Entrepreneurship and Innovation at the Base of the Pyramid: A Recipe for Inclusive Growth or Social Exclusion?

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Abstract  Policy makers often see entrepreneurship as a panacea for inclusive growth in underdeveloped ‘Base of the Pyramid’ (BOP) regions, but it may also lead to unanticipated negative outcomes such as crime and social exclusion. Our objective is to improve the understanding of how entrepreneurship policies can lead to socially inclusive growth at the BOP. Drawing on data collected from Brazilian tourism destinations with varying entrepreneurship, innovation, and social inclusion policies, we argue that weak institutions coupled with alert entrepreneurs encourage destructive outcomes, especially if entrepreneurship policies are based solely on economic indicators. Policies addressing both economic and social perspectives may foster more productive entrepreneurial outcomes, albeit at a more constrained economic pace. The study extends the related BOP, entrepreneurship, global value chain, and sustainable tourism literatures by examining the poor as entrepreneurs, the role of local innovation, and how entrepreneurship policies generate different social impacts within poor communities.

Keywords: base of the pyramid (BOP), entrepreneurship policy, innovation, social entrepreneurship, social inclusion, tourism industry

INTRODUCTION

Policy makers have identified entrepreneurship as a mechanism to alleviate poverty (Hart, 2007; Matten and Crane, 2005; Peredo and Chrisman, 2006), particularly in ‘Base of the Pyramid’ (BOP) regions, where impoverished socio-economic groups have suffered from social exclusion, ‘the denial of equal access to opportunities imposed by certain groups of society’ (Behrman et al., 2003). In the broadest sense, this can be termed ‘social entrepreneurship’, where entrepreneurs play the role of change agents by developing a mission to create and sustain social and not just private value (Peredo and McLean, 2006). Indeed, Prahalad (2007) has suggested that there are many resilient and
creative entrepreneurs from the BOP. However, there remains considerable uncertainty in how entrepreneurship emerges within such communities (Hall et al., 2010; Webb et al., 2009). Furthermore, much less attention has been focused on unanticipated negative outcomes such as crime and social exclusion from such policies.

We analyse Brazil’s recent policy initiatives to encourage inclusive growth through entrepreneurship and innovation in the tourism industry. The benefits of entrepreneurship may be particularly important in underdeveloped regions because economic and social problems are more pressing, but governments may be hindered by corruption and lack adequate resources to address these problems (Valente and Crane, 2010). Entrepreneurship can also lead to destructive outcomes (Baumol, 1990; Bowen and De Clercq, 2008, Smallbone and Welte, 2001), particularly in tourism (Agarwal and Brunt, 2006; Ap, 1992; Ryan, 1993; Stonich, 1998). We frame this paradox of economic development versus social exclusion using Baumol’s (1990) typology of entrepreneurial outcomes. He argues that productive entrepreneurship is a socially beneficial activity derived from new or improved technologies or new ways of doing business (i.e. innovation). Destructive entrepreneurship is where detrimental activities such as criminal behaviour lead to net social loss. Unproductive entrepreneurship involves activities that do not create socially beneficial improvements, but instead seek rents through, for example, the exploitation of legal loopholes. Baumol (1990) assumes the supply of entrepreneurial talent is roughly constant, where growth is largely determined by institutions that encourage productive, unproductive, or destructive outcomes. Such arguments are consistent with North’s (1990) observation that economic growth is driven by the incentive structures that encourage individual effort and investment, which in turn is determined by institutions, i.e. society’s ‘rules of the game’, the establishment of which shapes future productive structures (Bygrave and Minniti, 2000).

Baumol’s productive entrepreneurs draw parallels with Schumpeter’s (1934) ‘innovative’ entrepreneurs, those that find new combinations of resources and create products that did not previously exist, rather than business operators that statically seek rents through ordinary economic activities. They are however not synonymous with Kirzner’s (1973) ‘alert’ entrepreneurs – those able to see and act on previously unnoticed profit opportunities, which, according to Shane (2003), differ from Schumpeterian entrepreneurs by being less dependent on knowledge creation but rather on the exploitation of existing information, and thus much more common. We suggest that alert entrepreneurs can engage in productive, unproductive, or destructive outcomes, the latter being an acute problem in BOP settings due to unstable and weak institutional settings and poor access to education.

In this paper, we discuss entrepreneurship policies for social inclusion in BOP settings. We suggest that weak institutional settings may channel alert entrepreneurs away from productive activities, especially if entrepreneurship policies are developed under a state of reduced attention, with behaviour that is rigid and rule-governed, and/or if policy makers are unable to notice multiple perspectives or lack awareness of context (Langer, 1989). Our research question is thus the following: How can policies encourage productive entrepreneurship for improved social inclusion in BOP settings? We contribute to the BOP literature by examining the poor as entrepreneurs rather than just customers, and specifically explore how entrepreneurship policies produce different social impacts,
thus improving our understanding of why good intentions may lead to negative outcomes for BOP populations. To date the BOP discourse has not empirically explored entrepreneurship policies within impoverished communities, and specifically why such policies may have unintended detrimental consequences.

SOCIAL EXCLUSION AT THE BASE OF THE PYRAMID

Despite recent economic growth of some emerging economies, poverty remains the norm for some 4 billion people in developing and emerging countries, with per capita incomes of under $2000 per year (London and Hart, 2004; Prahalad and Hammond, 2002). The governance structures under which they live vary, and many of the very bottom billion (Collier, 2007) live in extreme poverty under anarchy or kleptocratic governments (Sachs, 2005). Although some of the poor in emerging economies experience less severe conditions, the disparities among incomes remains a major challenge for successful industrialization and global integration. Stiglitz (2002), for example, argues that countries with high levels of social instability and weak public-sector institutions are unlikely to benefit from economic integration into the global economy. Sen (1997) recognizes that unemployment, lower skills, family crises, and lack of political motivation intensify racial and gender inequalities, and that these costs may not be adequately reflected in market prices.

Latin America provides a useful illustration of income disparity and industrial development. For example, Ocampa (2004) argues that a paradox of Latin American economies during the 1990s was the emergence of companies capable of integrating into the global economy, but also an increase in the informal and often illegal economy composed of mostly low-end entrepreneurial ventures and subsistence jobs – what Mazza (2004) calls ‘poverty’ employment. Kuznets (1966) argues that self-employment at this level is common in developing countries as there are fewer employment options, and thus there is a negative association between development performance and the share of self-employed workers in the labour force. Regarding Brazil, Hall et al. (2008) suggest that these social exclusion dynamics led to wider problems such as crime and corruption, and that a key challenge in developing globally competitive industrialization processes is to avoid excluding the majority of the population, a major departure from the country’s long historical legacy of inequality (Griesse, 2006).

A number of scholars have addressed poverty and social exclusion challenges by combining corporate self-interest with global enlightenment. Hart (2007), London and Hart (2004), and Prahalad (2007) argue that mature markets in industrialized nations are becoming increasingly saturated; new business opportunities should thus increasingly be sought in BOP markets where there are considerable needs, but are currently underserved by the global market system because incomes are too low. Most of the BOP research to date is either theoretical articles or case-based research (Bruton, 2010). The majority of these studies have been focused on the multinational corporation (MNC) perspective (cf. Karnani, 2007a; London and Hart, 2004; Prasad and Ganvir, 2005; Seelos and Mair, 2007). However, Kandachar and Halme (2006, p. 14) suggest that research addressing unintended social and ecological impacts from BOP initiatives needs detailed exploration, particularly regarding policy and institutional design for improved
innovation, ‘... otherwise there is a high risk that despite good intentions many of the mistakes of the early years of development aid will be repeated’. The role of local entrepreneurship has also drawn interest as a mechanism for long-term poverty reduction (Prahalad, 2007). For example, Karnani (2007c) argues that the BOP is a source of self-reliant producers and consumers who can design and make products suitable for sale in both BOP and mature markets, thus providing greater economic stability through integration into the global economy. BOP research should thus focus on the poor as producers and entrepreneurs rather than only as customers (Karnani, 2007b). We respond to these calls for further BOP research on policy and the poor as entrepreneurs by analysing how entrepreneurship policies can shape productive outcomes.

The Tourism Paradox in the BOP

Tourism is one of the world’s largest and fastest growing industries and an economic driver in emerging economies (WTO, 2009). The industry has also been recognized as a panacea for inclusive growth in underdeveloped areas or as an alternative to industrial restructuring, as specialized training, resource requirements, and other barriers to entry are comparatively lower than for other industries (Bursztyn, 2005; Coriolano, 2005; Koh, 2002; Shaw and Williams, 1994; Tidsell, 2001). However, the industry has also been recognized as causing detrimental economic, environmental, and social impacts on local communities (Ryan, 1993), exacerbating deprivation for locals, leading to poorer health, lower incomes, and higher crime rates (Agarwal and Brunt, 2006). For example, Ap (1992) argues that tourism increases prostitution, gambling addiction, and alcohol and drug abuse, while Stonich (1998) found that in Honduras, pollution emanating from tourism activities has put impoverished populations under significant health risks. Thus, the social costs of tourism sometimes outweigh benefits for the local communities (Lindberg et al., 2001).

In response, alternative forms of tourism have been advocated to promote more socially responsible or beneficial outcomes, rather than unrestrained and unplanned ‘hard tourism’ focused on short-term profitability that disregards local environmental and social impacts (Honey and Stewart, 2002; Krippendorf, 1982; Stonich, 1998). Table I lists examples of such progressive approaches from the tourism discourse. While each has its differences and nuances, a key principle common to all is that local people are net beneficiaries of tourism (we henceforth refer to them collectively as sustainable tourism).

Within the tourism literature, the negative effects of large-scale foreign-owned businesses have been a dominant theme, where benefits to local communities have typically been attributed to small-scale locally-owned tourism ventures (Echtner, 1995), particularly as a potential stimulus for sustained economic development (Bursztyn, 2005; Lordkipanidze et al., 2005). However, such small scale ventures often lack requisite skills (Jenkins, 1980; Victurine, 2000), and while interest in tourism entrepreneurship is on the rise, relatively little research has been conducted within the tourism literature (Yang and Wall, 2008), and none within the context of entrepreneurship policies in BOP areas.
Table I. Progressive types of tourism

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<th>Type</th>
<th>Definition</th>
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<td>Eco-tourism</td>
<td>Purposeful travel to natural habitats to create an understanding of the cultural and natural history pertaining to that environment, emphasizing care not to alter the integrity of the ecosystem, while producing economic benefits to local people (Goeldner and Ritchie, 2006, p. 556). Widely accepted principles are: (1) minimal negative impact on the environment; (2) commitment to environmental protection and conservation of resources; (3) creation of funds to support and sustain ecological and sociocultural resources; (4) enhancing the interaction and understanding between tourists and local people; and (5) economic (monetary profit and jobs) and social benefits to the local people (Sirakaya et al., 1999, p. 171).</td>
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<td>Socially responsible tourism</td>
<td>Responsible tourism: (1) minimizes negative economic, environmental, and social impacts; (2) generates greater economic benefits for local people and enhances their well-being, improves working conditions and access to the industry; (3) involves local people in decisions that affect their lives and life chances; (4) makes positive contributions to the conservation of natural and cultural heritage and to the maintenance of the world’s diversity; (5) provides more enjoyable experiences for tourists through more meaningful connections with local people, and a greater understanding of local cultural, social, and environmental issues; (6) provides access for physically challenged people; and (7) is culturally sensitive, engenders respect between tourists and hosts, and builds local pride and confidence (International Centre for Responsible Tourism, 2010). “Responsible tourism management is managing the business in a way that benefits its local community, natural and business environment and itself” (Frey and George, 2010, p. 622).</td>
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<tr>
<td>Sustainable tourism</td>
<td>Tourism that improves ‘...the quality of life of the host community, provides a high quality of experience for the visitors and maintains the quality of the environment on which both the host community and the visitor depend’ (McIntyre, 1993, p. 11) “Tourism which is developed and maintained in an area (community, environment) in such a manner and at such a scale that it remains viable over an infinite period and does not degrade or alter the environment (human and physical) in which it exists to such a degree that it prohibits the successful development and well being of other activities and processes (Butler, 1993, p. 29).</td>
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<tr>
<td>Cultural tourism</td>
<td>Tourism based on traditions, customs, religion, ceremonies, rituals, the arts, crafts, language, dress, food, architecture, and landscape (Peterson and McCarthy, 2003).</td>
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<tr>
<td>Industrial tourism</td>
<td>Where work and leisure meet. A partnership which can deliver benefits to a wide range of participants: firms which open their doors to the public; visitors who come to see industrial processes for themselves; schools which gain an additional resource; and communities which might benefit from spending by visitors drawn to the area (Green, 1994, p. 16). “Industrial tourism involves visits by tourists to operational industrial sites where the core activity of the site is non-tourism oriented” (Frew and Shaw, 1995, p. 88).</td>
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INNOVATION AND ENTREPRENEURSHIP POLICIES FOR SOCIAL INCLUSION

Innovation and entrepreneurship has profound effects on social and economic change (Schumpeter, 1934; Sorensen and Stuart, 2000), and is thus an important driver for inclusive growth. For the purpose of this discussion, we follow Baumol’s (1990) assumption that the supply of entrepreneurial talent is roughly constant, where the key challenge for entrepreneurship policy is to channel this talent towards productive outcomes, which Baumol correlates with innovation.

Within the BOP discourse, the role of innovation has been dominated by Hart and Christensen’s (2002) argument that BOP markets provide an ideal learning environment for developing ‘disruptive innovations’ – initially inferior products that provide a different value proposition over incumbent products. Over time, technological improvements compensate for performance deficiencies and the new technology disrupts incumbents in established markets (Christensen, 1997). Some empirical evidence has been provided by Harjula (2006) and Van den Waeyenberg and Hens (2006). BOP markets may thus provide opportunities for innovators to establish legitimacy (Rogers, 1995), or more specifically cognitive legitimacy, knowledge about the new activity and what is needed to succeed in an industry, and socio-political legitimacy, the value placed on an activity by cultural norms and political influences (Aldrich and Fiol, 1994).

A parallel stream of research similarly suggests that participation in global value chains can alleviate poverty or promote economic development through, for example, ‘upgrading’ the capacity of firms to innovate and thereby increase the value-added of their activities (Humphrey and Schmitz, 2002). Giuliani et al. (2005) suggest that such approaches can encourage the ‘high road’ to competitiveness, which they contrast with the ‘low road’ typical of firms operating in developing countries, whereby firms compete by squeezing wages and profits, rather than improving productivity. While these scholars highlight the importance of endogenous knowledge and learning in developing countries, they also emphasize the role of learning in capability accumulation through, for example, exporting, foreign direct investment, spillovers, and global value chain participation (cf. Bell and Pavitt, 1993; Gereffi, 1999; Giuliani and Bell, 2005; Giuliani et al., 2005; Hobday, 1995; Humphrey and Schmitz, 2002; Kaplinsky, 2000; Morrison et al., 2008; Navaretti and Venables, 2004).

Such emphasis on learning can similarly be found in the mainstream entrepreneurship discourse. For example, empirical studies have shown that early-phase learning is crucial for long term entrepreneurial success (Chrisman et al., 2005; van Gelderen et al., 2005), where successful entrepreneurs are able to learn and improve through interactions with key stakeholders, enhancing their ability to identify and exploit entrepreneurial opportunities (Hudson and McArthur, 1994; Ronstadt, 1988; Shane and Venkataraman, 2000; Shepherd et al., 2000). Entrepreneurial learning is shaped by the social context within which entrepreneurs are immersed (Cornelissen and Clarke, 2010), and can be achieved through, for example, formal education, previous experience, buyers, suppliers, universities, consultants, competitors, and government agencies (Almeida et al., 2003; Jewkes et al., 1958).
A subtle distinction between the global value chain and BOP literature is the degree of poverty and education levels of the entrepreneurs. Studies in the former are concerned with innovative and entrepreneurial activities by relatively educated and literate populations within underdeveloped regions, whereas the BOP literature is focused on very poor and usually illiterate people. However, the focal point of both perspectives is typically an educated and often enlightened social entrepreneur with access to entrepreneurial knowledge sources as discussed by Almeida et al. (2003) and Jewkes et al. (1958), most of which are usually beyond the reach of entrepreneurs from the BOP. Peredo and Chrisman (2006, p. 310) propose the ‘community based enterprise’, defined as ‘a community acting corporately as both entrepreneur and enterprise in pursuit of the common good’ as an alternative to stimulate entrepreneurial learning. However, they also suggest that further research is needed to understand how this may result in effective sustained performance.

While the entrepreneurship literature suggests that access to traditional knowledge sources may increase entrepreneurial success, their absence does not appear to prevent low-end entrepreneurial ventures, and indeed may exacerbate a negative association between development performance and self-employment as observed by Kuznets (1966), and specifically in less developed countries as observed by Pietrobelli et al. (2004). Furthermore, knowledge alone may not lead to success; entrepreneurial alertness, the ability to perceive new economic opportunities that no prior economic actor has yet recognized, is also crucial (Kirzner, 1973). Entrepreneurs that are highly alert, explorative, and take broad intuitive perspectives incorporating multiple inputs tend to be more effective in recognizing and acting on business opportunities (Ardichvili et al., 2003; Bygrave et al., 1997; Kaish and Gilad, 1991). Shane (2003) argues that alertness is dependent upon cognitive capacities of individuals, such as high intelligence and creativity. Note that we differentiate high intelligence from knowledge sources, where, for example, an entrepreneur from the BOP may be intelligent but usually lacks knowledge sources. Furthermore, an outcome of high corruption, social instability and weak public-sector institutions, discussed by North (1990), Sachs (2005), and Stiglitz (2002), common in BOP settings (Webb et al., 2010), may actually direct the entrepreneur towards knowledge sources that lead to destructive outcomes such as drug trafficking or the sex trade. Alertness is thus necessary for productive outcomes, but not sufficient.

Whereas alertness has dominated much of the entrepreneurship literature, organization theorists have focused on the more nuanced concepts of awareness, mindfulness, and sensemaking that provide insights on decision-making processes of policy makers and entrepreneurs. Weick (2010, p. 545) distinguishes between alertness, the ‘effort to notice something that is out of place, unusual, or unexpected’, and awareness, which is the ‘effort to generate conjectures about what that anomaly might mean’. Mindfulness is a state where individuals notice multiple perspectives in problem solving, are aware of context, and are able to differentiate the external environment (Langer, 1989). Weick (2010, p. 546) views mindfulness as a ‘rich awareness of discriminatory detail’, i.e. when people act, they are aware of context, and possess the ability to process incoming information systematically and effortlessly (Weick, 1996). Sensemaking is the collaborative process of creating shared awareness from different individuals’ perspectives, and involves looking back retrospectively, and forward prospectively to construct an understanding of ideas or events (Weick, 1996).
Cornelissen and Clarke (2010) argue that entrepreneurs use sensemaking to imagine and refine a new venture, as well as to legitimize and allow it to be accepted by key stakeholders, i.e. provide socio-political legitimacy (Aldrich and Fiol, 1994). According to Jelinek and Litterer (1995), sensemaking is affected by the context within which the entrepreneur is embedded, whereas Levinthal and Rerup (2006, p. 504) note that mindfulness requires attentiveness to context, as well as the ‘capacity to respond to unanticipated cues or signals from one’s context’. As discussed above, the context under which many BOP entrepreneurs operate is often embedded within corrupt, unstable, and weak institutional environments, with poor access to education and other knowledge sources. Mindfulness is thus particularly relevant for entrepreneurship policy makers within the BOP, because their decisions may have wide-ranging social implications (positive and negative), and may shape future productive structures (Bygrave and Minniti, 2000).

The inverse of mindfulness is mindlessness, a state of reduced attention where ‘rules and routines are more likely to govern our behaviour irrespective of the current circumstances’ (Langer and Moldoveanu, 2000, p. 2), i.e. ‘rigid and rule-governed rather than rule-guided’ (Langer, 1989, p. 139). Valorinta (2009) and Levinthal and Rerup (2006) suggest that organizations are characterized by some level of both mindfulness and mindlessness at any given time (Levinthal and Rerup use the less pejorative term ‘less-mindful behaviour’). We follow these authors by suggesting that entrepreneurship policies are rarely exclusively mindful or mindless. However, the underlying concepts of mindlessness – failure to look back retrospectively, rigid and rule-governed behaviour, the inability to notice multiple perspectives, and lack of contextual awareness – are usually more explicit, and can thus describe the state within which policy makers develop and implement entrepreneurship policies within the BOP. As discussed above, policy makers in emerging economies have considerable expectations regarding the economic and social benefits from tourism entrepreneurship, yet in many cases the results have not lived up to the expectations or have led to more harm than good. We will show below how entrepreneurship policies enacted under varying states of mindfulness resulted in differing entrepreneurial outcomes.

METHODOLOGY

This study is part of a broader programme of research that used an inductive grounded theory approach (Glaser and Strauss, 1967) to investigate the interactions between innovation, entrepreneurship policies, and inclusive growth from a number of national and industrial settings including energy, agriculture, and tourism. From this broader programme, we found that government policy makers, especially in BOP settings, see tourism entrepreneurship as a means to address social exclusion, yet in practice it often leads to more harm than good, an issue yet to be adequately explored in the BOP literature. Through iterations between the literature and our field studies, we found that Baumol’s (1990) entrepreneurship typology provided a useful framework to refine our analysis and shape our propositions, resulting in the research question: How do entrepreneurship policies encourage productive entrepreneurship for improved social inclusion in BOP settings?
We limited our study to one country, Brazil, to provide sufficient depth of analysis, equalizing factors such as financial cycles, cultural aspects of the population, and types of tourists choosing that destination. We selected Brazil for two reasons. First, its tourism industry is substantial, accounting for over 20 per cent of the country’s service exports (WTO, 2010) from over 5 million international visitors (EMBRATUR, 2009) spending US$5.8 billion in 2008 (Brasil, 2010). The country is currently the most popular South American destination in terms of visitors and international tourist receipts (WTO, 2009). Second, according to our interviews, the industry is now recognized by many Brazilian policy makers as a cause of, and potential solution to, social exclusion, a major policy mandate given the country’s large BOP population, estimated to be 115 million in 2005 (World Resources Institute, 2006).

Data collection included desk research and information gathered from government, United Nations and industry association documents, the academic literature, and the popular press. Key informant interviews were conducted between 2003 and 2010 in 11 Brazilian tourism destinations, plus Brasilia, the national capital and headquarters of the Federal Government agency EMBRATUR (Brazilian Enterprise of Tourism). To ensure data triangulation (Yin, 1984), a broad range of stakeholders with varying perspectives were interviewed (see Table II for a summary of interview subjects by stakeholder category). Each case included interviews with tourism operators and entrepreneurs, trade associations, policy makers and regulators, researchers, and other secondary stakeholders such as environmental groups, social advocates, and community representatives.

Open-ended interviews averaging two hours in duration were conducted, recorded, translated (if necessary), and transcribed in summary form with 98 key informants, ten of which included interviews concerned with more general issues of development with UN officials in Brasilia, New York, and Rome. Key informants were identified from our desk research and through the snowball technique (Berg, 1988), where participants suggested additional people for the study. Questions were used to initiate the discussion, but not constrain interviewees’ scope for raising relevant issues. This included questions about the industry and sustainable tourism, opportunities for local BOP populations, the social and environmental outcomes derived from tourism practices in their area, their policies towards impoverished people within their company or jurisdiction, and/or if

Table II. Interview subjects by stakeholder category (number of subjects)

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<tr>
<th>Stakeholder Category</th>
<th>Number of Subjects</th>
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<tr>
<td><strong>Tourism entrepreneurs/operators</strong> (large and small hotel &amp; resort operators, restaurateurs, tour operators, fishing guides, arts &amp; crafts producers &amp; sellers, cotton farmers, coloured cotton co-op presidents, textiles buyers, taxi operators)</td>
<td>45</td>
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<tr>
<td><strong>Policy makers and regulators</strong></td>
<td>16</td>
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<td><strong>United Nations officials:</strong></td>
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<tr>
<td>Food &amp; Agricultural Organization (Rome)</td>
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<td>UN Environmental Program (New York)</td>
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<td>UN Division for Sustainable Development</td>
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<td>Economic Commission for Latin America &amp;</td>
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<td>Caribbean (Brasilia)</td>
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<td>UN Development Program (Brasilia)</td>
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<td><strong>NGOs</strong></td>
<td>6</td>
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<td><strong>Trade associations</strong></td>
<td>15</td>
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<td><strong>Academics and industry experts</strong></td>
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<td><strong>TOTAL</strong></td>
<td>98</td>
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*Includes interviews with officials from SEBRAE, categorized by the Brazilian government as a trade association.
they developed or adopted innovations such as new products or new ways of dealing/organizing their activities to encourage social inclusion.

As part of our inductive grounded theory approach, data analysis and collection interacted during the research process. During the interviews, one researcher was responsible for asking the questions while another took observation notes and filled in the gaps, if necessary. After every interview, we discussed and recorded the key findings. We identified common variables within the cases that included the primary tourism marketing focus (e.g. domestic or international) and activity (beach, nature-based, industrial, and/or cultural), entrepreneurship policy regarding social inclusion (not explicitly recognized, explicitly exclusive or explicitly inclusive), and innovation focus (imitation of other destinations, capability development, or connected to local innovation). We used these four variables as the basis for conducting a systematic cross-case analysis looking for differences and similarities in their approaches and outcomes, always interacting between the entrepreneurship, BOP, and tourism literatures. From this analysis, we found that institutional settings are usually weak and entrepreneurial knowledge sources are limited within the BOP, hindering productive outcomes. We identified entrepreneurship policy approaches towards social inclusion (whether inclusive or exclusive) and innovation focus (imitation, local innovation, or capability development) as the mediating variables, which in turn are shaped by the varying states of mindfulness of the policy makers at the time of implementation.

Eleven tourism destination cases were analysed (Table III). In the process of selecting the cases to be presented in this paper, we excluded Rio de Janeiro, Salvador, and Sao Paulo, as their tourism marketing targeted both domestic and international markets, which would prevent us from examining whether the difference in marketing focus has implications for social inclusion. Of the remaining eight cases, four were primarily focused on the domestic market and four on the international market. Foz do Iguassu’s and Manaus’s entrepreneurship policies were explicitly socially exclusive. Cabaceiras, Campina Grande, and João Pessoa had explicit policies for social inclusion, while Petrolina, Praia do Forte, and Recife had no clear policies. The innovation focus of Recife was primarily imitative of Rio de Janeiro, whereas Petrolina, Praia do Forte, and Foz do Iguassu were based on capability development and the rest were connected to a local innovation. Following Eisenhardt (1989) and Glaser and Strauss (1967), the three cases presented in this paper, Recife, Foz do Iguassu, and João Pessoa, were selected to illustrate differences in context (different marketing focus and activities), entrepreneurship policy regarding social inclusion, and innovation focus, highlighting theoretical issues of entrepreneurship policies within BOP settings. With these three cases, we cover both domestic and international marketing, a range of tourism activities, plus an exemplar for each entrepreneurship policy regarding social inclusion and innovation focus.

To ensure validity and generalizability of the findings, we also analysed how our data were consistent or conflicted with theories from the BOP, global value chain, tourism, and entrepreneurship literatures (Eisenhardt, 1989). Following Zahra and Newey (2009), we followed a multidisciplinary perspective, allowing us to extend the boundaries of these literatures. Given the nature of the research, we recognized that there was a risk of social desirability bias, whereby research participants might express viewpoints that they think the interviewer wants to hear rather than what they truly believe (Fisher, 1993). To
reduce this risk, we informed interview subjects that all data would be confidential, as suggested by Singer et al. (1992), and that we would not use information that could place the interviewee in any form of jeopardy. We also informed the subjects at the outset that we would check our data against known ‘facts’ (Kalton and Schuman, 1982) available through other studies, industry reports, government documentation, inter-governmental reports, and other interviewees.

In the next section, we discuss our three cases that illustrate destructive tourism in Recife, socially exclusive nature-based tourism in Foz do Iguassu, and socially inclusive tourism in João Pessoa that draws on local innovation, albeit at a more restrained pace of economic development.

POLICIES RESULTING IN DESTRUCTIVE ENTREPRENEURSHIP: SEX TOURISM IN RECIFE

Recife, the capital of Pernambuco State, has a population of 1.6 million (IBGE, 2009) and is located by desirable beaches in Brazil’s less-developed Northeastern region. Recife (meaning ‘reef’) and sister city Olinda (‘oh beautiful’) were historically influenced by Dutch, Portuguese, and African cultures. Tourism infrastructure such as hotels and the international airport are modern and historical sites have been restored. The original city centre is known as the Amsterdam of South America; Dutch artist Franz Post made the region famous in the seventeenth century.

Table III. Overview of tourism destination cases

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<td><strong>Primary tourism activity</strong></td>
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<td>Beach</td>
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<td>Nature-based</td>
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<td>Industrial</td>
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<td>Cultural</td>
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<td><strong>Primary tourism marketing focus</strong></td>
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POLICIES RESULTING IN DESTRUCTIVE ENTREPRENEURSHIP: SEX TOURISM IN RECIFE

Recife, the capital of Pernambuco State, has a population of 1.6 million (IBGE, 2009) and is located by desirable beaches in Brazil’s less-developed Northeastern region. Recife (meaning ‘reef’) and sister city Olinda (‘oh beautiful’) were historically influenced by Dutch, Portuguese, and African cultures. Tourism infrastructure such as hotels and the international airport are modern and historical sites have been restored. The original city centre is known as the Amsterdam of South America; Dutch artist Franz Post made the region famous in the seventeenth century.
According to our interviews with EMBRATUR, during the 1980s local policy makers identified tourism as a mechanism for economic growth, and the Federal Government saw tourism as a means to reduce inequality between the Northeast and the more economically prosperous Southern regions of Brazil. Recife potentially offered similar amenities as Rio de Janeiro, Brazil’s largest, most mature and successful international tourism destination. Indeed, according to EMBRATUR and state tourism officials, Rio de Janeiro was seen as the benchmark Brazilian tourist city, but policy makers in many Northeastern cities failed to look back retrospectively to understand the city’s many social problems, such as prostitution and theft. Their decisions were thus shaped without contextual awareness of tourism entrepreneurship in Rio de Janeiro.

Recife’s international marketing campaign focused on beaches. According to EMBRATUR and state tourism officials interviewed in Brasilia and Recife, ‘posters with beautiful women in bikinis’ were distributed to key markets in Italy and Germany, and chartered airlines from these countries soon frequented the new airport. Hotels were built or upgraded, and supporting industries like taxis, tour guides, nightclubs, and restaurants grew. Tourism performance indicators implied that the marketing plan was a major success. However, the indicators hid much of the industry’s impact. According to our interview subjects, many charter flights were filled with sex tourists. Although data are not available by city, it is estimated that 250,000 children have been forced into the sex trade, the majority of which are from the Northeast (BBC, 2010). Officials from a local women’s rights’ research institute indicated that the women involved typically are uneducated and from poor families, receiving little money, and in many cases only gifts, free meals, and other small benefits. Indeed, some sex workers do not see themselves as prostitutes, but rather as ‘dates’, with the hope that they will meet someone that will save them from the abject poverty from which they come.

Although the women receive little, it remains a lucrative business, with the country’s sex tourism focus being driven by the collaboration of travel agencies, tour guides, hotels, bars, restaurants, nightclubs, porters, and taxi drivers (Camurça, 2003; Portella, 2003). Recife is currently one of Brazil’s most dangerous cities, and although it is difficult to determine the specific causes, many key informants argued that international tourism was a major contributor to this situation. Attempts at promoting tourism entrepreneurship resulted in destructive outcomes. An irony is that the Pernambuco State Department for Tourism and EMBRATUR saw Recife’s tourism activities as a success, reinforced by key tourism performance indicators, although it is now acknowledged that there was a failure to notice multiple perspectives – i.e. social as well as economic impacts. For example, according to the Secretariat of Pernambuco State Tourism:

In the last 30 years, they [policy makers] over-killed in selling Recife’s beach image overseas. It was like a ‘monoculture’. No chance was given to other tourism products (culture, business, etc.) that can be offered by a city like Recife . . . That is, in my opinion, a mistake that we have made here.

Recent advertising policies have shifted away from the bikini–beach focus (with a strict policy prohibiting scantily clad women on posters), and more towards culture and ecology. In Brasilia, EMBRATUR now emphasizes the potential contribution of tourism
activities for social inclusion (EMBRATUR, 2006) by, for example, using ‘prevention ads’ to discourage sex tourism by promoting ethical forms of tourism and warnings of prison sentences for child sex abuse (Hudson, 2008). However, in spite of this high-level policy shift, old rules and routines still govern their decisions, where these agencies continue to use only economic indicators as the measure for industry success. Table IV summarizes key current national and municipal performance indicators in tourism.

**POLICIES IGNORING SOCIAL EXCLUSION: NATURE-BASED TOURISM IN FOZ DO IGUASSU**

Foz do Iguassu, in the Southern state of Paraná next to Argentina and Paraguay, is home of the world-famous waterfalls of the same name. The metropolitan area has a

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population of about 300,000, and is a major Brazilian tourist destination. The city has approximately 100 hotels and pousadas (bed & breakfasts), numerous restaurants, tour guides, and fishing outfitters. Currently, most of the tourists are Brazilians and Argentines, but Americans, Europeans, Japanese, and Chinese tourists are also being increasingly targeted.

EMBRATUR and the Ministry of Industry & Commerce identified the waterfalls and local ecosystem as resources for tourism opportunities that could absorb former employees of the Itaipu Hydropower Project that was completed in the early 1990s. The Project employed 50,000 workers during construction, the majority of which had to be relocated from other regions. Output from the Itaipu Dam, the world’s largest hydroelectric facility in terms of total electricity generated, produces about 20 per cent of Brazil’s, and 80 per cent of Paraguay’s hydropower. After construction, the dam employed only about 5000. Many former workers, faced with unemployment, were encouraged to engage in entrepreneurship, particularly in tourism. Local officials from SEBRAE (the Brazilian Micro and Small Business Support Service, an industry sponsored agency to assist entrepreneurs through non-financial measures) referred to these people as ‘forced entrepreneurs’ and provided them with basic entrepreneurship training.

According to the Director of the Foz do Iguassu Tourism Agency, by 2005 tourism represented approximately 65 per cent of the local economy, and since then there have been explicit efforts to promote ecotourism, indigenous cultures and industrial tourism at the dam: ‘Our objective here is to make tourists come to Foz seeking culture and knowledge and also leave some knowledge to the locals.’ Initially this was part of a broader strategy to exploit the waterfalls, the world’s largest as measured by water volume. Like Niagara Falls, it straddles two borders (Brazil and Argentina), but covers a larger area, generates three times the water volume, and is composed of over 150 different falls. There are extensive access pathways, bridges, information kiosks, and other facilities on both sides of the river. These activities were also encouraged, to replace destructive activities such as sex tourism and drug trafficking that were common during the dam’s construction. There remain problems with sexual exploitation of impoverished women and children, particularly from Paraguay, although Itaipu Binacional (the company that runs the dam) operates a programme aimed at eradicating this problem. Unlike Recife, there were greater levels of coordination among various government agencies, with an active attempt to increase tourism capabilities. According to the Director of the Regional Tourism Office:

Here in Foz we have a specialized kind of tourism. We need educated people that speak other languages. Most people here are well educated so the companies can hire educated people... The focus of our effort is to raise the level of the people working in tourism. That includes training, learning English.

While Foz do Iguassu focused on increasing tourism capabilities, Argentina exploited Brazilian gambling restrictions by operating casinos on their side of the border. Paraguay, with greater social problems than Brazil, has focused on tax-free shopping, exploiting relatively high Brazilian import taxes. Brazilian stores cannot compete, and therefore the retail sector is insignificant in Foz do Iguassu. The Paraguayan city, Ciudad del Este,
is also known for corrupt taxis, street crime, and car thefts. Foz do Iguassu’s attempts at productive entrepreneurial tourism were thus being undermined by rent-seeking activities from other areas, and in response local businesses were trying to cater to higher-end international markets interested in the natural wonders rather than tax-free shopping. The industry was thus becoming more socially exclusive, where higher levels of education were in demand. Our interviews with industry and government representatives indicated that, while they were aware of social problems in their region, they did not regard socially excluded people as their responsibility, as most were from elsewhere. Thus, while they were aware of contextual factors, there was an unwillingness to notice multiple perspectives, i.e. from those within specialized tourism and those that are socially excluded. If the industry continues to grow as predicted, their attempts at developing high-end nature tourism may exacerbate social exclusion in the region.

POLICIES SUPPORTING SOCIAL INCLUSION: TOURISM INNOVATION IN JOÃO PEssaO

Founded in 1585 on the most eastern part of the western hemisphere, João Pessoa, Paraíba is one of the oldest cities in Brazil. Today it has around 850,000 habitants and good transportation infrastructure, allowing easy access to other regions of the country (Melo et al., 2006). The city mostly caters to domestic tourists, with 48 per cent from other Northeastern states and 41 per cent from the Southeast (SEBRAE-PB, 2001). According to the Director of Paraiba State Tourism, this domestic market policy was established to avoid perceived detrimental impacts from international tourism that occurred in Recife 120 kilometres to the south, even though they realized that this would come at the expense of a smaller industry and develop at a slower pace. It was also consistent with EMBRATUR’s new policy of refocusing tourism marketing on local cultural attractions such as history, traditional festivals, unique cuisine, and nature tourism rather than solely on beach tourism. In the long term the Paraíba Secretariat of Tourism stated that they were trying to attract domestic families, which would then lay the foundation for a more benign international tourism sector: ‘This is the kind of international tourist that we want to attract; people that respect nature, environment, we want families to come here.’

While the primary attraction is still the beaches, there is a growing cultural tourism sector in João Pessoa. For example, the Historic City Centre has numerous monuments illustrating examples of different historical phases and architecture. Outside the metropolitan area are popular cultural festivities such as history, traditional festivals, unique cuisine, and nature tourism rather than solely on beach tourism. In the long term the Paraíba Secretariat of Tourism stated that they were trying to attract domestic families, which would then lay the foundation for a more benign international tourism sector: ‘This is the kind of international tourist that we want to attract; people that respect nature, environment, we want families to come here.’

Located near a popular beach area is the Arts & Handicrafts Mall, which provides inexpensive retail space for entrepreneurs selling locally produced artistic and handicraft products. A key product sold in this and other nearby tourism locations (such as Jacare on the Paraíba River and Tambau Flea Market across from the city’s largest five-star hotel) is locally produced naturally coloured (and sometimes organic) cotton used in garments, hammocks, and other textile products. The underlying technology was also
locally developed by the nearby Campina Grande research station of the government controlled Brazilian Agricultural Research Corporation (Empresa Brasileira de Pesquisa Agropecuária, EMBRAPA), a world-class national agricultural research institution (Reid, 2007; Ruttan, 2002).

According to EMBRAPA’s Campina Grande Director, the initial vision was to develop the technology for large-scale commodity production, but the initial cost and fibre quality made it unsuitable for such markets at that time. However, subsistence farmers were identified as potential producers, especially if the cotton was organically grown, to provide an ‘eco-friendly’ yarn. These farmers typically could not afford chemical herbicides and pesticides, but were willing to expend labour. By 2000, this market was further prioritized with EMBRAPA’s change in strategic direction towards small-scale farming, a reflection of then President Lula’s mandate to improve opportunities for those who have traditionally been excluded from participating in the country’s growing economy. According to Hall et al. (2009), the modernization of Brazilian agriculture over the past 40 years created greater economic efficiencies, but was also believed by policy makers to be a main source of social exclusion. Large-scale, mechanized farming replaced dispersed subsistence farmers, leading to urban migration and the emergence of Brazil’s favelas, or shantytowns, infamous for extreme poverty and crime. To date EMBRAPA has developed three colours – green, brown, and red. According to EMBRAPA representatives, the products have received considerable interest in the market, and Newsweek Magazine listed naturally coloured cotton as one of the ten innovations of the twenty-first century (Margolis, 2003).

Although naturally coloured cotton is currently more expensive than regular cotton, it is being exploited in relatively small but potentially lucrative tourist markets, analogous to ‘fair trade’ food. It also provides opportunities for local subsistence farmers and other impoverished entrepreneurs within the value chain, thus enhancing the intangible social aspect, which in turn may compensate for initially lower commercial viability (Hart and Christensen, 2002). For example, women from impoverished communities are now participating in the value chain by sewing brocades based on local culture on garments for the tourism market. Over the last six years, informal and formal networks involving EMBRAPA, local cotton farmers, trade associations, co-operatives, textile workers, and other participants have emerged, with the tourism industry emerging as the dominant buyer. This niche may allow for the establishment of legitimacy (Aldrich and Fiol, 1994) for the technology so that it can be applied to other sectors, such as an international ‘eco-niche’ in high-end retail outlets, a goal of EMBRAPA. For example, a German textiles buyer stated in 2008 that a truly organic, naturally coloured cotton could be ‘sold in [UK-based high end retailer] Harrods next to Egyptian cotton’.

By focusing first on a smaller, family-oriented domestic market, João Pessoa has been able to avoid much of the problems in nearby Recife. Their attempts at social inclusion were thus examples of looking back retrospectively at others’ experiences, high levels of contextual awareness, an ability to see multiple perspectives (i.e. economic and social benefits and detrimental impacts of tourism), and a willingness to incorporate such insights into policy. For example, the marketing of naturally coloured cotton products to tourists provides more productive entrepreneurial opportunities for the BOP, and perhaps the foundation for longer-term socially beneficial international tourism and
textiles exports. However, this was at the expense of a less lucrative industry in the short term.

DISCUSSION

Our motivation for this research was driven by recent academic and policy discourse suggesting that there are considerable entrepreneurial BOP opportunities through tourism, an industry often regarded as a panacea for economic growth and social inclusion, but often resulting in destructive outcomes. Drawing on the BOP, entrepreneurship, global value chain, and sustainable tourism discourses, we analysed how entrepreneurship policies shaped entrepreneurial outcomes in poor communities. The three cases presented here all possessed significant natural and cultural resources, but differed in terms of primary tourism marketing focus, entrepreneurship policy regarding social inclusion, and innovation focus, resulting in varying entrepreneurial outcomes.

Unrestrained Tourism Policies: A Recipe for Destructive Outcomes

In Recife, large scale and relatively unrestrained international tourism allowed alert local and international entrepreneurs to exploit sex tourism opportunities, and there was little awareness of social exclusion problems by policy makers. Our data suggest that entrepreneurial alertness thus does not always lead to productive outcomes – indeed, it can lead to destructive entrepreneurship, particularly at the BOP where institutional settings are weak. Despite the financial success of Recife’s tourism industry, our interviews with other state tourism officials in the Northeast and EMBRATUR in Brasilia indicated that Recife is now a benchmark city of what not to do. A João Pessoa coloured cotton retailer stated: ‘We prefer that foreign tourists don’t come so we don’t have what happened in Natal where the currency became the Euro and the local people got screwed [by high prices] . . . Don’t even get me started on sex tourism – we don’t want to be like Recife . . .’

Two theoretical implications may be derived from these findings. First, the majority of the BOP literature to date has not explored the unintended detrimental outcomes of entrepreneurship policies. Second, most mainstream entrepreneurship studies have not explored whether alertness leads to productive or destructive outcomes. The concepts of awareness, mindfulness, and sensemaking developed within the organization theory discourse may provide insights to this relationship, particularly in non-BOP settings where institutions are relatively well established and society’s ‘rules of the game’ are understood (North, 1990). However, at the BOP, social instability and weak public sector institutions are the norm (Sachs, 2005; Stiglitz, 2002; Webb et al., 2010), making it infeasible to expect entrepreneurs within poor regions to be concerned about social impacts.

A focus on traditional economic tourism performance indicators (Table IV) hid the relationship between an unrestrained sector and numerous social problems such as prostitution and higher crime rates. When policy makers in Recife made the decision to expand tourism, they drew insights from Rio de Janeiro, but only focused on economic factors, failing to recognize the wider consequences of industry expansion. Thus, their decisions were based on rigid and rule-governed heuristics, an inability to notice multiple perspectives, and reduced attention to social impacts and contextual awareness.
resulting policies led to unrestrained tourism development, and, coupled with alert but unscrupulous entrepreneurs, were a recipe for destructive entrepreneurship. This leads to our first proposition:

**Proposition 1**: Entrepreneurship policies developed with reduced attention to social impacts and based solely on traditional economic performance indicators, will likely direct alert entrepreneurs in the BOP towards destructive outcomes.

The WTO (2004) has developed sustainable development indicators for tourism that address socio-cultural, economic, and environmental sustainability issues such as natural resource and cultural heritage conservation, climate change impacts, control over development, and satisfaction of tourists and host communities. Using such additional indicators provides insights on the wider consequences of the industry, and may thus provide guidance for more socially inclusive policies. Assessing tourism performance in such a broad and comprehensive way requires the use of both quantitative measures (such as raw data, ratios, and percentages) and qualitative measures that may be categorical, normative, nominal, and opinion-based (WTO, 2004). Some Brazilian companies are using such social indicators developed by the Ethos Institute, a Brazilian NGO, in partnership with the UN Global Compact, a UN initiative committed to improving human rights, labour relations, environmental protection, and combating corruption. According to a senior Ethos manager, the Institute’s role is to encourage companies to consider social inclusion in their activities. Participating tourism businesses have to evaluate their performance and impacts according to various social indicators (Indicadores ETHOS, 2002). The evaluation is a self-reporting checklist (ranging from ‘never thought about that’ to ‘we are formally committed and regularly request reports from our employees on that matter’). The social indicators consider a number of themes including ethical behaviour, dialogue with stakeholders, policies towards child labour, ethnic and gender diversity, and actions against corruption and bribery.

**Entrepreneurial Capability Development and Social Exclusiveness**

Foz do Iguassu is an example of a community where tourism was expected to take up the economic slack after other industries waned (Tidsell, 2001). Accounting for 65 per cent of the local economy, tourism became the major economic driver in the region, with efforts by various government agencies encouraging activities based on the local ecology, indigenous cultures, and industrial tourism. Some non-BOP local entrepreneurs displayed high levels of alertness and made explicit efforts to learn in an attempt to develop high end, knowledgeable, and multi-lingual tourism experiences. However, consistent with Baumol (1990), unproductive cross-border rent-seeking activities hindered the wider entrepreneurial environment in, for example, arts and crafts, that played an important role in João Pessoa’s tourism industry by providing greater value-added activities for social inclusion.

The entrepreneurship policies of Foz do Iguassu are consistent with the tourism and global value chain literatures, which emphasize capability development, including learning through international markets. However, people from the BOP were being
marginalized, increasing social exclusion. Policy makers saw such people as coming from other regions and thus beyond the scope of their concern, yet at the same time believed that these people would likely engage in criminal behaviour, thus eroding the overall tourism experience. Policies focused on entrepreneurial capability development but ignoring the needs of the BOP are likely to exacerbate social exclusion (Kandachar and Halme, 2006). Furthermore, policies focused on capability development through international markets as advocated by the global value chain discourse (e.g. Gereffi, 1999; Giuliani et al., 2005; Hobday, 1995; Humphrey and Schmitz, 2002; Kaplinsky, 2000; Morrison et al., 2008) may unintentionally increase social exclusion, eroding the venture’s socio-political legitimacy and reducing the destination’s attractiveness to tourists as they increasingly become targeted by criminal activity.

**Proposition 2**: Policies aimed primarily at high-end entrepreneurial capability development are unlikely to improve social inclusion within the BOP, which in turn may erode socio-political legitimacy of the tourism destination.

**Restrained Policies for Social Inclusion**

Similar to our other examples, the relatively low barriers to entry in tourism (Koh, 2002) were recognized by policy makers as a potential driver for economic growth in João Pessoa, but there were also concerns over the detrimental impacts of rapid and unrestrained international tourism that emerged in Recife. Mindful of these problems, i.e. looking back retrospectively at, for example, Recife’s experiences, specifically aware of both economic and social perspectives, and contextually aware of the needs and educational limitations of potential BOP entrepreneurs, policy makers in the State of Paraiba focused on an incremental approach based on family-oriented domestic sustainable tourism, rather than on more lucrative international markets. Such an approach may allow for the establishment of a stronger institutional environment (North, 1990) and socio-political legitimacy (Aldrich and Fiol, 1994) that discourages ‘hard tourism’ (Krippendorf, 1982). Note that this more benign domestic focus counters much of the global value chain literature (e.g. Gereffi, 1999; Giuliani et al., 2005; Hobday, 1995; Humphrey and Schmitz, 2002; Kaplinsky, 2000; Morrison et al., 2008), which emphasizes the importance of international trade for economic growth in poor regions. There was, however, an explicit understanding that this could hinder the economic development of the industry. Indeed, interviews with state tourism officials in the Northeast indicated that they were willing to ‘put on hold’ international tourism, rather than risk creating another Recife. While João Pessoa was one of the most socially inclusive of our cases, it was at the time of writing the least lucrative, leading to our next proposition:

**Proposition 3**: Socially inclusive tourism and an institutional environment for productive entrepreneurship are more likely to emerge in BOP settings under policies that restrain the pace of economic development rather than under policies that are unrestrained.

The call for a greater role of government sponsorship of entrepreneurship, while simultaneously restraining the industry, differs from studies based on entrepreneurship in
industrialized countries. For example, Sobel’s (2008) recent empirical test of Baumol’s (1990) typology, using US aggregate data and proxies for productive and unproductive entrepreneurship, suggests that governments should minimize their role, lowering the return to unproductive entrepreneurship rather than expand government programmes like subsidized loans, workforce education, or programmes for increasing ‘entrepreneurial inputs’ to foster productive entrepreneurship. His study however focused on unproductive rather than destructive outcomes, the latter being of more concern in Brazil and a common problem within the BOP. As a reconciliation, we suggest that there is a priority of issues that need to be addressed within the BOP, starting with reducing socially detrimental entrepreneurial impacts in an attempt to lock in future productive structures (Bygrave and Minniti, 2000), at which point issues of unproductive entrepreneurship can be resolved.

Local Innovation and Social Inclusiveness

In addition to a smaller scale, our data show that tourism activities such as those in João Pessoa differed from the more financially lucrative destinations by being embedded within local culture and exploiting a local innovation that was not exclusive to tourism but specifically structured around social inclusion. Their industry thus provided greater opportunities within the value chain by recombining technology (Schumpeter, 1934) from agriculture with tourism applications, and specifically for those that would otherwise be socially excluded. This local innovation focus contrasts with Foz do Iguaçu’s policies of international orientation and capability development, which, although consistent with the global value chain literature, does not provide opportunities for the BOP. It also departs from Hart and Christensen’s (2002) argument that the drivers of disruptive innovation at the BOP are multinationals. For example, in this case the technology was primarily driven by the Brazilian government agency EMBRAPA, who hoped that the initial tourism market would allow for investment and technological improvements that would then lead to wider diffusion and more sustainable opportunities within the region. The tourism niche for coloured cotton may thus provide cognitive and socio-political legitimacy for the technology so that it can be applied elsewhere, such as international ‘eco-niche’ markets in high-end retail outlets, a potentially disruptive innovation from the BOP for the BOP.

João Pessoa’s policy approach to tourism development is consistent with Stonich’s (1998) policy recommendation of meaningful local community involvement in the industry, and Peredo and Chrisman’s (2006) community-based entrepreneurship concept that draws on community skills and participation, which is often shaped by multiple goals. However, we add to these studies by emphasizing the importance of access to knowledge sources (Almeida et al., 2003; Jewkes et al., 1958) that have been identified as crucial to long term success (Chrisman et al., 2005; van Gelderen et al., 2005), but typically unavailable to BOP entrepreneurs. More specifically, naturally coloured cotton pioneered in Paraíba provided positive BOP learning opportunities for subsistence farmers, garment producers, and traders through, for example, buyers, suppliers, cooperatives, EMBRAPA, and environmental advocates encouraging organic farming. This contrasts with Recife’s more simplistic policies of imitation, and where learning references were influenced by institutionalized criminal activities (e.g. sex tourism). As discussed by

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Cornelissen and Clarke (2010) and Jelinek and Litterer (1995), entrepreneurs are shaped by the social context in which they are immersed. In João Pessoa, entrepreneurship policy makers recognized the value of local innovation for social inclusion, even though they were aware that it would be less lucrative when compared to Recife or Foz do Iguassu. They, however, were willing to follow this less lucrative approach, as they were aware that it could influence future productive structures (Bygrave and Minniti, 2000) and establish a more socially constructive institutional environment (Baumol, 1990; North, 1990).

**Proposition 4:** Policies promoting community-based entrepreneurship connected to local innovations provide BOP entrepreneurs with productive knowledge sources and opportunities for wider supply chain participation, thus reducing social exclusion.

Our data implies that international tourism has propensities towards social exclusion at the BOP, in part because education is needed to cater to foreign languages and cultures, thus creating high entry barriers for impoverished communities. In contrast, we found that the ‘high road’ to development (Giuliani et al., 2005) is associated with more constrained economic development approaches connected to local innovations, involving a richer mix of BOP and non-BOP stakeholders such as EMBRAPA scientists and technicians, local NGOs, policy makers, entrepreneurship advisors (SEBRAE), farmers, garment producers, and traders, as in the case of João Pessoa. We thus depart from much of the global value chain literature that emphasizes learning and capability development through connections with international markets, and the BOP literature that emphasizes the role of multinationals and social entrepreneurs from developed economies as the primary driver of change.

**LIMITATIONS AND IMPLICATIONS FOR BOP RESEARCH**

Our findings should be viewed in light of the limitations of our research design; which also serve to highlight future research opportunities. We acknowledge that our empirical data do not go beyond what the interviewees were able to articulate and we were able to interpret. Furthermore, the views of our interview subjects are not necessarily the only relevant perspectives on these issues. We tried to minimize these limitations by drawing on a number of cases, conducting interviews with a variety of stakeholders over a number of years, and triangulated with documentation and other interviewees.

Whereas the emerging BOP discourse has primarily focused on the poor as consumers, in our view a more promising area of research involves the rich interactions among BOP and non-BOP entities, and particularly the role of entrepreneurs from the BOP. Furthermore, the BOP discourse has not yet explored in depth the detrimental outcomes of entrepreneurship or negative learning references that may reinforce weak institutional structures. Following Baumol (1990) and North (1990), we addressed part of this gap by exploring the impact of public policy approaches to entrepreneurial behaviour. Although we interviewed 45 tourism entrepreneurs, our study was limited to a policy focus rather than from the entrepreneur’s perspective. We thus call for further research from the perspective of entrepreneurs from the BOP, and specifically why they might be con-
cerned about social exclusion problems. Indeed, many of our interview subjects believed that the problems of social exclusion should be left to government, and in contrast to much of the social entrepreneurship and BOP discourse, entrepreneurs interviewed in this study were often alert but rarely motivated by non-financial incentives. The mainstream entrepreneurship literature has similarly focused on the positive benefits of alertness, with limited attention on how it may lead to destructive outcomes. We thus propose that entrepreneurial dynamics within the BOP differ from developed economies (from which most of the mainstream entrepreneurship literature is based), because weak institutions and negative learning references (e.g. corrupt government officials, criminals, etc.) may influence entrepreneurs towards destructive activities.

Further research could also explore entrepreneurs that are alert to opportunities versus those that are also mindful of the wider implications of their ventures, and how these differences shape productive outcomes. We speculate that these latter entrepreneurs are more likely to survive, particularly when their product is based primarily on the exploitation of public goods, as is the case for our tourism studies and other common BOP sectors such as agriculture, fisheries, and forestry. Without socio-political legitimacy, access to public goods can be restricted or withdrawn by government, or impaired by their own destructive entrepreneurial activities.

Our study also differs from the BOP and global value chain literature that emphasizes the importance of capability development through internationalization. The abrupt and unrestrained internationalization of tourism in, for example, Recife was in sharp contrast to the slower but more inclusive approach of João Pessoa, which explicitly linked the BOP to the tourism value chain. Attempts at developing international capabilities in Foz do Iguassu were more controlled, but provided few opportunities for the BOP. Our data do not allow us to determine if internationalization would inevitably lead to exclusive or destructive outcomes, and thus further research is needed. However, a key policy implication for our research is that productive entrepreneurship based on socially inclusive tourism is unlikely to succeed if unrestrained and unplanned ‘hard tourism’ focused on short-term profitability is the norm.

Our study also suggests that conventional measures based solely on economic criteria do not accurately reflect the wider implications of entrepreneurship policies. We thus recommend further research that investigates policy assessments that take into account multiple factors of community development and social inclusion rather than the current focus on over-simplified performance indicators such as those listed in Table IV. These policies will likely have little impact if there are no mechanisms to evaluate their objectives. For example, despite growing efforts to alleviate poverty through tourism, attempts to measure beneficial impacts are lacking (Goodwin, 2006). While the Ethos social indicator scheme discussed above is a potentially useful mechanism, it is currently self-reporting with no concrete, commercial incentive to participate, and may further be hindered by weak intuitional settings common in the BOP. One option is to draw on other sectors that have attempted to reduce social exclusion. For example, Brazil’s ‘Social Fuel Stamp’ is a tax rebate scheme available to firms that source biodiesel from BOP in poor regions. Although results from this programme remain mixed (Hall and Matos, 2010), EMBRATUR could monitor and explore similar policies that could, for example, reinforce participation in social indicator schemes.
Our cases were limited to one country and one industry. Although Brazil has a large BOP population, it also has a relatively large industrial base, natural resources, and infrastructure, and, like other emerging economies such as China and India, a growing middle class. Regional differences also played a major role in shaping Brazilian social inclusion policies, with parts of the country highly industrialized and others underdeveloped. It would thus be useful to study how entrepreneurship policies shape social inclusion in countries under different circumstances.

The type of industry is also likely to be a contributing factor towards social inclusiveness. For example, services that draw in foreign influences and have a direct impact on the local community like tourism will likely differ from products exported and consumed elsewhere, as is usually the case in the global value chain literature. More generally, some industries appear to have an inherent propensity to be socially inclusive, whereas other industries have a propensity to be exclusive. The difficult challenge is of course picking ones that are likely to provide the elusive double benefit of social inclusion and adequate financial performance. However, we do not suggest that emerging economies with large BOP populations like Brazil should only target industries with socially inclusive propensities, but rather that further research is needed to understand how a rich mix of activities can provide opportunities for the range of socio-economic groups within a country.

CONCLUSIONS

We analysed different entrepreneurship policies in order to improve our understanding of how some BOP entrepreneurship policies generate positive outcomes and others do not. We found that although tourism entrepreneurship can provide the BOP with opportunities to improve social welfare, it can also be the cause of wider social problems. Policies addressing both economic and social perspectives are likely to foster more productive entrepreneurial outcomes, although at the expense of a more constrained pace of economic development.

The contributions to the literature are threefold. First, our research focused on the participation of the poor as entrepreneurs and not as consumers, as is the case for most BOP studies. The BOP literature to date has also ignored how entrepreneurship policies may lead to detrimental consequences. We suggest that restrained entrepreneurship policy approaches, connected to local innovation, may improve social inclusiveness and the likelihood of productive outcomes, which in turn directs alert entrepreneurs towards productive rather than destructive pursuits.

Second, contrary to the BOP and global supply chain literatures, a focus on capability development through internationalization might not always bring benefits for the BOP, because such activities may exclude such populations. A domestic focus connected to local innovation activities may provide BOP entrepreneurs with opportunities and productive knowledge sources, providing the initial stimulus for capability development, the establishment of future productive structures, and a more stable institutional setting.

Third, by following a multi-disciplinary perspective (Zahra and Newey, 2009), we extend the boundaries of the BOP, entrepreneurship, global value chain, and sustainable tourism discourses. For example, while the BOP and global value chain literatures have emphasized capability development and international linkages to improve poverty, the
tourism discourse has recognized that there are also negative impacts from such initiatives. The BOP and tourism literatures have also recognized the importance of entrepreneurship and learning in underdeveloped regions, but to date have not delved deeply into the mainstream entrepreneurship and global supply chain discourses. Conversely, we contribute to the entrepreneurship literature by providing a new perspective on the importance of alertness for entrepreneurship for social and economic development in BOP settings. We suggest that alertness is necessary but not sufficient, as it can lead to productive, unproductive, or destructive outcomes, and thus provides an additional perspective on Shane’s distinction between Kirzner’s (1973) ‘alert’ entrepreneurs and Schumpeter’s ‘innovative’ entrepreneurs. We further suggest that policy makers can channel entrepreneurs’ alertness towards productive outcomes by being mindful of the social consequences of their policies, which in turn will improve the institutional context in which entrepreneurs will emerge.

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