups step in (Khanna and Palepu, 1997). Thus, business groups are portrayed as intrafirm mechanisms for dealing with market deficiencies. What has been less emphasized however is the fact that the activities of business groups are constrained by their primary objective: creating economic value. Therefore they tend to fill the voids left by the missing institutions only as long as it is profitable.

If, however, no immediate or direct economic returns are involved, who steps in? Who builds missing institutions or corrects for an inchoate institutional arrangement if the government and business groups fail or are too weak to act? In many developing countries we now see a new breed of actors entering the game at this stage: a hybrid type of entrepreneurial actor for whom the ultimate objective is the sustainable development of their countries based on both social and economic progress. While for business entrepreneurs social value creation is often a by-product of the economic value created, for these actors – often referred to as social entrepreneurs – creating social value is the primary objective, while creating economic value is a necessary condition to ensure financial viability (Mair and Martí, 2006). For these entrepreneurs markets are not an end in itself or a means to appropriate value; they view markets as an important social structure and a mechanism to foster social and economic development. Thus, promoting market participation by building, transforming and decomposing institutions becomes an important objective.
While existing literature has generally focused on the role of institutions for the creation and efficient functioning of markets, development professionals have suggested that the creation of markets might not be enough and what is really needed is to enable the poor to participate in markets (Yunus, 1999; Sachs, 2005). In various parts of Cameroon existing traditions require women to get a husband’s or father’s permission to leave the house; in Ecuador the average duration of a commercial case in the formal legal system is almost eight years, an investment of time which is too “expensive” for poor people. As a result, many are excluded from participating in many aspects of public and economic life because of the strong influence of some institutions.

We argue that the distinction between building institutions for the creation and efficient functioning of markets and building institutions to enable people to participate in those markets, is relevant and bears important implications for development practice. In this paper we describe situations of absent or weak institutional arrangements that support markets – as institutional voids – and we view these voids as opportunity spaces for entrepreneurs.

**Institutional entrepreneurship in developing countries**

Scholarly discussion on institutional entrepreneurship has focused on the activities of powerful actors with abundant resources (DiMaggio, 1988). In developing countries social and economic resources are typically concentrated in the hands of a few who have limited interest in changing the institutional status quo. How then is institutional entrepreneurship possible in such a context? Are motivated actors who are poorly resourced able to build new institutions or start the process of changing existing institutions?

A combination of ideas from different fields allows us to address these questions. Institutional researchers have pointed out that actors without resources can use the existing institutions in unintended ways to create new ones by leveraging a wide network of actors (Campbell, 2004) while entrepreneurship scholars have argued that entrepreneurship itself involves the “creation” of new opportunities through the recombination and transformation of existing resources (Baker and Nelson, 2005). Both schools of thought have recently adopted the term “bricolage” to describe the process of “making do” by recombining elements at hand. Aiming at bridging these arguments we explicitly refer to bricolage as making do with resources and institutions at hand.

The resource poor environment and amorphous institutional fabric that characterize many developing countries make it difficult to face the massive scale and interrelated nature of the social problems that exist. Researchers have stressed the need for interorganizational cooperation. However this kind of collaboration requires a platform for distributed agency and in many of the least developed countries these platforms, which represent important institutions to spur development, are missing and constitute institutional voids as defined in this paper. Therefore, it is important to explore how entrepreneurial actors make cooperation possible in the first place.

We will argue that, where the absent or weak institutional arrangements impede people’s effective participation in markets and society, entrepreneurial actors step in and fill these voids by building platforms for participation. Once built, such platforms become arenas where new entrepreneurial opportunities can be enacted and where organizations may cooperate. We will use the concept of bricolage to illustrate this process.

**Research context: Bangladesh and BRAC**

The selection of context and the specific case was guided by the phenomenon, themes, and issues we address in this paper. We chose Bangladesh as our research context for two reasons: first, indicators on poverty and development in Bangladesh suggest that institutions which enable the poor to participate in the market economy are missing (World Bank, 2002) and therefore an institutional void as defined in this paper exists. And second, anecdotal evidence suggests that a number of local entrepreneurial actors have taken on the task of filling this void.
Although Bangladesh has made significant progress in reducing poverty, nearly half of its population of 140 million still lives below the poverty line (as measured by income, consumption and ability to meet basic human needs), making Bangladesh one of the poorest countries in the world. The remedies put forward by international policy makers and international organizations are echoing one theme: Bangladesh needs to make greater efforts to enable the poor to participate in the economy (World Bank, 2005; Sachs, 2005).

BRAC was initiated in 1972 by Fazle Hasan Abed as a small scale relief and rehabilitation project aimed at repairing some of the devastation caused by Bangladesh's war of liberation. By 1974 however, the multitude of social problems on a national scale and the government's failure to provide sufficient relief, led BRAC to adopt a new strategy of integrated development based on the twin objectives of poverty alleviation and empowerment of the poor, and focusing on institution building to bring the rural poor into the mainstream of development.

Three decades later, BRAC’s outreach covered 78 percent of the country’s villages. In 2006, BRAC employed more than 93,000 people, making it the nation's second-largest employer after the government. BRAC has created over 6 million jobs in various economic sectors and its core programs span four basic areas: economic development; education; health; and social development, human rights and legal services. BRAC’s Economic Development Program has so far incorporated more than 5 million poor and landless people, mostly women, into 164,107 village organizations (BRAC, 2006).

**Impediments for market participation in rural Bangladesh**

As BRAC acts predominately in the rural areas of Bangladesh, it is our objective in this section to briefly highlight some of the most important constraints that many people in rural areas confront in order to participate in markets and in public life.

A defining characteristic of the rural areas in Bangladesh is the asymmetrical relationship that exists between different members of the community; elites at one extreme and the powerless at the other. By using different mechanisms (ranging from outright violence to bribery, manipulation or prestige), the local elites are able to extend their control over private and public land; over local government resources (such as capital, government agricultural land, health infrastructure and government primary schools); or over who is employed in particular jobs (e.g. police positions or government clerkships). They make use of their control over liquid capital as well, by lending money at very high rates of interest.

In this context, survival for the powerless poor rests very much on their ability to ensure support from the community elite. This support typically comes at the price of losing their autonomy and independence. For instance, many sell their land so they can afford bribes to get jobs. Those who have nothing to offer to the elite are even excluded from these “dependent-security” relations. As development professionals highlight, poverty has multiple dimensions; in addition to material poverty, it involves gender inequalities, powerlessness and injustice.

The formal legal system of Bangladesh is perceived as highly corrupt and extremely slow (Transparency International of Bangladesh, 2005). The majority of poor people cannot rely on the formal system because they can neither afford to pay bribes nor wait eternally for dispute settlements. As a result, the informal legal system is generally favored for its lower cost, speed, accessibility, and cultural relevance. However it is dominated by the male elite and also presents high levels of corruption, hence both the formal and informal systems are used to perpetuate relationships of dominance.

The power structure interacts with and is reinforced by the ideological system of norms, traditions and values. Particularly indigent in rural Bangladesh are the women; the most disadvantaged and deprived sector of society. Social and cultural norms associated with purdah, patriarchy and the still very common occurrence of early marriages restrict women’s mobility and participation in public life. A strict separation between the public and the private sphere confines women to the latter, thus restricting their involvement in market transactions and income generating activities. An additional issue has to do with ownership of resources:
sociocultural norms dictate that men control the resources even if women are able to own them. For this reason, many mainstream development programs targeted at women (including micro-finance) actually bypass the intended recipients (women and girls) in favor of more culturally acceptable ones (men and boys); therefore, access to resources does not necessarily equate with their utilization.

In sum, the complex power structure of rural Bangladesh, based on relationships of dependence and perpetuated through existing sociocultural norms, along with the weakness and corruption of the legal and political systems, restricts the involvement of the poor and powerless in market based activities. In the next section we shall describe BRAC’s strategy to cope with such deep seated impediments.

Building an arena for participation and collaboration: the village organization

More than 30 years of development experience has taught BRAC that the social structure in rural areas of Bangladesh makes it almost impossible to reach the poorest of villagers. Programs designed for the whole community tended to deliver most of their benefits to the elite, bypassing the poor. BRAC therefore makes great efforts to give a public voice to those who have been excluded because of their dependence on the wealthiest villagers. Its solution was to build arenas in which the poor could participate all over the country. BRAC calls these arenas ‘village organizations’ (VOs) and they provide both the starting point and the cornerstone of the BRAC development model.

The VO is an association of poor landless people (mostly women) that becomes the arena in which the traditionally powerless can explain their problems, participate in the community and receive services. As such, it plays a pivotal role in fostering the emergence of new solutions, practices and rules. VOs are formed with 20 to 55 members and from the beginning particular attention is paid to discipline (e.g. regular attendance at weekly meetings and monthly issue-based discussions). Among many changes that occur after joining VOs, women highlight increases in: self-confidence, credit-worthiness, mobility, personal savings, and a sense of economic security.

Development professionals suggest that a weak social network may be a determining obstacle to escaping poverty (World Bank, 2002). In this sense VOs develop the social capital of BRAC members and allow them to create their own networks, thus breaking the cycle of exclusion and/or dependence previously experienced in daily life. At the same time, the VO is the delivery point for BRAC’s main strategies to achieve social and economic development. Once a VO has been formed, BRAC begins to develop and implement programs such as microcredit, income generation, community health and education.

Given the multidimensional nature of poverty, the development and implementation of such programs often requires collaboration with other actors (e.g. the government, other NGOs or development organizations, firms, etc.). Table I shows some of the collaborations BRAC is currently engaged in, along with a short description of their rationale and objectives.

These collaborations are usually built upon the social networks previously created by BRAC. For instance, the nationwide extension of some of the health programs relies on the key role played by Shastho Shebikas (SSs). SSs are BRAC’s community health volunteers and play a key role in health, nutrition and family planning education. They helped to distribute vitamin A capsules and de-worming tablets to children during the government’s national vitamin A plus campaign, and they play a critical role in other government initiatives including the expanded immunization program, the tuberculosis program and the malaria prevention and control program. SSs are members of VOs and so have direct knowledge of the most rampant local health issues and their impact.

While collaborations with the government and other development agencies point to the fact that some issues cannot be tackled by a single organization, this example reveals something very important: collaboration builds upon an infrastructure of pre-existing networks, social relations, and organizations. What BRAC aimed to do with the VOs was to build such infrastructure.
Recombining resources and institutions

One important segment of those living in poverty – the poorest of the poor – has been bypassed by most development programs and also by mainstream development research. Part of the problem has to do with a failure to recognize that the poor are not a homogeneous group. For example, although acknowledging the potential of micro-finance, many concede that while traditional micro-credit based interventions have a demonstrated effect on the moderate poor, they may not be well suited for the “ultra” poor and may even be counter-productive for those trapped in chronic food insecurity who have no asset base to protect themselves (Matin and Halder, 2004).

Estimates indicate that over a quarter of Bangladesh’s people live in extreme poverty and cannot meet even their most basic needs. For this group, BRAC has been experimenting with more holistic approaches. Its “Challenging the frontiers of poverty reduction – targeting the ultra poor” program (CFPR-TUP) is one attempt. An interesting feature of this program is the use and combination of different elements (e.g. physical assets, training and institutions) to reach the ultra poor and contribute to building a more enabling environment for them.

The program has two main sub-objectives: pushing down and pushing out the frontiers of poverty reduction. By “pushing down” the poverty frontier BRAC means the development of new instruments relevant for the ultra poor. To do this it recombines some of the elements used in other programs and devises new tools. In contrast to its other schemes, BRAC initially transfers some basic assets to begin an income generating activity such as poultry or livestock rearing, agriculture, and other, non-farm activities. It also provides a subsistence

Table I  Collaboration between BRAC and other agents in rural Bangladesh

<table>
<thead>
<tr>
<th>Collaboration</th>
<th>BRAC program</th>
<th>Rationale and objectives</th>
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<tbody>
<tr>
<td>With the government of Bangladesh and the world food program</td>
<td>Income generation for vulnerable group development (IGVGD)</td>
<td>The poor are denied access to formal banking systems and so are deprived of the means to borrow, save and invest in productive activities</td>
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<td>With the government of Bangladesh (in some areas)</td>
<td>Education for children with disabilities (CWD)</td>
<td>More than a million primary school age children with assorted disabilities and disadvantages have no access to basic education, mainly because teachers are not trained to cater to their special needs, but also because of the lack of suitable classrooms, teaching materials and methods</td>
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<tr>
<td>With Ain O Shalish Kendra (ASK) and Bangladesh National Women’s Lawyers Association (BNWLA)</td>
<td>Legal aid clinics</td>
<td>Legal assistance to community members: the traditional arbitration system discriminates against the poor, and particularly against women. Clinics offer advice and help on issues such as dowry, polygamy, divorce, physical torture, land- and money-related matters, rape, acid throwing, kidnapping, trafficking and fraud</td>
</tr>
<tr>
<td>Collaboration with the Hortex Foundation</td>
<td>Vegetable export</td>
<td>Bridges small agricultural producers and international markets and guarantees farmers a fair price</td>
</tr>
<tr>
<td>With the Danish International Development Agency (DANIDA)</td>
<td>Dairy food project</td>
<td>To forward-integrate and build bridges between the poor and urban markets</td>
</tr>
<tr>
<td>With several NGOs</td>
<td>Education support program (ESP)</td>
<td>To provide education to poor, rural students in remote areas: many children, particularly girls, have dropped out, or are left out, of the formal education system</td>
</tr>
<tr>
<td>With the government of Bangladesh, the Global Fund to Fight Aids, TB and Malaria (GFATM) and other NGOs and development actors</td>
<td>Tuberculosis control programme</td>
<td>Following the national guidelines for treatment the objective is to control for new cases and also to make sure that patients complete the treatment</td>
</tr>
<tr>
<td>With the government of Bangladesh and other NGOs</td>
<td>National nutrition programme</td>
<td>Aims to improve the nutritional status of women and children</td>
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stipend, as well as enterprise development training. At the same time, recognizing the strong correlation between ill-health and poverty, the program offers specialized health care services for the ultra poor.

However, BRAC’s experience has shown that even the combination of these various elements is not enough; one must also challenge the socio-cultural norms that constrain the ultra poor from benefiting from these basic assets. Hence, the second element of the CFPR-TUP program strives to “push out” poverty by offering an alternative to the existing networks that promote exploitative yet secure forms of dependency as outlined above.

The socio-structural context in rural Bangladesh makes this task a difficult one. To this end, BRAC has both created new institutions and played with old ones. The interplay between each of these types of institutions – new and existing – becomes fundamental. For instance, BRAC encourages members of the VOs to contest for local government elections so that their voices and opinions can be heard and so they have a say in shalish processes and can better defend their own interests and those of the other VO members.

Of particular interest is an institution called the “Gram Shahayak Committee” (GSC). By building GSCs, BRAC aims to mobilize the local elite to create an enabling environment for the ultra poor. The idea of engaging the local elite emerged after BRAC staff found out that many extremely poor women in the CFPR-TUP program were at risk from theft or damage of the assets they received. Their lack of connections with more powerful actors and lack of support from their rural communities meant that these women were unable to protect their newly attained assets. To create a linkage between these two extremes of the power continuum in rural communities and thus protect assets that it has transferred to the ultra poor, BRAC has drawn on customs regarding the traditional responsibilities of village elites with respect to the poor. In other words, while the program addresses extreme poverty and the social causes that underlie that poverty, BRAC also builds institutions that are inclusive of, and acceptable to, the wider framework of the socio-cultural milieu of rural Bangladesh. A program that directly confronted customs and traditions would have failed and most probably would have been rejected from the beginning.

The CFPR-TUP program offers an excellent illustration of how development initiatives can address the impediments that some members of rural communities face when trying to engage in market-based activities. Asset transfer is necessary but not enough. Building a more enabling environment is necessary as well, but again, not sufficient. What is very often needed is a continuous effort to combine the two.

Implications for development and management practice

In a world where almost 3 billion people live on less than two dollars per day, global poverty is one of the most important challenges of our time. Discussions about overcoming the poverty trap that exists in many developing countries have mostly centered on macro level variables such as geography, trade policy, economic growth and cultural values. Similarly, research has focused on the role of powerful actors, governments for example, as builders and guarantors of the institutions needed for markets to exist and function well, or the subsidiary role that business groups play in some emerging economies.

This focus on macro solutions might have precluded the attention to and enhancement of micro solutions. In contrast, entrepreneurs such as BRAC can provide lessons for development in practice and potential partners for both the public and private sectors in addressing the lack of market participation for the world’s poorest. Our analysis of BRAC illustrates how a motivated entrepreneurial actor transformed the institutional void that impedes people to participate in market-based activities by creating a platform for participation and collaboration, innovatively combining the institutions and resources it has at hand. From this we infer that actors interested in fostering economic and social development should pay attention to both the resources at their disposal and the institutional context. Those that focus solely on resources may find that the social structure impedes the target group from benefiting, and those that focus only on
institution building may find it difficult to do so if they cannot mobilize the appropriate assets.

Decades of fruitless development efforts have shown that for-all-contexts solutions simply do not work (Easterly, 2006). Therefore, we must deepen our understanding of how entrepreneurial actors create institutions that can gradually enhance processes of transformation of the socio-cultural norms that impede participation in market-based activities. It is our hope that this study will not only stimulate future research, but will also offer insights for development agencies, policy makers and companies on how to combat poverty, fight corruption, and stimulate social and economic change.

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Further reading


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