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How Start-ups in Emerging Markets Succeed Despite Scarcity

When the going gets tough, bring on improvisation and learning.

2019 was a **record year of venture capital funding** for start-ups in emerging economies from Latin America, Africa to Southeast Asia. This year, well, it's safe to say the money is not exactly sloshing around, and the pace is likely to **remain depressed well into 2021**. Even though Covid-19 has opened up many possibilities, in edtech and fintech for example, entrepreneurs in developing markets will have to work harder to secure the resources they need.

In a *Strategic Entrepreneurship Journal* **special issue** I co-curated with **Maw-Der Foo** and **Brian Wu**, researchers highlight how emerging market start-ups mobilise resources under conditions a world apart from those in developed economies. Entrepreneurs in developing economies – as well as developed ones – would find insights contained in the issue's eight papers helpful in these lean times. What stand out in particular are ideas on how to do more with less as well as tapping community and other ties to obtain resources and reduce costs.

India: Creative improvisation

With only 0.55 beds for every 1,000 people, India's healthcare sector challenges its players to be creative and frugal with what they have. That pretty much sums up the concept of ***jugaad***, which roughly translates to improvising in scarcity. **Nivedita Agarwal** and her co-authors **investigated** how three social enterprises – Aravind Eye Care System, LifeSpring Hospitals and Ziqitza Health Care Limited – channel *jugaad* to rise above constraints while meeting community needs.

One thing these organisations had in common were cost-friendly multipurpose assets, from hospitals and manufacturing facilities to external partnerships and employees. For example, Aravind used the manufacturing facility it set up to produce low-cost lenses for cataract surgeries to also make its own cheap sutures. LifeSpring relocated hospitals to slum areas in order to share ambulances and back-end operations. Ziqitza used its own ambulances for marketing efforts.

Employees were likewise given multiple roles. All three organisations prioritised hiring job seekers from poor or local backgrounds. Aravind recruited high school graduates from underserved areas and taught them to perform different tasks in its hospitals, camps and the manufacturing facility. LifeSpring hired auxiliary nurses with less experience instead of graduate nurses or midwives, and schooled them in several tasks across departments, ready to be deployed as needed. Ziqitza trained alternative medicine practitioners to be emergency medics, enabling them to earn more while the organisation bolstered its roster.

Uganda: Training as capital

Starting a new venture in a country where per capita income is 3 percent that in the United States can be a daunting prospect, but a little guidance might just nudge you over the finishing line. In an experiment conducted in Uganda, **Kim Marie Bischoff** and her colleagues **show** that entrepreneurship training could help young adults surmount financial constraints when starting businesses by honing their ability to identify and evaluate business opportunities, manage risks and generate positive cash flow.

A total of about 400 final-year undergraduates took part in the study. Half of them underwent 12 weekly, three-hour classes on business administration, psychology and entrepreneurship. This included four sessions on bookkeeping, obtaining capital and managing finances.

During the first session, the trainees formed teams that were each given US$100 to launch a new business. Their mission: make a profit by the end of the training period. The trainees didn't just go through the motions; they carried out actual entrepreneurial activities – identifying business opportunities, acquiring equipment and raw materials, handling debtors and creditors, and selling products or services to real customers. The control group (the other half of the participants) were also given US$100 to start a business but received no training.

The results show that, 18 months after the start of the programme, the training group were much more likely than the control one to be running a business. They were also more likely to be familiar with financial concepts such as profit margin, cash flow, sales cycle and returns on investment. The researchers concluded that entrepreneurship training improves aspiring founders' financial savviness, thus helping them to overcome capital constraints.

Fail fast, fail cheap

In Silicon Valley and other start-up hubs in the rich world, employees and other service providers – think accountants, lawyers or even landlords – are often substantively remunerated with equity stakes. Thanks to cultural acceptance of such remuneration, entrepreneurs can secure minimally necessary resources to test new venture ideas with relative ease. Several emerging markets including Beijing, Bangalore, Bandung and Nairobi are slowly adopting this Silicon Valley-style market-based ecosystem. But, taken together, emerging markets still lag behind considerably.

Unsurprisingly, entrepreneurs in emerging economies often mobilise valuable resources by appealing to the generosity and goodwill of family, friends and local communities – a non-market logic where action is motivated by and oriented towards a goal higher than (merely) making money.

The pandemic-induced scarcity may render this non-market logic more important in the short-run for budding founders in developed markets too, as it enables them to try out new ideas quickly and more cheaply. A good example is software development platform Github, which started life within the open source movement. Developers and partners from the open source community were likely involved in building the venture without direct monetary incentives.

So, entrepreneurs, cast your net for supporters further and wider – appealing to non-market logics of action in addition to the usual profit motive. If the purpose of your business is clear, regardless the prospects of success, help may be more readily available than you think.

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