

## Entrepreneurship and poverty reduction: A case study of Yiwu, China

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**Abstract** There has been a significant reduction in the number of desperately poor people in the world in recent years. A great deal of that reduction in poverty can be attributed in China. There is great potential for new insights for scholars, in looking more deeply into the Chinese experience in terms of entrepreneurship and poverty reduction. This paper employs an in-depth case study of how poverty was reduced through entrepreneurship and innovation in the eastern Chinese city of Yiwu. This study is a response to some scholars' call for more direct examination of businesses' involvement with the poor to shed new light on the emerging topic of the roles of business in poverty reduction. Moreover, this study reports on key factors, new insights, and experiences which have led to success in poverty reduction and contributes to theory and practice in this area.

**Keywords** Entrepreneurship · Innovation · Economic growth · Poverty reduction · Yiwu China

Poverty reduction represents an important challenge to scholars and policymakers everywhere. Though there has been much research in development economics (e.g., Perkins, Radelet, Lindauer, & Block, 2013; Rodrik & Rosenzweig, 2010), and

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economic history (McCloskey, 2010, 2013; Mokyr, 1992) to date, management scholars have not examined poverty reduction extensively, particularly in Asia (Ahlstrom & Ding, 2014). After decades of large-scale governmental-planning failures (Easterly, 2006, 2014) it now appears that small-scale individual innovation and entrepreneurship have emerged as pivotal factors in the struggle to reduce poverty (Ahlstrom, 2010; Ahlstrom & Ding, 2014; Baumol & Strom, 2007). Research in financial economics (Yunus, 2007; Yunus, Moingeon, & Lehmann-Ortega, 2010) and applied economics and entrepreneurship (Baumol, Litan, & Schramm, 2009; Yu, Hao, Ahlstrom, Si & Liang, 2014) has recently affirmed the importance of entrepreneurship the participation of the “bottom of the pyramid” consumers and the smart choices they are able to make about products and consumer welfare (Pralhad, 2004; Zhao, Gu, Yue, & Ahlstrom, 2013).

Taken as a whole, the developing world has made enormous progress in poverty reduction (Ahlstrom, 2010), and much progress in poverty reduction has been driven primarily by China (Ahlstrom & Ding, 2014). China was able to cut extreme poverty inside its borders by half between 1990 and 2010, raising more than 550 million people out of extreme poverty in the process (Clark, 2011). But what are the lessons for the 1.4 billion people worldwide still living in abject poverty? What elements of China’s experience in poverty reduction can be learned and shared with the people fighting extreme poverty elsewhere in the world? This paper seeks to answer those questions through a case study of the eastern Chinese city of Yiwu, and their coordinated (and local) efforts of addressing the poverty problem head on.

Poverty reduction in impoverished regions cannot merely rely on multinational enterprises, or the central government, but must depend on the local poor and their ability to plan and function on their own (Easterly, 2014). This paper employs an in-depth case study of how poverty was reduced through entrepreneurship and innovation in the city of Yiwu in China’s eastern Zhejiang province. The findings suggest that local entrepreneurs are quite capable of recognizing and taking advantage of market opportunities, perhaps more so than multinational corporations (MNCs) or other large, remote organizations or agencies. They have also shown they have a knack for discerning needs and providing their base of the pyramid (BOP) customers with useful new products that were previously beyond their reach, sometimes things so miniscule as to be beneath the notice of large organizations (Ahlstrom, 2010; Prahalad, 2004).

This study therefore contends that the greatest opportunities for the poor in their struggles to alleviate poverty derive from local efforts, particular their own ability to find and develop business opportunities. Above all, we argue that the crucial factor in their emergence from extreme poverty has been a fundamental change in the attitude and behavior of the poor themselves. Although prior studies have emphasized microcredit, skill training, and other external approaches to poverty reduction (Bruton, 2010; Bruton, Khavul, & Chavez, 2011; Khavul, Bruton, & Wood, 2009; Shao, 2008; Webb, Tihanyi, Ireland, & Sirmon, 2009), the key issue of how best to enable the poor to take advantage of such aid has rarely been dealt with in scholarly literature.

The current study makes three contributions to this important literature. First, whereas prior work primarily saw the poor as consumers (Karnani, 2007b; Prahalad, 2004, 2005), the current study shows how consumers, producers and prospective entrepreneurs alike among the poor can benefit from the entrepreneurial workings

within an economy, and even co-create ventures (Bruton et al., 2011; Yunus, 2007). The fact that the innovations created by entrepreneurial new ventures are often disruptive in nature allows local producers to create new product-markets or even new industries while further allowing local customers to buy cheaper products and significantly improve their standards of living, both through the new product and sometimes through the new, disruptive businesses that are created (Christensen, 1997; Hart & Christensen, 2002; Nordhaus, 1997; Schmidt & Druehl, 2008). Second, prior literature primarily considered external supports such as government actions, firm alliances, and microcredit (e.g., Khavul et al., 2009; Manolova, Eunni, & Gyoshev, 2008; Reynolds, 2012; Voicila, Declercq, Verdier, Fossorier, & Urard, 2010) as major tools for helping to generate the greatest reductions in poverty. This study adds insights as to how the dynamism of emergent individual and collective entrepreneurs coming from impoverished backgrounds can also help and may wind up inspiring the rest of their region's poor not only by providing useful affordable goods, but also by providing examples of how people from their own situation (and without external support), have managed to become successful. Third, we provide support for the argument that the poor must change their original passive attitudes, motivations, and static business models in order to continue to alleviate the region's poverty over decades (cf. McCloskey, 2007). Thus, we provide new insights and supports for the argument that vision of the poor for growth is critical to their success through the recognition and development of entrepreneurial opportunities. The insights derived from portions of China's experience may be useful in guiding poverty alleviation efforts in other developing countries as well (Ahlstrom, 2012). The paper thus responds to calls regarding the theory of the firm and what firms are able to do in response to societal problems, especially in emerging economies (Ding, Sun, & Au, 2014; Young, Tsai, Wang, Liu, & Ahlstrom, 2014).

## Theory background

It has long been recognized that efforts to create greater wealth can generally have a positive impact on poverty (Nasar, 2011; Sen, 1999). Academia has made numerous efforts to examine the root causes of poverty and to seek out potential solutions for reducing it. Early poverty theory generally adopted perspectives from sociology, economics, and political science to better understand poverty's relationship to cultural values (Landes, 1998; Weber 1988; Weber & Camerer, 2003), capital markets (Leff, 1976), family effects (Aldrich & Cliff, 2003), psychological factors (Chakravarti, 2006), technological development (Mokyr, 1992), institutions (Bruton, Ahlstrom, & Li, 2010; North, 1990), capital accumulation (van Zanden, 2009), and even geography (de Blij, 2012; Diamond, 1997). All of these approaches have shed light on part of the problem and challenge of poverty and poverty reduction at the regional or national level. But research on the key role of individual organizations and the entrepreneurs who founded these firms has often been lacking from the development economics discourse (Ahlstrom & Ding, 2014; McCloskey, 2013).

More recently, management scholars have started to link poverty reduction to the establishment of new ventures. Prahalad in his seminal book in 2004, *Fortune at the*

*bottom of the pyramid*, recognized the poor as a prodigious potential market for the world's global firms. The author further inferred that doing business with the poorest could help solve their poverty problems through innovative efforts to adapt products and services for the poor.

This BOP proposition has since been criticized for exploring the problems of poverty through the lens of developed-country MNCs and ignoring the potential bad side effects of marketing to the poor (e.g., Karnani, 2007a, b; Seelos & Mair, 2007). For example, Karnani (2007a, b) provided an in-depth case of a whitening cream product marketed by Unilever in Asia and Africa and pointed out the negative effects on local business that large MNCs can wreak on less-developed countries. In addition, there are two types of necessity-based entrepreneurship and effectuation-based entrepreneurship fighting against poverty at different levels that exist quite common in low-income countries. Other management scholars proposed an alternative approach for fighting poverty that focused on the poor as producers or entrepreneurs and proposed a number of solutions for encouraging their entrepreneurial efforts (Baumol & Strom, 2007; Karnani, 2007a, b; Khavul et al., 2009). These solutions had both their merits and their limitations. For example, microcredit was presented as a partial solution for the financial problems of small-scale informal business, but not even its most devoted advocates could claim that it could by itself guarantee the success of all microenterprises (Bruton et al., 2011; Khawari, 2004). Education and skill training did not necessarily result in more employment opportunities, although they were demonstrated to have increased the competitiveness and productivity of poor individuals in the job market (Karnani, 2007b). In general, there existed the problem that prior theories of entrepreneurship in less developed or developing economies often failed to address the issue of how the poor could start to visualize opportunities and to reduce poverty in their poor areas (McCloskey, 2007).

### **Model of poverty reduction**

In this study, we conducted an in-depth case study to explore the poverty problems in Yiwu in eastern China's Zhejiang province. Besides the classic entrepreneurial perspective, we were careful to launch an effort to explore issues through the disruptive innovation model. We argued that the success of poverty reduction the Yiwu area was largely determined by its disruptive business models. Prior studies of disruptive innovation identified a number of underlying mechanisms (incentive systems, capabilities, cognition and cost structures) of disruptive innovation, which helped us understand the role of peasant entrepreneurs as disrupters (e.g., Yu & Hang, 2010). In the literature on disruptive innovation, some scholars (e.g., Christensen, 1997; Danneels, 2002; Gilbert & Bower, 2002; Yu & Hang, 2010) suggested that customer-orientation is important for disruptive innovation and proposed that an innovation which specifically targeted low-end or potential customers with simpler, cheaper, and more convenient products could be successful (Govindarajan & Kopalle, 2004; Henderson, 2006). Subsequent studies further argued that disruptive innovation was also relevant to business models and the methods by which a product or service could be developed and produced, and packaged and delivered—often in a cheaper or simpler manner (Ahlstrom, 2010; Christensen & Raynor, 2003; Hart & Christensen, 2002).

In this study, we considered the poor as both consumers and producers and argued for a conceptualized business model of disruptive innovation that could be more concerned with how the people themselves changed their attitude to further discover potential viable customers as well as new business opportunities through the entrepreneurial process. For instance, Prahalad and Hart (2002) observed that the great bulk of India's poor often washed in rivers and other public water systems. A firm in India named Nirma created a new detergent product using local formulation to reduce the ratio of oil to water. Nirma then successfully commercialized the new detergent through a system of carefully tailored activities such as a low-cost manufacturing process and a broad though localized distribution network to attract low-end or other potential customers. In other words, Nirma's new detergent was not technologically superior to extant products, but it did disrupt the multinational giants such as Unilever. Although Unilever initially disregarded Nirma's disruption innovation, it eventually decided to respond by offering similar products.

The example of Nirma shows that low-end disruptive variations of often more expensive products offer value propositions to price-sensitive customers and thus penetrate the fringe or detach a small market niche from the mainstream. This example has great implications for the people at the BOP because it proves that disruptive innovation could encourage entrepreneurship, create new opportunities and jobs, and provide the poor with affordable products (Ahlstrom, 2010; Prahalad & Hart, 2002). In this way, disruptive innovation also works in its own way to fight poverty by turning the people at the BOP into customers and producers.

Still, perhaps no cases can be more appropriate than China's experiences in poverty reduction over the last few decades. At the end of the 1970s, people in Yiwu and many similar poor areas in China lived at or near subsistence levels and did not have purchasing power for products offered by MNCs. They were identified as unqualified market segments from the MNCs' perspective. It was the peasant entrepreneurs in rural China who opened up township and village enterprises and discovered new business opportunities and potential customers through the entrepreneurial process; furthermore, they produced commodities and created business systems for local Chinese poor people (Nee & Young, 1991). Although these commodities made in China were initially inferior in attributes valued by Western mainstream customers, their performance continuously improved and eventually came to be accepted by the global mainstream market. Nowadays, China has become the undisputed "factory floor for the world" and has lifted billions of local people from poverty; thus, China might provide great examples for the poor people around the world to use in their attempts to reduce poverty. Despite such salient progress, questions remain as to why and how China's peasant entrepreneurs, instead of MNCs and relatively well educated city inhabitants of China itself, were able to seize the opportunities for generating low cost innovation and so beat desperate poverty on such a great scale.

### **The case of Yiwu**

Just three decades ago, Yiwu was considered an example of desperate poverty in Zhejiang, a big Chinese agricultural province lying just to the southwest of Shanghai. Cohen (1993), He (2009), and Nee (1989) described Chinese peasants as those who

live in the rural areas and work on land assigned to them but the land was officially owned by the State. Despite conditions that might have expected to lead to failure, the Yiwu region today has been recognized as one of the greatest cases of poverty reduction through successful entrepreneurship in China.

However, the question that then arose was the matter of how the entrepreneurs in the region could have launched their initial family enterprises and businesses under conditions of such desperate poverty. How did these peasants also develop the capability to discover the opportunities and acquire key elements for their entrepreneurial success? We explored these questions through a case study including interviews and focus group and a factor analysis to generate and select information for answering these questions.

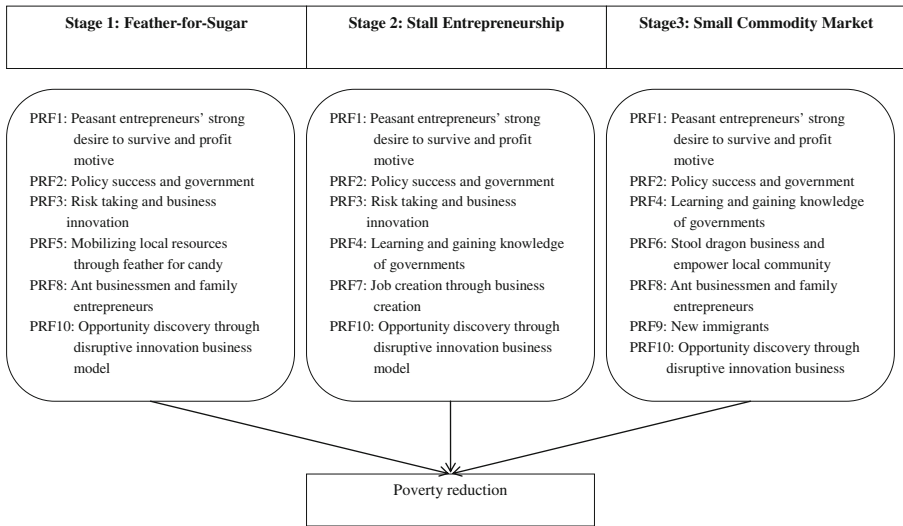
### Poverty reduction factors identification

Given the limitations in existing information regarding poverty reduction through entrepreneurship and innovation in Yiwu, it became initially important to ground this research in the reality of the local environment (Daft & Lewin, 1990). Without an understanding rich in facts about the environment, it would have been difficult to be certain that this investigation was truly examining the topic it claimed to examine (Daft & Lewin, 1990).

To gather helpful and relevant data, the current study interviewed a range of participants and policymakers—a total of 65 peasant entrepreneurs, senior government officers, state-owned enterprise (SOE) managers, and business professors in Yiwu. All of them were thoroughly familiar with Yiwu's poverty reduction process, the role of peasant entrepreneurs, and the history of Yiwu's economic development in recent years. We initially investigated, first, what real key factors relating to entrepreneurship had been most effective in the context of Yiwu's poverty reduction; and second, whether current models for poverty reduction such as the microfinance model or the United Nations Development Programme's (UNDP, 2008) new model for poverty reduction were applicable to a place such as Yiwu. As a result of the first phase of our interviews we generated more than 20 factors strongly related to the success of Yiwu's poverty reduction.

We then conducted eight focus groups in Yiwu and three nearby cities in 2012. The focus group participants consisted of 73 peasant entrepreneurs and 88 government officers, managers of local SOEs, and business professors. The focus group participants had an average age of 42 years and two to eight years of experience in the period during which Yiwu's annual per capita peasant income had grown from 136 RMB to 11,885 RMB in the course of the past 30 years. The average wage in the region's collective firms was 51,699 RMB in 2008, exceeding for the first time Yiwu's SOEs (Mao, 1989; see Appendix: Fig. 5).

In the focus group process, each member received a list of the factors we had collected from our earlier interviews, and were encouraged to review and discuss these factors. The focus groups enabled us to whittle down the number of factors by adopting the guidelines for generating an appropriate pool of items provided by Churchill (1979). In this study, the focus group process categorized the factors into three stages of the Yiwu entrepreneurs' fight against the region's poverty: (1) the feathers-for-candy stage; (2) the roadside-stall stage; and (3) the small-commodity-market stage. Each of the stages had a set of factors identified and categorized by focus group discussions and the results were summarized in Fig. 1.



**Fig. 1** Key factors and 3 stages of poverty reduction in Yiwu

In order to examine the importance and impact of the factors pertaining to poverty reduction, the focus group participants were encouraged to further discuss and to delete or add new factors to Fig. 1. In addition, focus group members were asked to independently evaluate the list of factors, and their answers were recorded on an eight-point Likert-type scale: the rankings ranged from 1 = no importance to 8 = very strong importance. Next, the current study conducted an exploratory factor analysis in order to statistically check the importance levels and differences of the factors for Yiwu’s poverty reduction. The extent to which each factor was compared with other factors is given by the factor loading. A factor analysis may allow the removal of items with poor psychometric proprieties (e.g., items with poor loading on the respective factors and/or those loading on multiple factors). Consistent with established practice, factor loadings of +/- .50 or greater were employed. The factor loading results generated 12 factors with the loadings of +/- .50 or greater and revealed the differences of the factors’ importance ranks to reduce poverty from the peasant entrepreneurs and the government workers (see Tables 1 and 2).

Tables 1 and 2 reveal that the key factors to poverty reduction in Yiwu and the differences in weighing these factors had been identified. All such findings helped poverty researchers to understand the approaches and experiences of poverty reduction in Yiwu. All focus groups were conducted in October 2012 and in December 2012 in three central districts of Zhejiang province.

## Results

The current study found that the struggle of Yiwu peasant entrepreneurs against poverty proceeded through three major stages of development and the specific Yiwu experience.

**Table 1** Results of exploratory factor analysis and major items of poverty reduction

Number	Item	Factor loading	Rank
1	Job creation through business creation	.64	7
2	Opportunity discovery through disruptive innovation business model	.70	3
3	Risk taking and risk management knowledge	.67	6
4	Learning and gaining knowledge of governments	.55	12
5	Interactive nexus between the peasant entrepreneurs and poverty people	.72	2
6	Stool dragon business and empower local community	.63	8
7	Peasant entrepreneurs' strong desire to change and survive	.74	1
8	Ant businessmen and small business	.68	5
9	New immigrants	.59	10
10	Resource creation and innovation	.61	9
11	People's hard work and diligence	.69	4
12	Market positioning success	.57	11

Factor loadings lower than  $\pm .50$  are omitted. Eigen values = 2.76

### Stage 1 Feathers for candy

From the 1950s through the early 1970s, Yiwu peasants did not have many resources (most of them subsisted on less than half a dollar a day). Because Yiwu is composed largely of mountainous terrain unsuitable for

**Table 2** Comparative factors importance to poverty reduction

Number	Poverty reduction factors	Means of importance		
		PE	GO	<i>p</i> -values
1	Job creation through business creation	5.31	7.84 <sup>P</sup>	**
2	Resource creation and innovation	7.27 <sup>P</sup>	6.70	n.s.
3	Opportunity discovery through disruptive innovation business model	6.99 <sup>P</sup>	6.53	n.s.
4	Learning and gaining knowledge of governments	4.83	6.19	**
5	Interactive nexus between the peasant entrepreneurs and poverty people	6.29	7.73 <sup>P</sup>	*
6	Stool dragon business and empower local community	6.61	6.05	n.s.
7	Peasant entrepreneurs' strong desire to change and survive	7.87 <sup>P</sup>	6.28	*
8	Ant businessmen and small business	6.98	6.31	n.s.
9	New immigrants	4.88	6.97 <sup>P</sup>	**
10	Risk taking and risk management knowledge	5.92	6.28	n.s.
11	People's hard work and diligence	7.09 <sup>P</sup>	6.82 <sup>P</sup>	n.s.
12	Market positioning success	6.41	5.10	*

\* $p < .05$

\*\* $p < .01$

*P* Priority



agriculture, a number of poverty-ridden peasants were forced to engage in trade activities and became peddlers<sup>1</sup> just to survive. They were the initial entrepreneurs who identified market opportunities and facilitated commodity exchange among local inhabitants. In China, after 1949, rural markets came under bureaucratic control and “speculation and profiteering” (*toujidaoba*) were considered serious political crimes, sometimes punishable by death. Still, Maoist bureaucratic control could not entirely prevail in such poor rural markets as Yiwu. In order to feed their families, Yiwu’s peasants persisted in taking many risks to preserve the peddling tradition that had them never stop seizing opportunities and using disruptive family-based innovative business models to create opportunities to make profit. Furthermore, it was also beneficial in that it enabled these peasants to provide necessary goods and services to their impoverished countrymen (Xu, 2002; Yang, 1979).

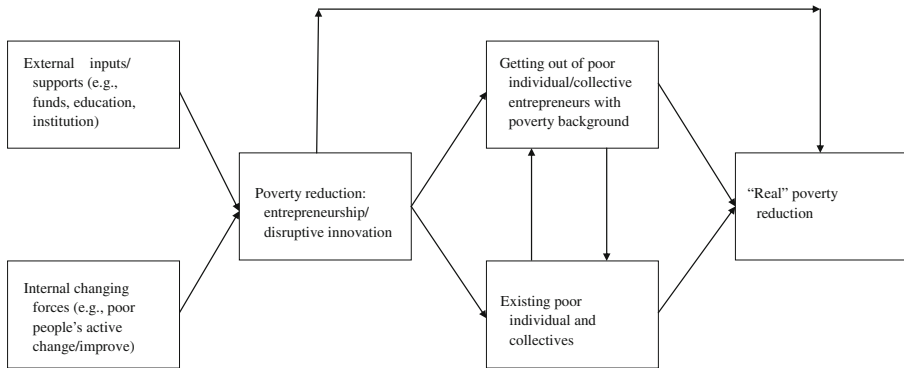
#### Stage 2 Roadside stall entrepreneurship

Sugar peddling was still considered illegal, but even so, the peasants used innovative approaches including disruptive innovation to overcome difficulties to undertake diversified entrepreneurial activities. For instance, a number of Yiwu’s peasants took the initiative of setting up stalls along the roadside during the Spring Festival in 1974. Unlike peddlers, the stall peasant entrepreneurs ran their businesses at fixed times and in places which were divorced from agricultural production. Working in such an informal economy accelerated the production and distribution of commodities and established links between peasant households and external markets (Nee & Su, 1990; Xu, 2002). On the other hand, the main focus of the country’s central government was still on encouraging peasants to join the communist party activities. While the local cadres would beat up members of peasant-initiated factories, stores, and other types of ventures from time to time, they partially acquiesced to the existence of small-scale stalls; such forbearance was perhaps due to the ambiguous economic classification of these stalls, and their benefits for small-scale agriculture. Such acquiescence from the local government left room for further growth of Yiwu’s peasant entrepreneurial activities. If the motive behind the “feathers-for-candy” trade was survival, the peasants’ motives at this stage involved not only the desire for mere survival but also the desire to accumulate and share profits.

#### Stage 3 Small commodity market

In the 1980s, approval by various layers of government of the “feathers-for-candy” trade led a number of male laborers to engage in entrepreneurial activities. This stage was the building of small commodity markets at both governmental and individual levels from 1982 to 1990. This stage was launched by an official statement issued by the state government in 1982

<sup>1</sup> They carried candy made out of sugarcane, one of the few cash crops that could be profitably planted in Yiwu, and exchanged it for chicken feathers and other commodities.



**Fig. 2** A conceptual model of the poverty reduction through entrepreneurship and disruptive innovation

that permitted local peasants to engage in business<sup>2</sup> (Forster, 2000). It indicated the involvement of local government in championing peasants' entrepreneurial efforts. In October 1984, local government explicitly proposed the strategy of promoting business to build the county and identified commerce and trading as pioneering industries in regional development. Granted such legitimacy, local peasants actively started up new ventures, which primarily took the form of family-owned small commodity trading companies. Unlike modern corporations in the West, such small family-owned enterprises had no corporate assets strictly distinguished from family property; businesses were developed in a high-trust environment with family-based entrepreneurial teams. Family members were willing to delay receiving their own salary payments until the new ventures created sufficient profits. Additionally, state-owned supply and marketing cooperatives were going through ownership reform, and so hybrid forms of organization gradually came into being (Nee, 1989; Nee & Frank, 1991). In 1988, the proportion of the tertiary sector in Yiwu (39.2 %) for the first time exceeded both that of the primary sector and that of the secondary sector, implying a fundamental change in industry structure. Peasants' entrepreneurial ambitions at this stage combined two motives of survival: the pursuit of small profits and the pursuit of ownership of their own small businesses.

After the local peasants gradually emerged with their families from the grip of desperate poverty, the Yiwu economy grew dramatically. In 1990, Yiwu's small commodity market became the first among all the Chinese specialized markets in terms of transaction value, a record for 21 consecutive years (Ding, 2006). Per capita income,

<sup>2</sup> Such business activities included: (1) commerce in the city; (2) long-distance logistics; (3) competition with public-owned enterprises; and (4) opening a commodity market. It says that, if the commodity market is not officially approved, "business order will become even more chaotic" and "market management fees and state taxes will not be able to be collected" (Forster 2000: 39). This statement was made two years before the Communist Party of China's Central Committee's decision on the reform of the economic system.

industry infrastructure, and living conditions in Yiwu all greatly improved, and many people have been lifted out of desperate poverty (Mao, 1989; see Appendix: Figs. 3, 4, and 5).

There are a growing number of disruptive-innovation-based entrepreneurs in Yiwu. In 1981, the very first privately or individually-owned business (*getihu*) appeared in that small city. According to the Yiwu Statistics Yearbook (1978–2012), the number of *getihu* rapidly increased from 75,087 in 2004 to 164,683 in 2012, with an average annual growth rate of 10.3 %. Most of these *getihu* are in wholesale and retail business, manufacturing, and accommodation and catering industries. In 2004, there were 49,158 *getihu* in wholesale and retail industry, 12,556 in manufacturing industry, and 6,582 in accommodation and catering industry. In 2012, there were 117,983 *getihu* in wholesale and retail industry, 32,854 in manufacturing industry, and 4,766 in accommodation and catering industry. As to private firms, the very first private firm in Yiwu was established in 1981. Driven by various disruptive innovations, Yiwu's number of private firms also rapidly increased from 6,975 in 2004 to 18,163 in 2011, with an average annual growth rate of 14.7 %. Most of the private firms are in wholesale and retail industry (22.3 % in 2004 and 48.5 % in 2011) and manufacturing industry (55.6 % in 2004 and 27.8 % in 2011). The number of private firms in wholesale and retail industry grew rapidly with an average annual growth rate of 28.2 % from 2004 to 2011. The development of *getihu* and private firms contributed greatly to poverty reduction and wealth accumulation in Yiwu (see Appendix: Table 3).

### Yiwu's experience

Yiwu is a success story of major poverty reduction in China. Scholarly enquiry is necessary to unearth possible universally applicable factors from this specific instance in order to yield pointers for poverty reduction on a worldwide scale. The current study explores such factors through a series of qualitative methods. In prior literature, many scholars and non-profit organizations identified certain key factors in poverty reduction. This study expands this understanding. A model of the poverty reduction through entrepreneurship and disruptive innovation from the results is summarized in Fig. 2.

The poor people of Yiwu discovered a series of business opportunities through innovations and entrepreneurial approaches to fight poverty on their own because at that time: (1) the peasants had almost no microloans from the government, banks, or other institutions; (2) the peasants had not received sufficient education or skill training, if any; and (3) it was practically impossible even to apply for institutional support because business or entrepreneurial activities were officially taboo. Under such unfavorable circumstances, what could have driven the impulse toward poverty reduction among these poor peasants? After continuous exploration, discovery, and interaction with their generally unpromising institutional environment, the peasants finally selected a series of entrepreneurial approaches and disruptive innovations to fight poverty; moreover, these formerly poor peasants have made a nationwide campaign to encourage other poor people to fight poverty. As to poverty reduction, Clark (2011) indicated that China has made a great contribution by enabling more than 550 million people to emerge from extreme poverty over the past two decades. Without any doubt,

the peasant entrepreneurs of Yiwu acted as a role model for other poor people in China not only based on the information in this study (see Appendix: Figs. 3, 4, and 5) but also on the government's documents and Chinese official statistics (Zhejiang Statistics Yearbook, 2012).

In this study, we summarized the major stages of poverty reduction through entrepreneurship from the case of Yiwu. These include the following: (1) A shift from passive to active attitudes and behavior towards fighting poverty; (2) Causal mutual interactions among the region's impoverished people and the people they saw emerging from poverty; (3) The pursuit of small profits rather than maximized profits; and (4) The creation of disruptive business models conducive to poverty reduction by people acting both as consumers and producers.

*A shift from passive to active attitudes and behavior* This paper contributes to theory by utilizing and extending prior studies of poverty reduction such as microfinance and other governmental and institutional props (e.g., Baumol et al., 2009; Busenitz, Gomez, & Spencer, 2000; Forster, 2000; Fu, 2006; Kostova, 1997; Scott, 1995) that were mostly on external supports to alleviate poverty and advocated what is now viewed as the often embarrassing model of governmental nation-to-nation outright grants on a very large scale. This study found that poverty reduction through entrepreneurship was largely influenced by internal forces such as an attitude-behavior change from passive to active status. An active attitude-behavior in the literature can be defined as personal initiative at the base of a work behavior defined as self-starting and proactive. Such an attitude and the actions which stem from it can overcome barriers to achieve a goal that can enable people to deal with job difficulties more actively and relate to success as entrepreneurs (e.g., Frese & Fay, 2001). Impoverished peasants with proper entrepreneurial attitudes and behavior can also learn and improve as they receive feedback from their work (Ashford & Tsui, 1991). Thus, if peasant entrepreneurs acquire an active set of attitudes and behavior, they can be said to have engaged in entrepreneurial activities that can significantly affect poverty reduction in impoverished areas.

The case of Yiwu was unique; during the poor period, foreign and local governments provided almost no poverty aid programs, and so the local poor people were forced to choose between either remaining poor or finding their own ways to facilitate poverty reduction. This initiated the change of the peasants' attitude and behavior from passive acceptance to active engagement to fight poverty. In prior studies of entrepreneurship and poverty in China, some research attention was given to Chinese TVEs (township and village enterprises) to show the Chinese government's efforts to promote peasant entrepreneurship and poverty reduction, but they ignored critical internal forces to poverty reduction. For instance, Fan, Chen, and Kirby (1996) showed that since the late 1970s, the development of rural entrepreneurship had been closely associated with the emergence and development of rural TVEs. While China's total societal production grew at an average rate of 10.4 %, the total output from TVEs achieved a yearly average increase of 27.5 %, more than twice rate of Mainland China as a whole (Li, 1993) from 1979 to 1991. Thus, Fan et al. (1996) reported that successful peasant entrepreneurship could most certainly lead to poverty reduction. On the other hand, He and Chi (2013) recently looked at cases in China where these survival-motivated, rural-based impoverished entrepreneurial cottage firms evolved into innovative regional industrial powerhouses; these scholars reported that there was no shortage of

entrepreneurship at the bottom of the world's pyramid, and more often than not, such entrepreneurship did not stimulate regional development as it tended to in developed countries. Fan et al. (1996) however argued that entrepreneurial success in rural areas needed to have a combination of a certain level of education, the ability to organize and lead, close clan or family ties in the village, good sources for information, capital, supply, and a market. Thus, the level of development (or underdevelopment) in different impoverished regions or areas might have directly affected the effectiveness of any centralized poverty reduction program. Obviously, these studies reported some key variables to reduce poverty, but ignored internal forces of poverty reduction.

*Causal mutual interactions among impoverished people* In the literature, organizational dynamics is defined as the study of how individuals in big organizations or companies react and behave towards each other. It also studies how the companies are made to be more efficient and effective (e.g., Hitt, Ireland, & Hoskisson, 2013). In the case of Yiwu, the peasant entrepreneurs use the "poor to ex-poor" model to serve as inspiration and role model to other peasants wishing to emerge from and reduce poverty through the individual/group dynamics.

Ensley, Pearce, and Hmieleski (2006) indicated that environmental dynamism has a significant positive moderating effect on the performance of a new venture. Baron (1988) indicated that individuals could experience influences on many aspects of their cognition and behavior. Extending these findings to entrepreneurship, we found that entrepreneurship could influence several aspects of an entrepreneur's cognition and, hence, elements of the entrepreneurial process: at very least, actual engagement in entrepreneurship heightened opportunity recognition.

In terms of the behavior aspect of entrepreneurship, we found that a causal mutual interaction existed among the region's impoverished people and the people emerging from poverty despite their own impoverished background. Such entrepreneurial examples came to serve as role models, which most effectively influenced and drove existing poor individuals and collectives to engage in attitudes and actions conducive to reducing poverty. Furthermore, emerging entrepreneurs could tap their original community ties in a poor area, both to make sales and to inspire other people to serve as suppliers. We also found that this causal mutual interaction could lead to mutual learning and mutual help, with the advantage of low learning barriers. Continual occasions for finding opportunities emerged from environmental dynamism and created new opportunities through peasant entrepreneurial activities.

*Pursuit of small profits rather than maximized profits* The current study found that "ant businessmen" may create disruptive products or business models by building their business upon unique markets and demand. And disruptions, in turn, make the BOP consumers accessible to the cheaper products.

Prior studies reported that individuals use economic institutions to create wealth (North, 1990; Smith, 1776). The whole process of using the entrepreneurial process to create wealth was assumed to be easy to attempt under conditions of uncertainty (Knight & Cavusgil, 2004). Under conditions of uncertainty, however, profit maximizing as an objective function turned out to be nearly meaningless (Alchian, 1950). At very least the experience in Yiwu verified such findings in China. In Yiwu, to earn a single cent, countless businessmen started out as the boss in ventures locally termed

“ant businessmen” that was a secret and valuable approach to fighting poverty, particularly in desperately poor areas. When Yiwu was in a period of desperate poverty all the firms had only a few people, the firm size is negatively correlated to the success of disruptive innovation (Christensen & Raynor, 2003; Tushman & O’Reilly, 2002). And businessmen from small firms made money to reduce poverty through family ownership of a facility and by keeping costs to a minimum: each member of the family earned a dime selling merchandise.

In addition, family members each got an allotment of socks to sell at a penny a pair, and a regular booth to help sell their share of the regular supply of 700,000 to 800,000 pairs of socks. Such activities generated profits from 7,000 to 8,000 RMB on an initial investment of nearly 100,000 RMB a year. Renting ten (10) booths cost about 1 million RMB per year. Thus, in severely impoverished areas, the ant businessmen spirit often had to affect and form poor people’s active attitude and behavior in their fight to reduce their own crushing poverty. Furthermore, the ant businessman spirit led to reductions in poverty by focusing attention on small business opportunities which led to accumulated profits at satisfactory levels just above mere subsistence. In such ant businessmen settings, satisfaction often had to replace optimization (Simon, 1956).

*Reducing poverty through disruptive innovation* Disruptive innovation involves a number of possible underlying mechanisms such as business models, incentive systems, and cost structures (Christensen & Bower, 1996; Morris et al., 2005; Teece, 2010). It has been assumed to be an issue focused on business-model-related innovations (Christensen & Raynor, 2003). Ahlstrom (2010) found that disruptive innovation is usually much worse than the established product on a key performance dimension and essentially functions at best as a weak substitute for the sustaining product. But it usually brings new performance criteria to the market, such as convenience and portability, lower price, or ease of use. This finding may lead to deeper understanding of the role of peasant entrepreneurs as disrupters in the case of Yiwu.

In prior poverty reduction theories, scholars also considered the poor either as consumers or as producers. For example, the BOP proposition viewed the poor as untapped purchasing power and emphasized the role of multinational enterprises in adapting products and services for the poor (Prahalad, 2004). Using the opposite approach, other researchers considered the poor as producers to be cultivated through microcredit, skill training, and other external approaches (Khavul et al., 2009; Webb et al., 2009). The current study argues that a conceptualized business model of disruptive innovation should be more concerned with how poor people play and change their roles as they discover and seize potential or new business opportunities through disruptive innovation processes. We found that the peasant entrepreneurs’ knowledge of the unique local market and their innovations to satisfy local demand were both strongly related to the success of their dealings with consumers and producers. The entrepreneurs initially bridged the gap between local premature consumers and producers through feather-for-candy peddling and then built up the small commodity city as a platform where low-end disruptions offered value propositions to the price-sensitive customers and detached that market niche from the

mainstream. Such an approach has great implications for the people at the BOP because this disruptive innovation can encourage peasant entrepreneurship, create new opportunities and jobs, and provide the poor with affordable products (Ahlstrom, 2010; Prahalad & Hart, 2002). In this way, disruptive innovation also works in its own way to fight poverty by turning the people at the BOP into customers and producers. This disruptive innovation result led to a number of emerging entrepreneurial opportunities that provided a sustainable engine for the building of small commodity markets (stage 3) by 1982. Thus, to a certain degree, this disruptive innovation not only helped in regional development but also changed both the government's and individual's attitude and behavior model for fighting poverty; it turned away from focusing on expectations of receiving external support, while it focused on continued innovative and entrepreneurial-based unique market establishment in a poor area. In addition, this study revealed that the BOP has a superior capability for identifying entrepreneurial opportunity through their own continued involvement in disruptive innovations when they are both consumers and producers active through all three stages of Yiwu's poverty reduction.

Furthermore, Yiwu's poverty reduction practices also have positive impact on the reduction of poverty in other (low-income and developing) countries and regions. Yiwu has created a lot of entrepreneurial opportunities for foreigners. Increasing numbers of foreigners come to Yiwu to discover and exploit entrepreneurial opportunities. With the rapid development of Yiwu's commodity market and its increasing global influence, more and more foreigners come to Yiwu to engage in entrepreneurial and business activities. In 2003, there were 49,513 foreigners from 189 countries coming to Yiwu to do business. Meanwhile, 257 foreign business agencies or institutions from 36 countries were established in the city. The number of foreign residents in Yiwu increased from about 8,000 from 137 foreign countries in 2005 to more than 13,000 in 2012. The total number of foreign businessman reached 417,000 in Yiwu in 2012. Thirteen foreign student schools have been set up to meet the education needs of foreign residents. It must be noted that most foreigners come from developing countries and regions such as the Middle East, India, and Africa. Thus, Yiwu also contributes to global poverty reduction, particularly in low-income, developing countries.

## Discussion

In the extant literature, there are different research findings on poverty reduction through peasant entrepreneurship. The current study conducted an in-depth case study to explore how poverty was reduced through peasant entrepreneurship in Yiwu, China. This was done largely in response to recent calls for business/management scholars to form a greater understanding of how business can fight poverty, for more direct examination of business involving the poor, and for shedding new light on the emerging topic of business and poverty reduction (Bruton, 2010; Pearce, 2005). The current study provides new findings and makes new contributions to the literature of business and poverty reduction.

## Contributions

The current study contributes to theory by utilizing and extending Prahalad's (2004, 2005) BoP theory and by including work from Christensen and colleagues on disruptive innovation and disruptive business models (Ahlstrom, 2010; Christensen, 1997; Christensen, Johnson, & Rigby, 2002; Christensen & Raynor, 2003). In doing so, it helps to resolve the debate between Prahalad and Karnani that the BOP theory is not just about only producing or only consuming, but is about both. And both are necessary, along with the encouragement of prospective entrepreneurs, particularly in emerging economies (Bruton, Ahlstrom, & Obloj, 2008; McCloskey, 2007). Disruptive innovation shows us how innovative business models can enable the producer to develop and produce new and helpful products and also can help the users consume the product by finding a way to deliver the simpler, smaller, or cheaper products to those poorer consumers at a price they can afford. This also serves to encourage prospective entrepreneurs that they can also start competitive businesses, particularly at the low end of markets.

In the current study we summarized several lines of thought regarding poverty reduction over the past few decades. This study also provided evidence of the innovative and entrepreneurial efforts of the poor themselves to identify and exploit unique market opportunities. This case study also examined the means through which local entrepreneurs create disruptive business models that can help to raise people from desperate poverty. In doing so we have provided empirical contribution through the in-depth case study by establishing the following points. First, prior studies in poverty reduction through entrepreneurship were largely influenced by concepts of external support such as microfinance and other governmental and institutional props, but such theories did little to incorporate concepts of entrepreneurial opportunities in poverty theory. In this study, we argue that impoverished peasants in poor areas and developing countries need to rely mostly on their own ability to discover and take advantage of business opportunities through a series of entrepreneurial activities generating profits rather than by attempting to depend on MNC investment or to seek government and institutional support to fight poverty. Such self-sufficiency is necessary largely because such countries or governments are generally too poor to provide such external help. Second, a change in impoverished people's attitudes and behavior from passive to active status is absolutely the key in getting them to pursue entrepreneurial success and to further reduce poverty in poor areas. Third, peasant entrepreneurs must at some point make accumulated profits at merely satisfactory levels rather than aim constantly for maximum profits. Finally, prior literature viewed the BOP poor as untapped purchasing power (Prahalad, 2004; Webb et al., 2009). In this case study, we identified a process by which peasant entrepreneurs can initially bridge the gaps between local premature consumers and producers with their entrepreneurial activities and disruptive innovation business model (e.g., feathers-for-candy, small commodity city platform).

This case study's empirical findings also revealed a causal mutual-interactions-effect between emergent-less impoverished individuals and collective entrepreneurs and the greater mass of existing impoverished individuals and collectives. The positive effect



among less impoverished individuals and collective entrepreneurs on existing poorer individuals and collectives is significant; moreover it stands out as a highly significant effect explaining poverty reduction through entrepreneurs. Thus, more effective and causal entrepreneurial interactions may facilitate poverty reduction through existing original community ties in impoverished areas. Because such emergent entrepreneurs share in a common background in poverty, they can easily be used as everyman stand-ins or treated as role models by existing impoverished individuals and collectives. (MNCs can serve as challenges or models for people of greater education or wealth, but initially, emerging entrepreneurs must provide inspiration on a more modest, attainable scale for the very poor.)

Of particular interest has been the practical implications for both peasant entrepreneurs and policymakers that emerges from the use of qualitative methodology to yield valid information. For instance, this study provides practical contribution through eight focus groups that reveals that more than 80 % of the entrepreneurial opportunities that were generated were ultimately related to the entrepreneurs' active attitudes and behavior that was fundamentally more effective than any other element among the various approaches to poverty reduction in the case of Yiwu.

Yiwu's successful experience of poverty reduction by entrepreneurship has been spoken of highly, and widely learned and applied in China. For example, in 2006, the provincial government in Zhejiang issued two important policies, stipulating that other local governments in Zhejiang province are required to learn and employ the Yiwu experience in local economic development. Yiwu's experience emphasizes the role of innovation and entrepreneurship, and creates creditable market. In 2010, the State Administration for Industry and Commerce of China and other departments jointly issued the "Notice about establishing creditable market," to promote the Yiwu experience in creating a creditable market that facilitates the entrepreneurship and business activities in the whole nation. Yiwu's successful management of the foreigners in public security, exit and entry administration, is also introduced into, learned, and extended by many other cities in China. A friendly business environment for foreigners plays a critical role in enabling them to engage in entrepreneurial and business activities in China and contribute to poverty reduction in both China and their home countries.

In terms of peasant entrepreneurs, their most valuable asset is often their deep understanding of the local market which helps them identify and exploit regional and local entrepreneurial opportunities; such opportunities require the use of both qualitative and quantitative combined methodologies to assemble information from different aspects of local conditions. In addition to a qualitative methodology to uncover subtle processes in this case, the current study contributes an innovative measurement of poverty reduction factors of peasant entrepreneurs that not only identifies key success factors (KSFs), but also calculates the different important stages at which these different factors assume their importance via a quantitative factor analysis method (see Tables 1 and 2). In addition to the above, the evidence and experience generated from this case study will show people how entrepreneurship and innovative business models can enable the producer to develop and produce new and useful products. It also holds the key to unlocking the buying power of the very poor by innovating through finding ways to deliver simpler, smaller, or cheaper products at a price they can afford. The value of emerging entrepreneurs as

role models for poorer folk should not be underestimated and how to encourage further innovation and new venture creation (Ahlstrom, 2010; Wang, Ahlstrom, Nair, & Hang, 2008).

### Limitations and future research

As a case study generalization could be a limitation. Given the limitations in existing information regarding poverty reduction through entrepreneurship and innovation in Yiwu, we ground this research in the reality of the local environment, however, we did not run a comparative case study approach to compare with other similar poor regions to further address the issue of how the poor could be induced to visualize opportunities in their poor areas. Future researchers on this topic should consider the following points. First, although an in-depth and comprehensive case study of Yiwu provided us with interesting and valuable insights into the overall experience of poverty reduction, the findings from one regional area at one specific historical period will still need to be further studied. A more diversified and comparative research setting will be needed before we can reach greater depth analyses and generate general conclusions. Second, since it focuses on a single case, our study has primarily attempted to discover and derive the elements of Yiwu's successful experience in poverty reduction through interviews and focus groups. We call for research to develop frameworks based upon the KSFs and the experience of this study, which can be linked to poverty reduction, and more generally, to an expanded theory of the firm (Young et al., 2014). This will shed further light on what firms and other large organizations can do in terms of significant societal problems (Ahlstrom, 2010; Yunus, 2007). Future research should conduct empirical tests on poverty reduction employing large datasets and incorporating additional variables such as the improvement of corporate governance and how financing from microcredit to angel investing and venture capital can improve the management of individual new ventures (Ding et al., 2014; Liu, Wang, Zhao, & Ahlstrom, 2013).

### Conclusion

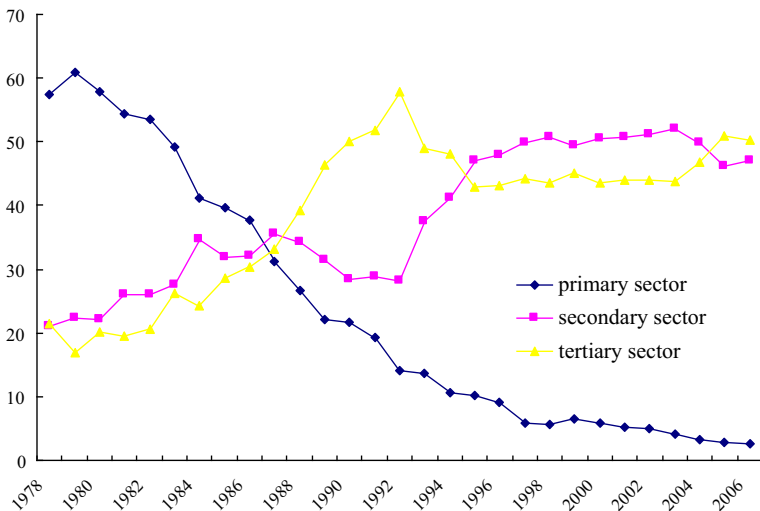
There has been a significant reduction in the number of desperately poor people in the world in recent years. A great deal of that reduction in poverty can be attributed to economic growth and new ventures in China (Ahlstrom & Ding, 2014; Huang, 2010). This paper employed an in-depth case study to better understand how poverty could be reduced through entrepreneurship and innovation in the eastern Chinese city of Yiwu. The Yiwu experience has revealed valuable heuristic knowledge, evidence, and experience necessary for poverty reduction through entrepreneurship. This study is a response to some scholars' call for more direct examination of businesses' involvement with the poor to shed new light on the emerging topic of the roles of firms in poverty reduction.

The evidence and experience from Yiwu have verified that poverty alleviation does not merely result from the efforts of governments or large firms, but emerges from

internal elements such as disruptive innovation and new venture creation that involves multiple internal actors (Hart & Christensen, 2002). The fundamental and key elements for poverty reduction from the case of Yiwu can be summarized as active attitudes and behavior towards fighting poverty; causal mutual interactions between less poor and poorer people in the communities and regions; impoverished entrepreneurs pursuing simple innovations and small businesses; and poverty reduction through disruptive business models that are less commonly never found among MNCs. It is hoped that the findings will encourage more researchers and organizations to pay greater attention not only to foreign direct investment, but also more “local” elements of poverty reduction such as microfinance and changes in the people’s attitudes and behaviors toward economic growth (having an active, rather than passive attitude) and the importance of recognizing the role they can play in pursuing new ventures, simple productivity improvements, improved management techniques and generally having an innovative and entrepreneurial mindset in their daily lives (McCloskey, 2010), as the people of Yiwu have developed.

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**Appendix**



**Fig. 3** Evolution of Yiwu’s industry structure (output value proportion), 1978–2006

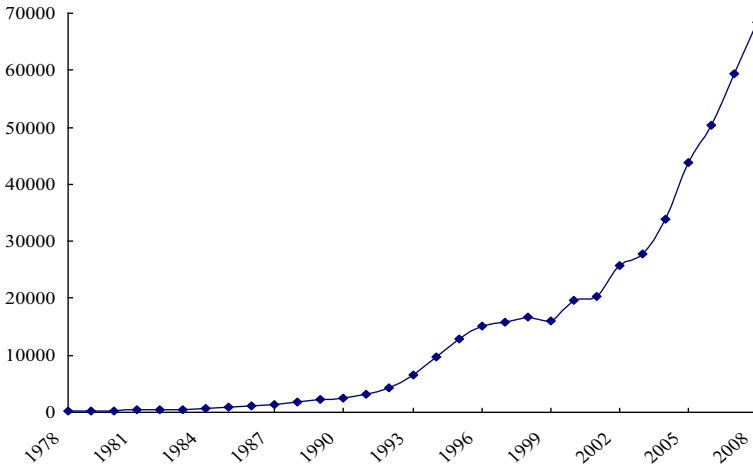


Fig. 4 Change in GDP per capita in Yiwu, 1978–2008 (RMB Yuan)

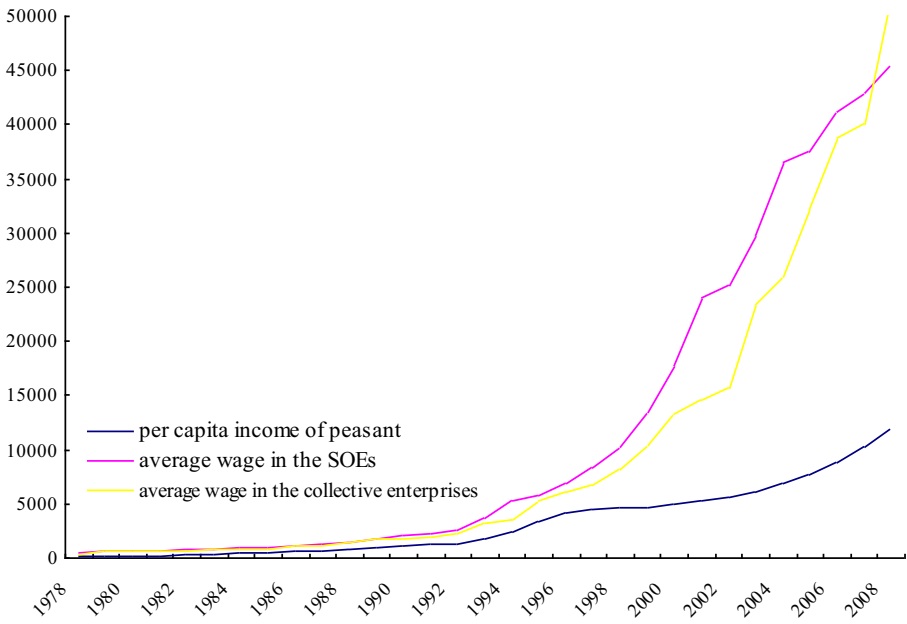


Fig. 5 Change in income condition of Yiwu district, 1978–2008 (RMB Yuan)

**Table 3** Number of *getihu* and private firms in Yiwu, 2004–2012

Year	Number of <i>getihu</i>	Manufacturing	Wholesale and retail	Accommodation and catering	Number of private firms	Manufacturing	Wholesale and retail	Accommodation and catering
2012	164,683	32,854	117,983	4,766				
2011	148,414	28,095	109,868	3,328	18,163	5,058	8,818	467
2010	136,249	24,026	100,439	4,094	15,214	4,780	6,465	482
2009	121,898	19,966	91,573	3,476	12,395	4,302	4,814	452
2008	114,696	17,867	87,821	3,087	12,058	4,458	4,489	441
2007	106,286	14,915	83,839	2,549	10,898	4,708	3,430	337
2006	94,674	16,508	60,221	9,085	9,013	4,336	2,434	263
2005	77,557	13,110	50,911	5,857	7,531	3,941	1,743	233
2004	75,087	12,556	49,158	6,582	6,975	3,881	1,552	

Source: Yiwu Statistics Yearbook; Zhejiang Statistics Yearbook

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