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Real life entrepreneurship in Rio de Janeiro's largest favela

It is well-known that favelas concentrate several informal economic and social arrangements. In this post, [Isabella Nunes Pereira](#) presents results from her research on entrepreneurship endeavours undertaken by dwellers of Rocinha, Rio de Janeiro's largest favela. She finds that, in this context of high-risk, entrepreneurs are action-driven instead of goal-oriented, challenging entrepreneurship understandings based on traditional economic thought.

Despite the presence of consolidated business activity in Rio de Janeiro's favelas, there has been little discussion about actual entrepreneurship in this context. This made me question – how do favela dwellers actually set up their businesses? What is the underlying logic behind their entrepreneurial actions?

This post explores entrepreneurship in Rocinha, Rio de Janeiro's largest favela (IBGE, 2010) through in-depth interviews based on the methodology of listening (Kimmerle 2001): giving voice to real people. It argues that real life entrepreneurship in Rocinha, being based on a non goal-driven activity, challenges understandings of entrepreneurship based on traditional economic thought.

Fieldwork testimonials reveal the preference for a type of rationality at odds with that normally recognised as “business”. While traditional approaches emphasise the importance of predictive logic supported by planning and pre-defined objectives, as well as of being based on a structured business plan, the practice of entrepreneurship observed in

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Rocinha showed me exactly the opposite (Nunes-Pereira & Bartholo, 2015). Immersed in an environment of great uncertainty, entrepreneurs in Rocinha are action-oriented. They actually start with basic resources (who

I am, what I know, who I know) and do not spend time on planning. Additionally, these entrepreneurs face contingencies, not as deviations from a business plan, but as part of the process, in which adjustments are part of strategic learning.

It is not difficult to find real-life examples to illustrate these findings. The owner of one of Rocinha's most successful LAN houses (internet cafes) received a workers' compensation from a previous job. She had never had R\$ 4,000.00 (around £900) in her hands before. The former owner of the LAN house she was working at wanted to sell his business and, despite her lack of experience, she decided to buy the LAN House from him. When asked about whether she considered planning an essential part of entrepreneurial activity, she replied:

I plan some things, but I end up changing them. When I plan to do things one way, I end up doing them another way. But I do many things without planning. As if it were a shot in the dark. To take risks. We have to dare to risk. I think life is like this, to take risks and see if we can achieve something.

Risk is a central factor in vulnerable areas such as favelas. The case of the food kiosk owner is perhaps even more dramatic. Her entrepreneurial practice began with her cooking skills, but she had to take the risk to ask Rocinha's drug lord for authorisation to start a business, and at that time she did not have a well-designed plan:

When I started with the kiosk, I went to the Residents' Association and no one could authorise it. We didn't have a

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chance to get authorised there. Then we went searching for 'alternative' means. And then they let us. They ended up letting us. And then, three days later, after everything was set, the guy that allowed us to open our kiosk was killed. I watched on TV. Jeez, I froze! It seemed that I had lost a relative. Then, the next day, a new 'owner' [drug lord] appeared... Then I got courage out of nowhere to talk to the new guy. I had nothing to lose, anyway...

These local practices observed in Rocinha are in line with Saras Sarasvathy's research for the initial stage of any project, considering environments with high uncertainty and risk. Sarasvathy (2001) develops her theory with empirical research on the logic of entrepreneurs with a history of success. In her 2001 article, Sarasvathy defines *Causation* and *Effectuation* processes in the following way: i) the former begins with the demarcation of a pre-defined goal and concentrates on the selection of various resources capable of achieving that goal; ii) *effectuation* begins by taking into account a set of basic resources, which can be controlled, and focuses on generating possible outcomes.

Sarasvathy states that entrepreneurial expertise is largely based not on mere causation, but rather on the logic of effectuation. The author maintains that the much sought-after unlimited rationality, a characteristic of the traditional economic thought, does not make sense to apprehend entrepreneurial activity. This point becomes even more critical if current entrepreneurship training policies seem based on the traditional causation logic of economic thought (causation), which finds little or no resonance in the cases under consideration (effectuation) (Nunes-Pereira *et al*, forthcoming)

From informal to formal?

Contemporary debates about new entrepreneurial initiatives observed in favelas have a strong economic bias. Underground, invisible, clandestine, hidden or non-observed economies are terms traditionally found in the field of economics to refer to the informal economy. In a strictly economic approach, informality is seen as an obstacle to be overcome in order to advance 'market forces'. In this sense, the economy of the favela suffers, from the beginning, the stigma of prejudice and marginalisation. Treated as spaces characterised by instability, the norms of local economic organisation are too often ignored. Knowledge of internal strategies can enhance opportunities, many times invisible, above all for

favela youth, who are affected by both low-quality employment and labour market barriers.

Observing Rocinha from a behavioural logic departing from entrepreneurship bound by established institutional norms, may have relevant implications for public policies as they frequently neglect the establishment of local roots as a critical element of success of the entrepreneurial processes located in the favelas. If this behaviour is also confirmed in other cases besides Rocinha, it is reasonable to believe that it would be a waste of resources to try to import a general formula of “better practices” for the success of entrepreneurship in the “pacified” favelas of Rio de Janeiro.



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About the Author

Isabella Nunes Pereira has a BSc Economics, an MSc in Production Engineering and recently obtained her PhD in Production Engineering at COPPE-UFRJ, in Rio de Janeiro. She currently acts as an analyst of statistics at IBGE, the Brazilian National Institute of Geography and Statistics. She also coordinates the Indicators of the Brazilian System of Entrepreneurship, a pioneer initiative to create, organise and harmonise a database of economic statistics.

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Zezinho da Rocinha February 25, 2015 at 9:43 pm - [Edit](#) - [Reply](#)

I'm not sure how long ago this research was done in Rocinha but i own a business since 2006 here and never had to get approvals from drug dealers or the residents association. it would be nice if more updated information was available as things have changed a lot since 2001. Some of the Quotes from Kimmerle 2001, Sarasvathy 2001. Does Isabella Nunes Pereira live in Rocinha? And It would be nice if articles like this were written by favela residents instead of outsider who interview a few people and then form opinions from a few. There are many ways to open a business in Rocinha, throug help of friends & family, bank loans or from micro lending NGO's that exist. Just my thoughts on this.



Blog editor February 26, 2015 at 9:35 am - [Edit](#) - [Reply](#)

Dear Zezinho,

Thanks for your input regarding contributions to our blog. We primarily seek research-based contributions, but favela residents and activists are also welcome to contribute (as are favela residents who are also researchers and/or activists). You shall receive an email from us with further details in case you are interested or want to spread the word.



Isabella Nunes Pereira February 27, 2015 at 9:25 am - [Edit](#) - [Reply](#)

Zezinho, you brought some important issues. Undoubtedly there are other strategies to set up a business in Rocinha.

Current changes mentioned by you are really reasons to be celebrated, but they do not cease to be part of the historical construction of the local entrepreneurial culture. For the purpose of this post, the testimony was recovered to demonstrate the perception of risk associated with highly vulnerable environments and the impact of this fact in the logic followed by the local entrepreneurs.

In time, I had the opportunity to interview yourself in may 2012 when you talked about the history of DJ Spin Rocinha School.

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