Overcoming the liability of poorness: disadvantage, fragility, and the poverty entrepreneur

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Abstract All entrepreneurs must overcome the liabilities of newness and smallness as they attempt to launch and grow a new venture. However, those in poverty face an even greater challenge due to a concept we introduce, known as the liability of poorness, which centers on literacy gaps, a scarcity mindset, intense non-business pressures, and the lack of a safety net. Each of these components of the liability of poorness contributes to the disadvantage and fragility of the enterprises confronting the poor. Implications of this fragility for venture dynamics as well as how some poverty entrepreneurs overcome this liability are explored. Research priorities are discussed for ongoing work on the liability of poorness.

Keywords Disadvantage · Entrepreneurship · Fragility · Liability of poorness · Poverty · Resilience

JEL classifications L25 · L26

1 Introduction

There is a growing body of evidence to suggest entrepreneurship can be a viable pathway out of poverty (Amorós and Cristi 2011; Banerjee and Duflo 2007; Bruton et al. 2013; Sutter et al. 2019). The poor start millions of formal and informal sector ventures across the globe each year, with mixed findings as to whether their start-up rates are lower or higher than the average for a society (Acs and Kallas 2008; Barr 2008; Slivinski 2012). For some, revenue from a venture allows them to survive or supplements other income sources in the family. For others, a successful venture enables them to escape poverty and become less dependent on public and private forms of support (Amorós and Cristi 2011; Abraham 2012; Clark et al. 1999; Edelman et al. 2010). Beyond the potential financial benefits, starting one’s own business can contribute to enhanced self-efficacy, skills development, self-identity, pride, dignity, and ability to give back to the community (Morris et al. 2020; Shantz et al. 2018).

Launching a business is a difficult undertaking regardless of who is involved, but is especially challenging for those in poverty (Alvarez and Barney 2014; McMullen 2011). Failure rates are remarkably consistent across countries, typically ranging between 45 and 55% of new ventures which fail within the first 5 years.
of operation (Lowe et al. 1991; Stangler 2010; Watson and Everett 1999). With the ventures of the poor, we know less about their outcomes, but there is evidence to suggest a significantly higher rate of failure (Bekele and Worku 2008; Fairlie and Robb 2008).

Ventures fail for many reasons, ranging from weak business ideas for which there is little or no market to inept execution of an otherwise viable venture concept. The high failure rates exhibited by new and young ventures have been characterized as the liabilities of newness and smallness. The first of these factors concerns the many roles that must be learned by the novice entrepreneur, the lack of standard procedures and problem-solving routines in the business, and a lack of legitimacy in dealing with customers, suppliers, and other external stakeholders (Stinchcombe 1965). The second involves limited resources and capabilities, such that the small size of the enterprise provides it with little bargaining power and makes it vulnerable to threats in the external environment (Hannan and Freeman 1984).

However, while the liabilities of newness and smallness focus on characteristics of the organization, by contrast, characteristics of the entrepreneur can also impose additional challenges. For example, the poor confront the same types of obstacles as do others when launching a venture. However, they often must overcome an additional set of burdens rooted in their experience with poverty (Bruton et al. 2013; Morris et al. 2018a; Nakara et al. 2019). In this paper, we approach this additional struggle as the “liability of poorness.” It is a multi-dimensional construct that includes literacy issues, a scarcity mentality, intense non-business pressures, and the lack of any sort of safety margin. The collective impact of these challenges has profound implications for the nature of the venture that the low-income entrepreneur creates. They also impact how the liabilities of newness and smallness as well as the performance and sustainability of the enterprise.¹

¹ While many businesses launched by those in poverty could be labeled “self-employment ventures” and by definition not automatically considered “entrepreneurial ventures” in the traditional sense, we keep the term “poverty entrepreneur” in alignment with Morris et al. (2015) who stressed the importance of every size venture contributing to economic development as an entrepreneurial venture. In addition, Morris and Kuratko (2020) argue that entrepreneurs create different type of ventures, including survival, lifestyle, managed growth, and aggressive growth, and that there are elements of entrepreneurial behavior involved in creating each, while the level of entrepreneurship or entrepreneurial orientation is progressively higher in moving across the four venture types. Thus, a self-employed venture is considered to be entrepreneurial in this article.

Our purpose with this paper is to introduce and explore the concept of liability of poorness and its underlying dimensions. We investigate how the liability of poorness affects the fragility of ventures launched by those in poverty. Fragility, in this context, refers to the venture’s vulnerability to inherent obstacles and unexpected shocks and its limited capacity to cope with adverse conditions (Den Hann et al. 2003; Hollow 2014; Penh 2009). The paper proceeds as follows. We first employ disadvantage theory to establish an underlying foundation for work on the effects of poverty and entrepreneurship. The challenges of survival in early-stage ventures are then examined with the roles of liability of newness and liability of smallness highlighted. It is argued that the poor are less able to overcome difficulties associated with newness and smallness because of the liability of poorness. The liability of poorness is defined and its underlying dimensions are described. We propose that failure to overcome the liability of poorness can result in a more fragile enterprise, which we argue is manifested in the behaviors of low-income entrepreneurs, venture dynamics, and venture outcomes. Implications are drawn for theory and practice, and priorities are established for ongoing research.

2 Poverty and entrepreneurship: theoretical underpinnings

Disadvantage theory (Light 1979) posits that experiences of economic exclusion, labor market disadvantage, and discrimination (e.g., racial, religious, ethnic, or based on gender, age, or a disability) provide a motivation for and barrier to entrepreneurial action. Disadvantage can serve to enhance the relative attractiveness of entrepreneurship, particularly where the disadvantage results in either unemployment or subpar wages. The nature of their circumstances impels risk assumptive behavior. This theory has been used to explain the entrepreneurial actions of women, immigrants, and minorities in different contexts (Boyd 2000; Cooper and Dunkelberg 1987; Horton and De Jong 1991; Light and Rosenstein 1995). In developing countries, disadvantage theory is used to explain increased entrepreneurial activity resulting from a pattern of over-urbanization as rural residents move to cities to pursue non-existent jobs (Light 1979).
Light and Rosenstein (1995) suggest that, while disadvantage matters, there is not a proportionate relationship between how much disadvantage a particular group experiences and the level of entrepreneurial activity demonstrated by that group, such that the most disadvantaged groups are always the most entrepreneurial. Rather, they argue that regardless of its aggregate level of entrepreneurial activity, as the amount of disadvantage being experienced by a given group increases over time, that group is likely to engage in more entrepreneurial activity.

Importantly, disadvantage plays a dual role when it comes to entrepreneurship. When an oppressed group lacks resources, resource disadvantage keeps them from launching businesses or pushes them into the informal sector (Boyd 2000). Furthermore, when attempting to launch a business, a highly disadvantaged group may face other barriers (e.g., unique legal obstacles, threatening actions from other groups, discrimination from lenders and consumers) (Herring 2004). This has been referred to as the “economic detour” variant of disadvantage theory (Butler 1991), and suggests that disadvantage can both incentivize and dampen levels of entrepreneurship.

Poverty is a key indicator of economic exclusion and is an underlying characteristic of many of the groups examined in disadvantage studies (e.g., Boyd 2000; Butler 1991; Herring 2004). The disadvantage associated with poverty goes well beyond severe financial constraints (Wilson 1996). Other contributing characteristics of the poverty experience include the following: substandard literacy levels and school drop-out rates well above the norm (Hernandez 2011); lack of employment opportunities and underemployment in labor-intensive and often part-time jobs with no benefits (Morris et al. 2018a); inadequate housing conditions and undernutrition (Morland et al. 2002); food insecurity (Piaseu and Mitchell 2004); chronic medical conditions and early child mortality (von Braun et al. 2009); teenage child-bearing and single parenthood (Maldonado and Nieuwenhuis 2015); lack of dependable means of transportation (Chetty and Hendren 2016); constant fatigue (Tirado 2015); physical insecurity (Chronic Poverty Research Centre 2009) segregation from much of the rest of society (Wilson 1996); and limited social networks (Weyers et al. 2008).

In recent years, there has been growing interest in poverty and entrepreneurship, and particularly in the role of venture creation as a pathway out of poverty (Amorós and Cristi 2011; Bruto et al. 2013; McMullen 2011; Slivinski 2012; Kimmitt et al. 2019). However, we know relatively little regarding how disadvantages that derive from the nature of poverty affect new venture creation. Smith-Hunter and Boyd (2004) have suggested that labor market disadvantage coupled with resource disadvantage explains a tendency for the poor to create survivalist or very marginal types of enterprises. Morris et al. (2018a) argue that poverty conditions lead the poor to launch “commodity” ventures that lack differentiation, must compete on price, are labor-intensive with high unit costs, earn small margins, lack technology and sophisticated equipment, purchase in small quantities, and have very limited capacity.

As we shall see, disadvantage is likely to make the ventures of the poor more vulnerable and fragile, particularly when making bad decisions or encountering shocks and adverse circumstances. Vulnerability here refers to the potential for a substantial downturn in the well-being of a venture or the jeopardizing of its existence because of an inability to deal with risks when faced with threats (Van Ginneken 2005). This loss in well-being can be financial as well as emotional, psychological, and physical. While vulnerability suggests a potential weakness that could result in loss, fragility concerns how easily (the likelihood that) something can be damaged or broken and a loss incurred (Porter 2015).

As a dispositional property, fragility has been examined in various contexts (e.g., ecology, physical objects, buildings and structures, nations, personal health, race relations). It would seem especially relevant in describing the entrepreneurial ventures created by those in poverty. The limited literature on organizational fragility emphasizes how external dislocations make firms with risky balance sheets and little in the way of liquid assets more subject to financial collapse or bankruptcy (Cueva et al. 2017; Den Haan et al. 2003). With little margin for error, adverse circumstances can render the organization unable to fulfill its core functions (Wiklund et al. 2010).

To better understand how the characteristics of poverty can contribute to the high fragility of businesses launched by the poor, it is helpful to first consider the inherent challenges in launching new ventures, and then to examine how these challenges are magnified by the poverty experience.
3 Key liabilities surrounding venture creation

The entrepreneurial journey is unpredictable, uncontrollable, and often tumultuous (McMullen and Dimov 2013). Many of the entrepreneur’s initial assumptions and expectations prove to be wrong. Lacking experience and relying on incomplete information, misinterpretations and errant judgments, and inappropriate decisions are made. At the same time, the entrepreneur encounters various sources of resistance from competitors, customers, suppliers, regulators, distributors, financiers, and even family members and friends, and tends to underestimate what it will take to overcome these obstacles. In addition, unexpected events take place in the external environment that impact the business.

These challenges are captured in what are termed the liability of newness and the liability of smallness. In this context, a liability refers to something that causes difficulties and undermines the likelihood of success (Hannan and Freeman 1984). While these two liabilities share some common ground, their effects are distinct (Wholey and Brittain 1986).

The liability of newness focuses on factors that explain why new ventures have a higher propensity to fail compared with established, incumbent organizations (Baum 1996; Stinchcombe 1965). Internally, newness means that those involved must learn new roles with which they are unfamiliar. The organization lacks the routines, standardized procedures, and problem-solving strategies that could increase efficacy and ensure consistency in daily operations. And when new firms can engage in often costly efforts to create routines (Gong et al. 2004), it often results in inefficient and unproductive operations, especially where the venture has limited resource slack (Baum 1996; George 2005). Externally, new firms struggle to establish legitimacy, defined as “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman 1995, p. 211). New businesses can find it difficult to establish legitimacy with a range of stakeholders, including customers, suppliers, distributors, financing agents, regulators, and competitors (Fisher et al. 2017).

The liability of smallness captures the vulnerability of a new venture resulting from limited resources and capabilities (Aldrich and Auster 1986; Hannan and Freeman 1984). The venture suffers a lack of internal resources and has difficulties accessing external resources (Santos and Morris 2017). Smallness makes it difficult to attract and retain highly skilled and talented employees (Aldrich and Auster 1986). It lessens the entrepreneur’s bargaining power when negotiating with suppliers and makes it difficult to achieve the economies in production and distribution (Crook and Combs 2007). Operations are further hindered by insufficient working capital, which also constrains the ability to act on emergent opportunities (Lefebvre 2020). Over time, managing under conditions of smallness can be self-reinforcing, encouraging the formation of attitudes and behaviors that serve to keep the business small (Anderson and Ullah 2014).

Little attention has been paid to the implications of the liabilities of newness and smallness for different categories of entrepreneurs (Morris et al. 2018a, b), and most notably, those who come from poverty conditions. Yet, addressing these liabilities can be an especially problematic undertaking given the disadvantages associated with the poverty experience. In effect, poverty imposes an additional liability on someone attempting to launch a business.

4 The liability of poorness

The liabilities of newness and smallness must be addressed by every entrepreneur. And many entrepreneurs launch ventures with very limited resources. But the ability of the poor to deal with these liabilities can be compromised by the profound effects of ongoing exposure to poverty. As such, they confront a third liability, which we label the liability of poorness. We define this concept as the potential for failure of a new venture that is associated with problems the entrepreneur struggles to adequately address because of characteristics and influences deriving from a poverty background. In effect, the liability of poorness puts the individual at a relative disadvantage compared with other entrepreneurs.

The liability of poorness increases the risk exposure a low-income person has when launching a venture. An individual who is already at risk of bad or deficient outcomes in their life (Blakely et al. 2005; Robbins et al. 2012) is essentially taking on additional risk. However, this additional risk is greater than it would be for a non-poor individual who is starting a business. Based on the common characteristics of poverty described earlier, the liability of poorness has four
underlying dimensions that contribute to heightened risk and vulnerability (see Fig. 1). These include literacy gaps, a scarcity mindset, intense personal pressures, and the lack of any financial slack or a safety net. We explore each element next.

**Literacy gaps** Literacy is “the ability to identify, understand, interpret, create, communicate and compute using printed and written materials associated with varying contexts. (It) involves a continuum of learning in enabling an individual to achieve his or her goals, develop his or her knowledge and potential, and participate fully in community and wider society” (UNESCO 2005, p. 21). This comprehensive perspective is consistent with the emphasis by Morris et al. (2018a) on the roles of five inter-related literacies when considering the poor. These include functional (reading, writing, numeracy, communication), financial (understanding how to budget, save, manage credit and debt obligations, make financially responsible decisions), economic (understanding economic incentives and disincentives, supply and demand conditions, and the costs and benefits of alternative courses of action), business (mastering the language of business and how to effectively interact with various stakeholders), and technological (an appreciation for the significance of key technologies impacting a business, how to use these technologies, and an understanding of the issues raised by their use) literacies. Arguably, these five literacies are more important than any other resource when starting a business. Yet, the evidence is clear that the poor suffer from low literacy levels both in developing and developed countries (Ahmed 2011; Hernandez 2011; Wilson 1996).

**Scarcity** A person in poverty lives with constant scarcity. Lack of money forces the individual to make trade-off decisions in determining which bills to pay, such as whether to buy medicine for a sick child or cover this month’s rent. Furthermore, he or she confronts a scarcity of time and energy, such as when attempting to raise children as a single parent, work two part-time jobs, and simultaneously start a business. Ultimately, the poor face a scarcity of options and choices. The available evidence suggests that those with severely limited resources will more exclusively focus on accomplishing the most pressing tasks at hand while ignoring other critical tasks—even where doing so takes away from the ability to achieve larger goals (Shah et al. 2015). Immediate problems, those where scarcity is typically most salient, consume a disproportionate amount of their time, effort, and limited financial resources (Mani et al. 2013). By allocating attention to immediate needs, the individual is apt to ignore other needs and may pursue actions that are costlier or detrimental in the longer term. Shah et al. (Shah et al. 2012, p. 682) conclude that “resource scarcity creates its own mindset, changing how people look at problems and make decisions.” When launching a venture, such a mindset can work against the ability to plan or think strategically, especially in a manner that anticipates and prepares for unexpected occurrences and emerging threats. The long-term potential of the new business enterprise is

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**Fig. 1** The concept of liability of poorness and its components

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compromised due to attentional shifts and a tendency to rely on locally convenient responses (Delmar and Shane 2003).

**Personal pressures** The ability of a poor individual to establish a venture is also compromised by ongoing and occasionally extreme personal (unrelated to the business) demands placed on the entrepreneur. Time pressures on the poor have been explored by various researchers (e.g., Chatzitheochari and Arber 2012; Dermott and Pomati 2016). If one’s family is exposed to more chronic medical problems, difficulties paying for basic needs, threats of foreclosure or eviction, high crime rates and gang violence, unexpected job losses, and similar everyday pressures, large amounts of time can be consumed. Such developments can distract the entrepreneur or take time away from addressing business needs. If we consider the ventures of the poor, they are frequently labor-intensive operations heavily dependent on the entrepreneur to both manage the business and also perform the core work (e.g., construction, cleaning, cooking) of the business. A major personal or family problem can require that operating hours be reduced, key decisions be compromised or deferred, and resources be taken out of the business. Similarly, the quality of business may suffer as the entrepreneur is distracted by these outside developments (Shepherd and Haynie 2009).

**Lack of financial slack** The final contributor to the liability of poorness is the lack of financial slack, meaning that an individual is absent any sort of safety net when major obstacles are encountered or unexpected developments occur. Financial optimism can be a crucial factor in entrepreneurial ventures (Dawson 2017). The entrepreneur has typically put all of his/her financial resources into the venture, and there are no remaining savings to draw upon (Barr and Blank 2009). Friends and family members also lack resources to help out should the business get in trouble. Beyond this, the entrepreneur has a limited social network. He or she struggles to qualify for any sort of bank debt or other sources of outside finance, and if they have credit cards, these are at their credit limit (Bates and Robb 2013; Littwin 2008). The venture itself also fails to contribute to the entrepreneur’s financial slack. These ventures frequently operate at the margin (Morris et al. 2018a). Capacity is limited, as the entrepreneur may be working from home, a vehicle, or stall, and is not able to employ much in the way of equipment of technology in operations. Competitive conditions keep prices low, and when combined with relatively high unit costs, result in slim profit margins. Inventory levels are also low. Marginal operations limit the ability to build cash reserves or generate retained earnings that can be reinvested in the business or flow back to the entrepreneur. Taken together, lean personal and business circumstances leave the entrepreneur without any buffer or room to maneuver when financial difficulties arise.

The four dimensions of the liability of poorness interact with one another. For instance, the short-term focus and struggles to plan or think strategically that result from a scarcity mentality are reinforced by the distractions posed by intense personal pressures. Failure to plan can also contribute to the lack of financial slack or a safety net, which in turn leads to more conservative and short-term decision-making. Literacy shortcomings are likely to encourage a focus on the immediate while hindering the ability to create slack in the organization through investments in equipment and technology. When combined, these four factors can impose a burden on the poverty entrepreneur that influences the ability to address the liabilities of newness and smallness, the kind of venture that emerges, and venture outcomes.

Others who have not experienced poverty can encounter aspects of each of these dimensions. However, for the person in poverty, the likelihood of all four factors operating in tandem is high. They are conditions in which the poor tend to be immersed prior to the launch of a venture, often for all of their lives. As a result, overcoming them once the business is operating places unique demands on the entrepreneur, and for some can represent an insurmountable challenge.

5 Liability of poorness, fragility, and venture dynamics

The burden posed by the liability of poorness varies. The poor differ in terms of the extent to which they experience lower levels of literacy, an immediate-term orientation, personal pressures, and little financial slack or safety net. In addition, certain types of businesses may perform adequately in spite of one or more of these risk factors. However, for most new ventures started by the poor, as this burden increases so too does their fragility. They become more vulnerable to external...
threats, their ability to provide core functions declines, and the likelihood of failure increases. They have no buffer that allows them to withstand the adverse impact of external threats.

To better appreciate how the liability of poorness affects an entrepreneur’s ability to succeed, let us consider how these four underlying dimensions are associated with the problems of newness and smallness (see also Table 1). Consider the implications of gaps among the poor in the five literacies. Gaps in functional and business literacies can make it difficult to communicate effectively with prospective employees, suppliers, distributors, and others, increasing the difficulties in establishing legitimacy with stakeholders. Even fundamental tasks such as obtaining permits, registering the business, and tax compliance can seem overwhelming. Organizational learning and the entrepreneur’s understanding of how to develop routines and procedures can be hindered. A person with less functional, technological, and financial literacy may have limited capabilities when it comes to particular organizational tasks, less familiarity with roles, and an inability to incorporate basic technologies into operations, all of which can produce inefficiencies in operations. These combined literacy gaps can make it harder to realize how to achieve economies in procurement, production, and distribution.

With a scarcity mindset, the entrepreneur is focusing on immediate problems and short-term needs, in effect ignoring or putting off other business decisions. The result can be inefficiencies in the areas not receiving attention, particularly if deferring things results in higher unit costs. A lack of strategic thinking can result in legitimacy problems, especially when stakeholders are aware of emerging challenges for which the entrepreneur appears unprepared. A preoccupation with immediate problems can also mean that the entrepreneur is not developing knowledge and capabilities associated with key roles that must be filled within the enterprise, particularly when these roles are unrelated to the problems at hand. Without the planning that comes with a longer-term focus, the firm cannot begin to achieve economies in procurement and production. Such planning is also critical for the development over time of effective routines and procedures.

When intense personal pressures distract the entrepreneur from attending to the needs of the venture, legitimacy can suffer as stakeholders question the entrepreneur’s dedication to the enterprise. Lack of complete focus on the enterprise is likely to produce inefficiencies in operations, less learning, reduced planning, and reduced bargaining power with external stakeholders. Activities associated with key roles in the enterprise may not receive attention. In addition, such distractions could undermine the ability of the entrepreneur to ensure that key routines have been formalized and are followed.

The lack of any financial slack or a safety net can make it more difficult to attract financial resources, particularly when the organization has had to under-invest in assets, and financial statements indicate little in the way of owner’s equity. Without any cushion in terms of personal savings or cash on hand, stakeholders become more aware of the financial vulnerability of the enterprise, especially with regard to a major threat or setback, which can detract from its legitimacy. Suppliers may use such vulnerability as a reason to impose more restrictive terms on purchases. Operating on a thin margin with no reserves, the entrepreneur can be forced to limit inventory levels and make smaller purchases. Overly conservative spending then reduces bargaining power and limits the firm’s ability to achieve economies in operations.

As the liability of poorness raises the hurdles that must be overcome, it makes the ventures of the poor especially fragile. This fragility is most evident when an entrepreneur makes a questionable decision that is especially costly or encounters a major setback caused by some external development. It is not simply the case that the entrepreneur has greater exposure when such events occur. Fragility means that the negative impact of these developments on the venture is likely to be more severe.

An example can be found in the high vulnerability of these businesses during the COVID-19 economic crisis. Orders quickly dry up, contracts are canceled, and sources of support disappear. Fragility is then reflected in their inability to afford inventory, pay bills, meet payroll demands, serve customer needs, hold on to employees, maintain marketing efforts, and sustain relationships with external stakeholders. Lack of cash flow ultimately forces the business to reduce capacity, sell off assets, and otherwise lessen the venture’s ability to create value. The firm becomes less competitive and less economically viable. Even as the crisis passes and opportunities begin to appear, the firm may be unable to capitalize upon them. Many poor entrepreneurs fail, and of those that survive, only a small percentage will ever get back to where they were before.
| Liability of poorness dimension | Liability of newness and smallness characteristics | |
|---|---|---|---|
| Literacy gaps | Lack of legitimacy | Weak bargaining power | Lack of routines/procedures | Non-familiarity with roles |
| Scarcity mindset | Problems understanding and using bargaining position | Learning that would facilitate routines is hindered | Focus on immediate problems means less learning of key roles |
| Personal pressures | Literacy problems limit the use of technology in venture | Functional & financial literacies needed to work resource providers | Literacy shortcomings take away from developing key capabilities |
| Lack of financial slack (no safety net) | Inefficiency in operations | Lack of resources/capital access | Lack of established capabilities |
| | Resource providers expect to see projections, plans, and a forward focus | New skills difficult to develop if preoccupied with immediate needs |
| | Under-investment in labor-saving mechanisms & technology | Difficult to learn new capabilities if continually distracted |
| | Under-investment in labor-saving mechanisms & technology | Resources harder to attract due to lack of savings assets, margins |
| | Insufficient time for creating routines & procedures | No extra time or money to invest in personal development |
Based on Van Metre (2016), a resilient venture is one able to absorb, adapt, and transform in ways that allow it to continue providing the core functions of the business when confronting shocks and stresses. Elements that can make a venture more resilient include things like planning for contingencies, social networks and social support, financial slack, a loyal customer base, strong supplier relationships, adaptability, and establishing problem-solving routines that allow for flexibility (Avery and Bergsteiner 2011; Dahles and Susilowati 2015; Linnenluecke 2017). In the scenario above, elements that might enable a venture to withstand the economic crisis are directly compromised by the liability of poorness. As we have seen, the liability of poorness can result in a lack of planning, weak legitimacy with stakeholders, missing problem-solving routines, inefficiencies, non-business distractions, loss of flexibility, and absence of a financial buffer—all elements that limit venture resiliency. With the ventures of the poor, fragility and resiliency arguably co-exist, while also working against one another (De Boer et al. 2016). When the risk factors that cumulatively produce fragility become so great, they take away from and eventually overwhelm elements that contribute to resiliency.

Finally, we should note that aspects of the poverty experience can also help an individual learn to be more resilient, in effect offsetting the liability of poorness. Fergus and Zimmerman (2005) find that individuals in poverty can learn to mobilize resources as they are exposed to hardship in ways that better prepare them for subsequent risks. Zolkoski and Bullock (2012) explain that “with continued exposure to adversity as youth age and mature, their capacity to thrive despite risks increases.” The development of this capacity appears more likely when confronting moderate, as opposed to extreme, risks although its effects have not been examined in a new venture context.

6 Conclusions and implications

A robust and compelling literature in entrepreneurship has identified the burden confronting new ventures inherent in the liability of newness and the liability of smallness. This literature focuses on the characteristics of the organization, in terms of age and size. By contrast, this paper has shifted the lens of analysis to characteristics of the individual. It is not only characteristics of the organization but also the individual entrepreneur that impose challenges to entrepreneurial performance, such as viability and sustainability. In particular, by focusing on the extent to which entrepreneurs are impoverished, the internal and external challenges which feed the liabilities of newness and smallness gain additional complexities in ventures started by the poor, placing them at a disadvantage. The liability of poorness captures this additional burden. It can force the entrepreneur to start smaller, develop more slowly, and be more conservative in decision-making. It produces a more fragile business, undermining the ability to survive shocks, disruptions, and setbacks.

Poverty entrepreneurs can be expected to vary in terms of how much liability of poorness they must overcome. Some will start a venture with relatively higher literacy levels, less of a scarcity mentality, fewer outside pressures, or more reserves they can draw upon. They are essentially in the same position as any other entrepreneur. Others may experience all of these elements to such an overwhelming extent that they make little progress in getting a venture off the ground. They remain stalled in writing a business plan, getting permits and licenses, or figuring out how to attract customers.

There are arguably no aspects of the venture creation process that are not potentially affected by the liability of poorness. Its effects can be found in decisions ranging from what is being sold, at what prices and involving which customers to equipment purchases, where the business operates from, whether it is formally registered, and how much money is taken out for personal use. Furthermore, it can have a compounding effect, as decisions in one area delimit the possibilities in another area, which in turn constrains yet other aspects of business operations. This brings us to what is perhaps the greatest implication of the liability of poorness. It has the potential to become reinforcing and to have a circular effect, where a person struggling for personal survival creates a survival venture, or one that lacks assets, generates enough revenue to pay this week’s bills, fails to develop a number of key business competencies, struggles to build a positive reputation, and remains highly fragile. Their marginal status makes it harder to attract customers, employees, and suppliers. Stated differently, the venture does not provide a pathway out of poverty and may ultimately serve to worsen the individual’s financial situation.

Another possible outcome of the liability of poorness is a fear of growth, despite the fact that growth can be critical for overcoming the liabilities of newness and
smallness. Consistent with the work of Tversky and Kahneman (1979) on prospect theory, these entrepreneurs become more concerned with avoiding loss when faced with opportunities for gain. Because the poor entrepreneur must overcome a greater set of challenges to get a venture up and running, the priority is to hold onto whatever gains or progress the individual has already made. This makes the entrepreneur hesitant to buy major equipment, consider new markets, or take on larger or more complex orders.

This brings us to the question of how long-lasting are the effects of the liability of poorness. While for some it is a burden the entrepreneur never completely overcomes, many in poverty are able to build ventures that become sustainable, achieve growth, and prove to be quite resilient. As the factors contributing to the liability of poorness work against resilience, it is likely that these entrepreneurs, over time, become more self-aware of their literacy gaps, their failure to adequately plan, or think beyond the immediate, as well as their time and resources spent on personal distractions, and realize how these factors are holding back the venture. And for some, as they work in the venture, intentionally or unintentionally, they are able to remove risk factors associated with the liability of poorness. They improve their financial literacy by focusing on patterns with costs or studying simple financial statements. They enhance their technological literacy by experimenting with new software products or technical equipment. They learn to save and put money back into the business and begin to create annual budget plans for the next year or two. They find ways to address non-business demands without compromising the needs of the business. They employ entrepreneurial hustle to overcome unexpected uncertainties (Fisher et al. 2020). They steadily learn from trial and error. And, while fragility remains such that one major shock can destroy the venture, poverty entrepreneurs find ways to become more resilient.

Several other factors can contribute to resilience in a poverty context. Family variables represent a case in point. Amann and Jaussaud (2012) provide evidence that the businesses of families with more functional integrity and where there is clear separation of family tasks and issues from those related to work are more resilient when faced with crises. Family trust, family social capital, and strong social networks have also been tied to resiliency (Danes et al. 2009). Separately, Jang (2005) found that a repertoire of adaptive responses to disruptions that derive from facing frequent financial problems or stress can contribute to resilience. Another contributor is the psychological capital (including optimism and self-efficacy) of the entrepreneur and any employees (Luthans et al. 2010). Sutcliffe and Vogus (2003) stress the adaptability of the entrepreneur’s business model. Others emphasize improvisation and bricolage (making use of the resources at hand) capabilities (Duchek 2019; Yang and Danes 2015), both of which can be motivated by poverty circumstances (Busch and Barkema 2017; Linn 2013).

Finally, as the liability of poorness places the poverty entrepreneur at a relative disadvantage, it is important that we find ways to level the playing field. Unfortunately, the unique context of poverty is not well reflected in design of public policies or community action initiatives that seek to foster entrepreneurship (Morris and Tucker 2020). Instead, many of the available policies and programs prioritize the needs of those who are launching growth-oriented and scalable enterprises (Morris and Kuratko 2020). Hence, the initial challenge is to make venture creation by the poor a priority both in terms of policy formulation and in the activities of local entrepreneurial ecosystems (Kuratko et al. 2017).

Our work here can serve as a guide to these efforts moving forward. Specifically, addressing the relationship between the liability of poorness and venture fragility should be the central theme when designing training, incubation, mentoring, consulting, and resource support initiatives. These efforts must be built around the risk factors associated with literacy, an immediate-term focus, personal demands outside the business, and no safety margin. For instance, training in functional, economic, business, financial, and technological literacies, and their inter-relationships, must augment entrepreneurial training, while tools and concepts must be developed to reflect the unique learning needs of those creating survival and lifestyle ventures (Morris et al. 2018a). Vouchers to help low-income entrepreneurs address personal demands in such areas as child care, transportation, health services, and rent can help them concentrate their attention on their emerging business. The legitimacy and bargaining power of poverty entrepreneurs can be increased through set-asides for poverty entrepreneurs that are built into the procurement efforts of government, universities, and local companies; mentor-protégé programs that match the low-income entrepreneurs with established firms in their industries; and joint buying arrangements between ventures of the poor...
and established companies. Microcredit programs, government guaranteed loans, and community grants can be targeted to very early-stage ventures of the poor, where payouts are linked to meeting activity-based metrics over time. In this manner, they encourage the entrepreneur to think beyond immediate needs. They might also mandate that some percentage of monies provided be placed into savings accounts that are only accessible in crisis conditions. Consistent with the notion of a sharing economy, local communities can build pools of a range of different types of resources that poverty entrepreneurs can draw upon when their ventures are struggling. These are but a few illustrations of the ways in which efforts might be re-focused to address the liability of poorness.

7 Suggestions for future research

A number of new directions for research can be identified based on this discussion. Further insights are needed into the underlying dimensions of liability of poorness and their inter-relationships. It is our contention that it is necessary to consider the collective and interactive nature of literacy gaps, a scarcity mindset, intense outside pressures, and the lack of a safety margin, where the combined impact on venture dynamics exceeds the sum of the individual impacts. This contention requires empirical verification. In a similar vein, the relative contributions of each dimension to the overall effect of liability of poorness on entrepreneurial activity should be examined, particularly in different entrepreneurial contexts.

It would seem especially valuable to explore liability of poorness effects in developing and developed economies, as well as in environments that vary in their institutional support for entrepreneurial activity. Another key contextual variable is gender, as women are particularly susceptible to economic and gendered poverty constraints (Castellanza 2020). Also relevant are the poverty struggles of ethnic and racial minorities across the globe (Shepherd et al. 2020), and whether ethnic or minority status serves to increase the liability of poverty.

As a variable phenomenon, the liability of poorness is likely to have differential impacts on the tendency to launch ventures, the kinds of opportunities pursued by the poor, the most common mistakes made by these entrepreneurs, venture performance outcomes, and failure rates. These relationships require investigation. It is also important to determine how different levels of poverty (e.g., marginal, extreme) impact the amount of liability confronted by entrepreneurs, and the corresponding levels of fragility that result. Furthermore, in the presence of moderate to high levels of the liability of poorness, what factors contribute to any demonstrated resilience on the part of the low-income entrepreneur? How and under which conditions can poverty entrepreneurs overcome the liability of poverty?

Addressing these research questions suggest the need for a validated measure of liability of poorness. While measures of functional, financial, and economic literacy exist and can be adapted (e.g., Hauser et al. 2005; Huston 2010; Wood and Doyle 2002), it is important to address all five literacies. To assess a scarcity mindset, it may be possible to adapt measures of perceived scarcity (Suri et al. 2007) or the measures of scarcity used in the experimental designs (e.g., Shah et al. 2015). With intense personal pressures, work on distractedness (Falato et al. 2014; Horrey et al. 2008) is promising in terms of measurement. Lastly, various measures exist to capture personal financial constraints (e.g., Bruder et al. 2011) which might be adapted to capture the lack of financial slack of a safety net.

Longitudinal perspectives are needed on the ventures of the poor, especially in developing a richer understanding of how the liabilities of newness, smallness, and poorness interact over time to affect business performance. Similarly, longitudinal research can capture how the liability of poorness affects the ability to perform core business functions over time, influences decision-making, and reduces competitiveness. Poverty is also a multilevel phenomenon and addressing poverty entrepreneurship requires both top-down and a bottom-up (i.e., institutional, venture, community, family, individual) perspectives. What policies may lessen the liability of poverty? What is the role of regional and local communities in alleviating liability of poverty? How do family interactions and roles matter for liability of poverty? There are numerous opportunities for multilevel theorizing and testing to further advance the current work.

8 Conclusion

Poverty can impose an additional burden on an entrepreneur, which we have labeled the liability of poorness. The disadvantages resulting from a combination of literacy shortcomings, a scarcity mindset, intense non-
business pressures, and lack of a safety margin place the poverty entrepreneur at a disadvantage. Where this liability is greater, the entrepreneur is left with reduced capabilities and less room to maneuver. It becomes more difficult for them to address the challenges of newness and smallness. Their ventures are likely to be more fragile and suffer higher failure rates. They become especially vulnerable when faced with external threats and disruptive shocks such as the economic crisis resulting from the COVID-19 pandemic.

Despite their complexities, the factors contributing to the liability of poorness are addressable shortcomings, and the ventures of the poor can be made less fragile. Solutions may be more readily available for addressing literacy shortcomings and building financial flexibility or slack into the business. Changing a scarcity mindset into a strategic orientation can be a more involved undertaking, and likely involves an incremental process of changing planning horizons and the ways in which decision variables are prioritized and trade-offs are made. Finding ways to balance external demands with the internal needs of the business is not simply about focus, discipline, and time management, as many of these external demands are driven by problems that require policy solutions and community infrastructure investments (e.g., in health care, crime, and housing). In addition, addressing any one of these factors, such as literacy, may contribute to resolving the other factors. It is also likely that resolving any of these factors becomes harder as the venture unfolds, and a certain path dependency has set in. As such, interventions with poverty youth and nascent entrepreneurs become important.

Alarm and concern has been expressed in recent years to the growing extent of poverty and income disparities. The costs of poverty incurred are typically reflected in terms of a lower standard of living, lower growth rates, greater unemployment, a decrease in life expectancy and higher crime rates (Sachs 2006). This paper has identified an additional cost of poverty—a reduction in the reliance of entrepreneurs, ultimately weakening the positive impact that entrepreneurship can have on the economy on society. Because poverty inherently weakens entrepreneurial capabilities, it also has a commensurate disparaging impact on economic and social well-being. Thus, concerns and policies for mitigating poverty also need to address the liability of poorness confronting impoverished entrepreneurs.

In bemoaning the plight of the impoverished, Porter (1995) looks to entrepreneurship to fuel the competitive advantage of inner cities, “The economic distress of America’s inner cities may be the most pressing issue facing the nation. The lack of businesses and jobs in disadvantaged urban areas fuels not only a crushing cycle of poverty but also crippling social problems, such as drug abuse and crime. And, as the inner cities continue to deteriorate, the debate on how to aid them grows increasingly divisive.” However, an important implication is that entrepreneurial efforts by the impoverished come with inherent burdens which ultimately undermine their viability and sustainability. Just teaching the impoverished to be entrepreneurial may not suffice in overcoming the liability of poorness.

In the final analysis, the liability of poorness offers rich opportunities for ongoing scholarly work. Each of its dimensions can affect how the liabilities of newness and smallness are dealt with, and raise questions regarding how they might more effectively be approached when operating from a position of disadvantage. As a critical driver of the vulnerability and fragility of ventures launched by the poor, the liability of poorness holds the key to helping the poor create sustainable enterprises, and enhancing their resiliency when confronting adverse conditions. In the final analysis, the poverty experience likely influences the entrepreneur throughout their lifetime. The challenge lies in transforming it from a liability that puts the venture at risk into an asset that enables the venture to flourish.

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