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PERSPECTIVES

The poverty problem and the industrialization solution

Sharon A. Alvarez · Jay B. Barney · Arielle M. B. Newman

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Abstract Despite decades of effort, abject poverty remains a serious problem in many countries around the world. The effects of five approaches to poverty alleviation—foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, and the establishment of property rights among the abjectly poor—are briefly reviewed. While each of these approaches has some benefits, none have fulfilled their promise of poverty alleviation. Ironically, as these efforts have gone forward, international industrialization has had a more significant impact on poverty alleviation in at least some countries.

Keywords Poverty · Economic aid · Development · Base-of-pyramid · Entrepreneurship · Economic growth · Innovation

In spite of the solid economic growth around much of the world in recent years (Ahlstrom, 2010), abject poverty remains one the most significant problems of the 21st century (Stiglitz, 2007). While estimates vary, all agree that the number of abjectly poor people in the world is still staggering—between two and four billion people live on the equivalent of less than US$2 dollars a day (World Bank, 2012). The experience of abject poverty is grim—gnawing hunger, lack of clean water and sanitation, limited health care and rampant disease, crowded and inadequate housing, limited education, and even more limited opportunities (Easterly, 2006). It is no wonder that abject

S. A. Alvarez (✉)
Daniels College of Business, University of Denver, 2199 S University Blvd, Denver, CO 80208, USA
e-mail: Sharon.Alvarez@du.edu

J. B. Barney
Lassonde Chair of Social Entrepreneurship, David Eccles School of Business, University of Utah, 201 Presidents Circle, Salt Lake City, UT 84112, USA
e-mail: Jay.Barney@business.utah.edu

A. M. B. Newman
University of Utah, 201 Presidents Circle, Salt Lake City, UT 84112, USA
e-mail: Arielle.badger.newman@utah.edu

poverty is widely seen as the breeding ground of crime, piracy, and terrorism (Ki-moon, 2012).

Of course, governments, non-governmental organizations (NGOs), and individuals in more developed countries are aware of and deeply concerned about these conditions, and have engaged in a variety of activities designed to alleviate abject poverty. These efforts have included, among others: Direct foreign aid, investment in microfinance institutions, social entrepreneurship, "base of the pyramid" initiatives, and the establishment of property rights among the abjectly poor (e.g., Bruton, Khavul, & Chavez, 2011; de Soto, 2000; Prahalad, 2006; Sachs, 2005). There is little doubt that some of these efforts have had some positive impact on poverty (Ahlstrom, 2010). However, taken as a whole, these activities have been unable to eradicate much stubborn abject poverty (Easterly, 2006) and, in some cases, may have even exacerbated these conditions (Roodman, 2012).

However, many of the activities that countries engage in to assist in poverty alleviation are based on the underlying assumption that there are market failures that must be addressed. A market failure is a situation where free markets fail to allocate resources efficiently (Bator, 1958), such as with certain agricultural markets, foreign exchange, and credit markets, when property rights cannot easily be allocated, the inability to limit the size of the gap between income earners, the *income gap*, just to name a few. In order to reduce or eliminate market failures, government intervention is often prescribed. This basic assumption underlies the use of foreign aid, microfinance, social entrepreneurship, "base of the pyramid" initiatives, and property rights initiatives to alleviate abject poverty. However, there are multiple market failures in these situations and simply addressing one "failure" is not enough (Alvarez & Barney, 2014).

The purpose of this paper is to discuss five major poverty alleviation efforts and identify both their strengths and their limitations. It is shown that, despite the often widely publicized claims of those involved with these alleviation efforts (Davidsson & Honig, 2003; Peredo & Chrisman, 2006), systematic evidence of their success is actually quite limited. At best, one can conclude that, despite years of effort, the "jury is still out" regarding the five major poverty alleviation programs. At worst, one can conclude that they have failed to live up to expectations (Easterly, 2006). Instead, this paper offers industrialization as a multi-market failure solution while suggesting some of these "Big Five" methods as supplementary solutions.

This paper begins by describing the strengths and limitations of each of the "Big Five" poverty alleviation efforts mentioned above. The type of market failure that a particular effort targets is also identified. This paper then argues that industrialization seems to have had a much more important impact on economic development then these other activities. This is particularly true in countries such as China, India, and South Korea where this policy has been more aggressively pursued (von Tunzelmann, Bogdanowicz, & Bianchi, 2014; Nair, Ahlstrom, & Filer, 2007). This paper concludes by discussing some policy contributions of this analysis, including the theoretical contribution on multiple market failures and how to adequately address them through promotion of industrialization. A further policy contribution suggests how governments can shape aid programs to address the market failures to fulfill their promises of poverty alleviation.

Market failure and government intervention

A market failure is the inability of a market economy to reach certain desirable outcomes in the allocation of goods and services (Bator, 1958). It is argued by economists, that there exists another potential outcome where a market participant may be made better-off without making someone else worse-off. The market failure concept is used to apply a diagnostic approach in order to precisely identify the type of market failure plaguing an economy. The economic concept of a market failure is the general reason often given for government intervention.

The apparent success of Keynesian economics in fighting depression in Western economies, the Marshall Plan in Western Europe, and Soviet industrialization in the 1930s contributed to the intellectual hegemony that market failures require government intervention. However, later evidence emerged to suggest that for poor countries to move out of poverty, large amounts of capital would also be required (Datta-Chaudhuri, 1990). The theory was that markets might take care of production in a poor economy, but that the capital requirements needed to achieve higher levels of production required government planning. This hypothesis led almost every developing country to set up a planning agency to formulate economy-wide investment plans (Datta-Chaudhuri, 1990). Perhaps more tragically, it led to the view that poor countries are unable to get out of poverty without significant government intervention or perhaps even the intervention of the more developed countries and large amounts of aid.

However, as government interventionist approaches to poverty alleviation proved to be unsatisfactory and sometimes counterproductive (Easterly, 2006), market-based approaches to poverty alleviation gained attention. This logic is focused on overcoming particular market failures—missing credit markets, the lack of property rights, over-regulation and so forth—with market approaches (e.g., de Soto, 1989, 2000). The question of how market-based approaches can contribute to poverty reduction has been increasingly explored by management practitioners and researchers (e.g. Ahlstrom, 2010; McKague & Oliver, 2012). The limitations of the market failure concept, while remaining widespread as an underlying assumption, upon examination reveal a mixed picture of the link between these market-based approaches and poverty reduction suggesting that link might be weak at best.

The price mechanism enables governments to implement policies that change the behavior of consumers and producers, such as increasing the price of "harmful" products, through taxation, and providing subsidies for the "beneficial" products. While in developed countries there is at the least some debate as to what (if any) actual results are produced by the price mechanism intervention used by governments, termed government failures (Zerbe & McCurdy, 1999), in terms of lesser developed economies, this method is often touted by economists suggesting that behavior can often be changed through financial incentives, much the same way that markets work to allocate resources (Gneezy, Meier, & Rey-Biel, 2011; Sachs, 2005; Stiglitz, 1989).

The rest of this paper addresses government intervention and market-based approaches, foreign aid, microfinance, social entrepreneurship, "base of the pyramid" initiatives, and property rights initiatives, and their benefits and constraints to poverty alleviation. Finally, this paper examines the effects of industrialization on poverty alleviation and discusses policy implications.

Foreign aid and poverty alleviation

Foreign aid includes any of a variety of payments from governments or other institutions or individuals in more developed economies to the governments of less developed economies (OECD, 2005; Todaro, 1989). Of the five poverty alleviation efforts discussed in this paper, foreign aid has the longest history and has involved the most money. Indeed, since the mid-1950s, direct payments to governments in less developed economies from governments in more developed economies have totaled over US$3 trillion (Easterly, 2006). Many of these investments were designed to build up the economic infrastructure—roads, dams, port facilities, and so forth—that are thought to be necessary conditions for economic development (Peredo & Chrisman, 2006).

Foreign aid continues to be a mainstay of poverty alleviation efforts (Sachs, 2005). Some scholars have argued that increases in foreign aid are essential if developing economies are to gain access to the capital they need to jump start the growth of their economies (Akramov, 2012). Largely based on these arguments, the United Nations (UN) recently passed a resolution calling on more developed countries to dedicate .25 % of their GDP to foreign aid designed to alleviate poverty (OECD, 2005).

Despite these arguments and the public support of foreign aid by the UN, many poverty alleviation scholars have concluded that foreign aid has been, at best, not helpful in reducing abject poverty, and at worst, may actually have contributed to making this poverty worse. Among those who have argued that foreign aid has not made things better is William Easterly, an economist who formerly worked for the World Bank (Easterly, 2006). Easterly argues that foreign aid reinforces a centralized planning approach to economic development that is not only a demonstrated failure in former communist countries, but also reduces entrepreneurial activities in a country (Easterly, 2014). It does so by identifying a few large, and often very costly, economic infrastructure projects in a country and investing in those without regard to other dimensions and requirements of the economy. In this context, a central irony of foreign aid is that those who are normally strong supporters of markets, decentralized decision making, and competition often embrace central planning when they have responsibility for distributing foreign aid money (Easterly, 2008).

Given the complexity of developing countries' economies, it is not surprising that a centralized planning system—a system supported by foreign aid—often fails to generate the economic development it was designed to create (Easterly, 2006, 2014). Indeed, even highly centralized efforts to create more capitalist systems in several former communist countries have met with only mixed success in the short to medium term (Lane & Ross, 1999). The law of unintended consequences prevails in these settings. Of course, none of this suggests that foreign aid has not had some positive effects in less developed countries (Bussen, 2013). For example, foreign aid, both in terms of dollars and in terms of critical supplies, has been very helpful in temporarily alleviating a variety of emergency situations created by floods, famines, and political upheaval (Smith, McDermott, & Clapp, 2011). However, the longer term impact of emergency efforts on poverty reduction are unclear (Svensson, 2000).

Indeed, others have argued that foreign aid is not just ineffective in reducing abject poverty, but that it actually increases it (Santos, 1970; Svensson, 2000). There are many reasons for the failure of foreign aid in poverty reduction, perhaps the most prevalent of which is that the aid may be diverted from poverty alleviation efforts to income for

government officials, and cause a habit of aid dependence (Djankov, Montalvo, & Reynal-Querol, 2008; Khavul, 2010; Santos, 1970). An example of both of these limitations can be found in Pakistan which does not initiate or support policies that develop the economy with its own resources; rather it has become heavily dependent on others. Additionally in a setting where such illicit income and rent capture is one of the only sources of wealth, foreign aid creates strong incentives for those outside the political system to overthrow those currently on the inside, thereby reducing representative government (Djankov et al., 2008) and creating or exacerbating political instability (Santos, 1970). Overall, while foreign aid has helped address some specific emergency needs in impoverished settings, its impact on actually reducing abject poverty has been depressingly limited.

Microfinance and poverty alleviation

Since its development in Bangladesh in the 1970s (Yunus, 1999), microfinance has been widely hailed as the solution to abject poverty (United Nations, 2005). Indeed, the UN declared 2005 as the "year of microcredit" and hailed microfinance as the approach to poverty alleviation that would end poverty "in this generation" (United Nations, 2006). The number of microfinance institutions around the world, and the total number of microfinance loans that have been extended to the poor, increased rapidly through the early part of the 21st century (Bruton et al., 2011). By 2012, micro loans had been given to over 150 million people trapped in poverty.

The theory behind microfinance is surprisingly simple: Since the abjectly poor do not have access to capital, they cannot invest in business activities that might help them emerge from poverty. The solution: give the abjectly poor access to capital in the form of small loans that can be used for a variety of small businesses which, in turn, can raise the poor's living standards. As the statistics cited earlier suggest, the total number of small loans given to the poor is staggering, by any measure.

But, have these loans actually reduced the level of abject poverty in the world? Their effect is less clear. Despite the hundreds of papers published on microfinance, there have been only two published studies that evaluate the impact of microfinance on abject poverty using a rigorous double blind methodology (Roodman, 2012). These two studies fail to document a decrease in poverty of those that have received micro loans, compared to those that did not receive micro loans. One study did show that access to microfinance increased the savings rate of the abjectly poor, compared to those that did not have access to microfinance, and this improved their life style, on the margin. However, it was not access to micro loans that led to this improvement, rather, it was the increased savings.

Of course, these two studies are not definitive proof that microfinance is not reducing abject poverty, and further research is ongoing (Bruton et al., 2011). However, they do raise the possibility that microfinance does not have the universal poverty-reducing implications that its backers expected. Why might this be the case? Several possible limitations of the ability of microfinance to reduce abject poverty are currently being investigated. For example, microfinance is based on the assumption that the only thing that prevents the poor from exploiting entrepreneurial opportunities is the lack of capital. Maybe lack of capital is not the only constraint. For example, there is

some reason to believe that the ability to form and exploit entrepreneurial opportunities is not uniformly distributed in a population (Shane, 2003). While the percentage of the poor who have the skills and preferences needed to engage in entrepreneurial activities is not known, it seems reasonable to assume that not all poor people will be equally skilled at entrepreneurial opportunity recognition and development (Alvarez, Barney, & Anderson, 2013). Nor is it even reasonable to assume that all poor people will want to become entrepreneurs.

In addition, current microfinance institutions do not apparently fund what might be thought of as truly entrepreneurial activities. Indeed, most of the loans given out by the Grameen Bank—the first microfinance institution—fund small retail operations or dairy farming. The proliferation of these businesses in a community can create what Alvarez and Barney (2014) call the "problem of the goat" whereby numerous small loans designed to enable the poor to acquire goats whose milk is then sold in local markets cause the price of milk to fall. Prices fall to the point that the poor can no longer afford to keep the goat, so they end up eating it instead. Even if these small businesses do close down, they rarely generate sufficient economic profits to raise their owners out of poverty.

Indeed, the extremely high repayment rate of micro loans—often rising above 98 %—suggests that microfinance institutions are not funding the kind of risky entrepreneurial ventures typically associated with significant wealth creation (Alvarez & Barney, 2014). Instead, there is some indication that microfinance loans are used as a form of revolving credit—not unlike credit cards in developed countries—that enable the poor to gain access to a few basic necessities (Roodman, 2012). While this may be a worthwhile objective, it generally does not fall under the rubric of "poverty alleviation," as how this term is normally used. As with foreign aid, it would be inappropriate to conclude that microfinance has had no positive impact on abject poverty. Certainly, as Roodman (2012) has concluded, 150 million people taking out micro loans is tapping into some sort of unmet need. However, whether or not these institutions, and the loans they provide, are actually reducing abject poverty is less clear.

Social entrepreneurship and poverty alleviation

The field of poverty alleviation has seen the proliferation of non-governmental organizations (NGOs) designed to eliminate poverty. NGOs are usually not for profit private organizations that are at least partly funded through volunteers and donations. They have been established to address a wide range of needs within impoverished communities. While the actual number of such organizations is hard to establish, the US State Department suggests that there are at least 1.5 million NGOs registered in the US. Many of these engage in some form of poverty alleviation effort globally (Stiglitz, 2006). Some of these NGOs engage in what might be called "social entrepreneurship."

Unfortunately, there is no commonly held definition of social entrepreneurship (Lumpkin, 2011). Indeed, one observer has suggested that there are almost as many definitions of social entrepreneurship as there are papers written about social entrepreneurship (Lumpkin, 2011). For purposes of this discussion, social entrepreneurship is defined as activities designed to address social goods problems among the abjectly poor by organizations not seeking to make profits from doing so (Peredo & McLean, 2006).

These social goods problems include the lack of clean water, the lack of sanitation, poor educational facilities, poor community health systems, and so forth. In developed economies, these social goods are most frequently provided by governments. Government efforts to provide these social goods are sometimes augmented by private for profit organizations. In lesser developed economies, governments often fail to provide these social goods, and private organizations—typically NGOs—step in.

The strides that have been made, especially in clean water and sanitation, in developing economies are substantial (*Economist*, 2010). Where once clean water and sanitation were virtually unknown in less developed economies, more and more rural villages and urban slums now have access to these basic social services (Ahlstrom, 2010; Hart & Prahalad, 2002). The same can be said, although to a somewhat lesser extent, of education and basic healthcare (Hart & Prahalad, 2002). There is little doubt that NGOs have been at the center of many of these social entrepreneurship activities.

However, social entrepreneurship is not without its limitations as well. First, in some parts of the world, the number of NGOs and the overlap between their missions has led to some unusual competition among different NGOs with similar missions. Reports of "competitive well digging"—where an NGO comes into a village, fills up the well that is currently being used in order to justify digging another well—is widespread. Even if these reports are actually not true, the fact that they are widely believed to be true suggests that this kind of "competitive philanthropy" is probably not that uncommon.

More fundamentally, while clean water, sanitation, education, and health initiatives do, in fact, improve the quality of water, sanitation, education, and health, it is less clear that they also reduce abject poverty (Hubbard & Duggan, 2009). Indeed, unless very carefully managed, these activities can create a sense of economic and even psychological dependence of a community on an NGO (Santos, 1970). Far from reducing abject poverty, such dependence can help insure that a community remains in mired in a level of poverty, in that those in a community wait until some NGO "fixes their problems," rather than taking responsibility for those problems themselves.

Base of the pyramid initiatives and poverty alleviation

In 2006, Professor C. K. Prahalad published a book titled *The Fortune at the Bottom of the Pyramid*. In this book Prahalad (2006) suggests a radical new approach to the problem of abject poverty. In particular, he proposes that the life of the abjectly poor could be significantly improved if companies from developed economies would begin to sell products and services that the poor could afford and which would improve their living standards. Even more radically, Prahalad posits that companies from developed economies should not do this as part of some philanthropic "socially responsible" activity, but rather, as a profit making activity.

Prahalad's argument was based on the simple observation that, collectively, the poor represent a very large market—worth billions of dollars to firms who find ways to serve consumers in that market. He acknowledged that firms would have to change many of their products and services to make them affordable to the poor, but that this effort would open up markets not only among the poor, but in developed economies as well. Examples of this "reverse innovation"—where innovations to address customer needs

in the base of the pyramid are generating products and services that are also valuable in developed economies—are beginning to emerge (Prahalad, 2006).

Despite some examples of reverse innovation, and despite significant efforts by a variety of firms in more developed economies, overall, the notion that the base of the pyramid can be a valuable market opportunity for firms in more developed economies remains a largely unrealized dream. From a marketing point of view, it turns out that the abjectly poor do not have the same needs, desires, or preferences as those living in more developed economies (Schomaker & Zaheer, 2010). Also from a pricing point of view, it turns out that while the poor—collectively—represent a substantial market, individually the poor do not have much money to spend on discretionary consumer goods (Schomaker & Zaheer, 2010). More recent work seeking to link firms in developed economies with the reduction of abject poverty has focused either on these firms partnering with local entrepreneurs (Mostafa & Klepper, 2009) or on globalization and industrialization—approaches to poverty alleviation discussed later in this paper.

Property rights and poverty alleviation

Property rights approaches to poverty alleviation closely parallel the logic used to justify microfinance as a way to alleviate property. Both approaches assume that the key factor separating the abjectly poor from economic improvement is the lack of capital. However, where microfinance attacks this capital problem directly—by giving loans to the abjectly poor—the property rights perspective suggests that many of the poor already possess the capital needed to pursue economic growth opportunities, but that this capital is "locked up" due to ill specified property rights or onerous government regulation (de Soto, 1989, 2000).

The source of capital identified in the property rights approach is the land that the poor live on. This approach argues that much of this land—perhaps worth billions of dollars collectively—cannot be used as collateral for loans or in other ways to spur economic growth because it does not have clear property rights associated with it. Without such clear property rights, the poor cannot sell, borrow against, or in other ways leverage the land they own to invest to bring themselves out of poverty (de Soto, 2000). Based on this logic, several countries have engaged in efforts to create titles for the land that is controlled by the abjectly poor. In countries as diverse as Peru and Bolivia, governments have helped literally thousands of abjectly poor people to obtain legal title of their land.

What have been the implications of these titling efforts on poverty reduction? Unfortunately—as with microfinance—the number of studies that examine the implications of property rights for poverty alleviation are limited. However, work has shown that while the creation of titles for the land owned by the abjectly poor can lead the poor to invest more in their homes and property, relatively few of these individuals leverage their property to gain access to the capital needed to invest in entrepreneurial activities (Van der Molen, 2012).

This lack of investment in entrepreneurial activities may reflect the same issues that emerged in microfinance: the ability and interest to engage in entrepreneurial activities may not be homogeneously distributed across the abjectly poor. It may also be the case

that, once having obtained legal claims on their land, the poor may be reluctant to turn around and risk that land in pursuit of uncertain entrepreneurial returns. In that, they would manifest the same risk aversion that exists among many populations in developed economies (Demsetz, 1967). Whatever the cause, it appears that simply establishing property rights, by itself, does not reduce abject poverty (cf. Mokyr, 2009).

Industrialization and poverty alleviation

Of course, it would be inappropriate to conclude that none of the "Big 5" approaches to poverty alleviation—foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, and property rights approaches—have had any beneficial impact on poverty throughout the world. Indeed, each of these approaches to poverty alleviation can have some very significant, if limited, positive implications for poverty. However, none of them have eliminated the abject poverty that cripples the lives of so many people around the world. Perhaps it is because the key to solving these market failures lies in the broad-based macro approach of industrialization.

Paradoxically, while poverty alleviation efforts around the world have focused on these five activities—with decidedly mixed results—several countries have emerged from poverty and developed their industrial bases to take their place among the developing economies, all with limited use of foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, or programs to establish clear property rights. These newly emergent countries include, for example, Taiwan, South Korea, and China (Ahlstrom & Ding, 2014; Bruton, Ahlstrom, & Oblój, 2008). Moreover, recent developments in Bangladesh—in the garment industry—and India—in information technology—also seem to have had little to do with the "Big Five" development efforts (Chari & Banalieva, 2014; Easterly, 2006).

Instead, what all these newly developed or more rapidly developing economies have in common is industrialization, fueled largely by investments made by global companies seeking low cost products, initially for sale worldwide and later for sale in domestic markets. While this type of global investment can clearly have some negative consequences—the tragic fires in the Bangladeshi garment industry, for example (Greenhouse, 2013)—also seem to have driven both economic development and, to some extent, political freedom (Sen, 1999). While these countries have not eliminated poverty entirely (what country ever has?), they have been able to grow large middle classes while eliminating the worst manifestations of abject poverty (Ahlstrom, 2010). Little of this economic growth can be attributed to foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, or property rights programs.

Of course, there is not room in this overview to fully describe how these economies have emerged, and the extent to which the "Big 5" have, or have not, had an impact on this development. Indeed, these issues are complex and require thorough study. For example, Taiwan and South Korea initially received substantial foreign aid, in the form of military subsidies from the United States and other Western countries, for many years. Interestingly, however, they only began to emerge as economic powers after much of this aid was reduced (Easterly, 2006). Consistent with Easterly's (2006) research, it may well have been the case that foreign aid to these countries inhibited economic growth rather than encouraging it.

Also, the emergence of property rights seems to have been an important part of the growth of the Chinese economy (Chan, 2010; Huang, 2010), though many challenges remain there. However, what is less clear is did the establishment of property rights lead to economic development and entrepreneurship—as hypothesized in the institutional economics and property rights literatures—or did economic development and entrepreneurship precede the promulgation of more clearly defined property rights in China and other countries (Godfrey, 2013)? At least some theory in economics and allied disciplines such as sociology suggest that entrepreneurship and growth are the cause of improved laws and property rights, not just their result (Demsetz, 1967; Godfrey, 2013; Levine & Boldrin, 2008).

Finally, India and Bangladesh have been home to numerous social entrepreneurship and microfinance initiatives. However, most observers agree that the economic growth we have seen in these two countries over the last few years came less from these efforts, and more from firms in the countries successfully competing in global markets—the IT market for India and the garment manufacturing market for Bangladesh (Mostafa & Klepper, 2009; Nair et al., 2007).

Indeed, while all of these countries have experienced some small success from the "Big Five" methods of poverty alleviation, what finally created long-term development and success was industrialization. All these countries leveraged their local comparative advantages—cheap labor for China and Bangladesh, a highly educated population for India, and manufacturing capabilities in Taiwan and South Korea—to encourage entrepreneurial activity and facilitate the creation of firms that can compete on the global market and bring their home states out of abject poverty. Initially, these firms' low costs attracted partners and investments from around the world, and they manufactured products that were exported to be sold on world markets (Alvarez & Barney, 2014). Over time, they developed technological and other capabilities that overshadowed even their low cost advantages. Finally, they leveraged their skills to make and sell products and services not only for world markets, but for their domestic markets as well.

The history of economic development in each of these countries is complex. But the pattern is generally quite simple: Global industrialization, first to export to foreign markets, then to compete on both domestic and foreign markets, seems to have much more to do with economic development in these countries than do any of the "Big 5" poverty alleviation efforts.

Unfortunately, global industrialization is not costless. Working conditions in many of these newly industrialized states are often terrible. Child labor is common. Problems with pollution control, unsafe working conditions, a lack of consumer protection—all hallmarks of newly industrializing economies going back to the 19th century—emerge and are (slowly) solved in these developing settings (Nasar, 2011). Crime and corruption are often rampant in these countries, and much can, and should be done to reduce these tragic "externalities" associated with global industrialization. Developed economies' experience with their history of the industrial revolution and the management of the problems that often accompany economic growth can be helpful in this context (Nasar, 2011).

However, despite these very real costs, global industrialization seems to hold significantly more promise for alleviating poverty than any other approaches that are currently in use. Of course, this remains more of a hypothesis rather than a proven fact.

Nevertheless, those interested in eradicating abject poverty need to consider the reality that other well-meaning efforts—including foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, and the establishment of property rights—may simply not have the impact on poverty that opening a new manufacturing plant can.

Discussion

A quarter century ago Joseph Stiglitz (1989: 197) in an address to the 101st annual meeting of the American Economic Association suggested that the central question of development economics was, "how to account for the differences in levels of income and the rates of growth between developed and less developed economies." Stiglitz pointed out the limits of the old stock answer of the 1950s and 1960s that the poor simply have less physical, financial, and human capital than do richer countries. In that view, the obvious solution was to increase the transfer of resources such as capital and education to less developed economies and the poverty issue would resolve itself. He argued that not only were these answers and responses incorrect, they were out of date. If only he could have seen into the future, Stiglitz would have realized that not only was the analysis that the poor are (resource) poor, alive and well, the solutions address the obvious market failures in developing economies through the transfer of capital and education, have also remained alive and well through the decades.

Foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, and the establishment of property rights are all variations of the "poor are poor" concept. If the specific market failure associated with each could be "fixed," such as providing credit to those who have little to no access to credit, then poverty might be alleviated. However, as has been seen with microfinance, the story is not as simple as a mere lack of capital.

In the decades since Stiglitz' keynote address, there has been a raging debate in development economics on the relative virtues of the free market as opposed to planned intervention on the alleviation of poverty (Easterly, 2006; Sachs, 2005; Sen, 1999; van Zanden, 2009). Yet despite this debate, many of the solutions that seem to be lauded include some form of intervention. Industrialization and entrepreneurship do not appear to be as popular, particularly in the management field, as are other proposed solutions. While Stiglitz was also cautionary about industrialization, he did suggest that the issue was not micro in nature but about macro-economic organization. In the end, Stiglitz called for a theory of rural organization and a theory for industrial organization focusing on the special characteristics of developing economies.

A key contribution of this paper is to note that the transformation from developing to developed economy and the alleviation (not elimination) of poverty is more than just addressing one type of market failure. Many types of market failures are present in poorer economies ranging from weak property rights, to poor security and public health, limited availability of capital, and weak incentives for the development of new growth ventures. Developing economies have much in common with European and US economies that successfully addressed market failures and promoted entrepreneurial capitalism by going through a transformation process from what economists have termed a pre-market society to a market driven society (Polanyi, 1944/2001; Savona & Sapsed, 2013). Neither markets nor government can guarantee that results

will be either efficient or fully equitable. It should always be considered that the choice between markets and government or planning agencies is not absolute and some combination of the three is usually optimal. However, as was the case with much of the transformation of the developed economies, markets usually do a better job than governments in allocating resources and building firms and industries (Easterly, 2014). Indeed, the most efficient government action is one in which government removes the barriers to competition and improves the flow of information between consumers and producers, enforces laws and intellectual property, and enables local firms to develop (Lerner, 2009; Young, Tsai, Wang, Liu, & Ahlstrom, 2014).

This theoretical shift from the “Big Five” to a focus on industrialization also requires a policy shift from more developed countries wanting to aid lesser developed ones. Rather than the tradition of offering “blank checks,” or continuing the practice of “competitive well digging,” developed countries could focus on implementing programs that promote industrialization for poverty alleviation. This is not to advocate the neocolonial practices of China in Africa currently, but rather to promote industrialization that promotes indigenous growth. This indigenous growth could be in physical form, leaving behind infrastructure that can be continuously used by the native population, or in human capital form, by providing job training and opportunities for natives to grow intellectually in business. These pro-industrialization policies should be aimed at fostering an environment where industrialization can flourish and continue with or without foreign intervention.

This is not to say that governments should end all other types of aid. As stated before, there are multiple market failures in these developing economies. The other poverty alleviation methods mentioned earlier do provide support to the primary solution of industrialization—each has their merits (George & Prabhu, 2000). There are times when governments must write checks to alleviate human suffering today; however, the focus of aid programs should be on creating sustainable economic growth and permanent solutions to poverty alleviation. If we seek to fulfill our promises of poverty alleviation and to end needless human suffering, industrialization is the key.

Conclusion

Despite decades of effort and trillions of dollars of investment and aid to lesser developed countries, serious, abject poverty remains a serious problem in numerous countries worldwide. The effects of the five major approaches to poverty alleviation—direct foreign aid, microfinance, social entrepreneurship, base of the pyramid initiatives, and the establishment of property rights and other institutional reform in the poor countries—were briefly reviewed. While each of these approaches has shown some benefits, none has fulfilled the promise of significant poverty alleviation. As these efforts have gone forward, much evidence is accumulating that industrialization has had a more significant impact on poverty alleviation, as the experience of countries such as China, India, and South Korea where it has been more aggressively can attest.

The multiple market failures of developing economies require an industrialized approach to relieving abject poverty. Rather than continuing the tradition of the postwar period of unsuccessful, partial approaches to resolving multiple market failures, policymakers and aid organizations ought to instead pursue policies of industrialization that support indigenous

growth in developing countries. While other approaches to poverty alleviation can offer relief and the temporary resolution of some problems, overall, industrialization is needed to finally obtain the goal of abject poverty alleviation.

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Dr. Sharon Alvarez (PhD, University of Colorado) is the Walter Koch Endowed Chair in Entrepreneurship at the Daniels College of Business, University of Denver. She previously served as an associate professor of entrepreneurship and management, and the Academic Director of the Center for Entrepreneurship at the Max M. Fisher College of Business, The Ohio State University. Professor Alvarez is the Past Chair of the Entrepreneurship Division of the Academy of Management and has been a Representative at Large for the SMS Entrepreneurship Interest Group. She was a Max Planck Scholar at the Max Planck Institute for Entrepreneurship and Economic Systems Research, a visiting professor at Sun Yat-sen University in China, and is currently a visiting professor at University of Alberta. Her current research includes entrepreneurship theory of opportunities, firm, and market emergence. Professor Alvarez is a Associate Editor for the Strategic Entrepreneurship Journal and she has published numerous papers in the *Academy of Management Review*, *Organization Science*, *Strategic Entrepreneurship Journal*, *Academy of Management Executive*, *Journal of Business Venturing*, *Journal of Management*, *Entrepreneurship Theory and Practice*, and *Human Resource Management Journal*. Recently, her paper, “Discovery and Creation: Alternative Theories of Entrepreneurial Action” won the *Strategic Entrepreneurship Journal* Best Paper Award.

Jay Barney (PhD, Yale University) is a Presidential Professor of Strategic Management and holds the Lassonde Chair of Social Entrepreneurship at the Eccles School of Business at the University of Utah. Previously, Professor Barney served on the faculty at Ohio State University, where he held the Chase Chair in Corporate Strategy, and on the faculties at Texas A&M University and UCLA. Professor Barney has published over 100 articles–including some of the most cited articles in the field of strategic management–and six books that have been translated into six languages. He has presented scholarly papers at the Wharton School of Business, the Harvard Business School, the Tuck School of Business, the London Business School, and at over 100 other universities around the world.

Professor Barney has served on the Executive Committee and as an officer of the Business Policy and Strategy Division of the Academy of Management. He has also served on the Board and as an officer of the Strategic Management Society. He was an associate editor at the *Journal of Management*, a senior editor at *Organization Science*, a co-editor at *Strategic Entrepreneurship Journal*, and serves on the editorial boards of several academic journals, including the *Strategic Management Journal*.

Arielle Newman is a doctoral candidate in political science at the University of Utah. Her research interests include entrepreneurship, political stability, and economic development. She has worked for the European Parliament Committee on Foreign Affairs, as well as state and local government as a policy analyst. After conducting research in Peru and Costa Rica, she has focused her studies on comparative political economy and investigating issues of poverty and economic development and has published on these issues.