
Entrepreneurship and Sustainable Environmental-Socio-Economic Development

Allam Ahmed, University of Sussex, UK
Ronald W. McQuaid, Napier University, UK

INTRODUCTION

Entrepreneurs and entrepreneurship play important roles in today's global business environment. Even though entrepreneurship has been an important part of society for many years, there are still many different perceptions and misconceptions about it. Birley and Muzyka (2000) argue that downsizing, restructuring and technical change, notions of traditional careers and ways of creating value have all been challenged and individuals are increasingly wondering whether they should strike out on their own, whether their fortune would be better realized through the pursuit of opportunities they believe they can pursue. In effect, people are depending relatively more upon their own initiative to realize success than upon the system to deliver it to them.

Many authors argue that entrepreneurship is largely a phenomenon of developed, industrialized countries and that, if only it could be transferred together with western management practices, then we can solve the problems of underdevelopment (Scott et al, 2000:227). Entrepreneurship has been seen as a key to economic development in many countries across the globe for many years (OECD, 1998, 2003, UN, 2004). For instance, in the European Union's Employment Strategies entrepreneurship has been given a major role to increase the dynamism of economies and help employment creation and improvement (CEC, 1999, 2003). The relationship between entrepreneurship and economic growth, poverty and sustainable development (SD) is crucial for future global development, policy and research. The European Union's 'Gothenburg strategy', adopted in 2001, is based upon the three complementary economic, social and environmental pillars, recognising the interdependence of these factors (CEC, 2005).

This paper explores different viewpoints on entrepreneurship and SD from around the world. The key objectives are to explain the different meanings of the term *entrepreneurship*, and its different perspectives and components in a global context and finally provide an overview of SD in relation to entrepreneurship. The next section considers "what is entrepreneurship?" This is followed by Section 3, which considers "what is sustainable development?" Section 4 sets out the conclusions in linking entrepreneurship and sustainable development.

WHAT IS ENTREPRENEURSHIP?

Entrepreneurship is an elusive concept (McQuaid, 2002a). Differences in what is meant by entrepreneurship can often lead to confusion. Different perspectives on what the term means, have profoundly different policy and theoretical implications. There are a number of perspectives of what is meant by the term 'entrepreneurship', some of which focus upon business development aspects, while others focus upon entrepreneurial behaviour – which may be linked to activities of those in the non-commercial sectors as well as commercial sectors. For instance, entrepreneurship is often considered synonymous with 'new firms' and/or existing 'small, micro and medium-sized enterprises' (SMMEs), and/or owner-managers or in some cases 'dynamic' or fast growth new firms. Elsewhere entrepreneurship is seen as having specific functions in the economy, particularly in innovation and resource allocation with entrepreneurs seen, for instance, as innovators; or as a form of behaviour,

concerned with the systematic grasping of opportunities; or as a set of personal characteristics, cognitive styles, attributes or motivations (such as risk taking or being a “great leader”) of entrepreneurs. Often the term entrepreneurship is used loosely, covering a number of these meanings.

This paper does not argue that one perspective or definition is correct or better than the others. Rather the paper seeks to clarify some of its different meanings, so that when entrepreneurship is discussed in theoretical or policy circumstances, we are clear about the differing underlying assumptions and concepts being used. It is important to recognize that much of the literature in the field of entrepreneurship is from the US and Europe and thus based upon western values and cultures. Audretsch (1995) and Cunningham and Lischeron (1991) discuss the difficulty of reaching a consensus about an exact definition of entrepreneurship as they argue that the term ‘entrepreneurship’ in itself has three levels of meaning. In the first level entrepreneurship refers to small firms or enterprises, in the second level it refers to new firm formation and at the third level (highest) entails innovation and a system-wide coordination of complex production.

The common themes found in the definitions of entrepreneurship include: the entrepreneur, innovation, organization creation, creating value, opportunity taking, profit or not-for-profit, growth, uniqueness, process, flexibility, dynamic, creative, and risk taking. However, the two main issues agreed by most entrepreneurship researchers is that entrepreneurship is important and different from small business (see: Birley and Muzyka, 2000, and Wickham, 2004). These themes can be put into overlapping typologies, and the remainder of this section sets out five different types of perspectives on what is meant by entrepreneurship. These are entrepreneurship as: an economic function; a form of behaviour; a set of characteristics; a small business; and as the creation of a new business.

PERSPECTIVES ON ENTREPRENEURSHIP

Entrepreneurial innovation and risk taking - Entrepreneurship as an economic function

Entrepreneurship has often been considered as having an important economic function, particularly in driving innovation and in the use and allocation of resources to take opportunities presented by changes in the external environment. In addition other functions may include risk taking or creativity (Glancey and McQuaid, 2000). Considering first the role of innovation, entrepreneurship is considered to generate innovation and changes rather than respond to them, and so causes economic development (Baumol, 1993). As Schumpeter (1942) argued, entrepreneurship leads to the implementation of new combinations of means of productions through: introducing new products and methods of production; opening new markets; gaining new sources inputs; or by changing the structure of an organisation or an industry. Acs and Audretsch (1988) argue that small and new firms are the main engines of innovation, due to the greater incentives for the people involved (including property rights) than for those in larger firms. However, a focus on innovation does not necessarily imply a focus on new or small firms, as the relationships between firm age or size and innovation are not clear as the literature on entrepreneurship implies. For instance, Harrison (1997) argued that larger firms dominate innovations, as they have resource and market entry advantages and are able to receive immediate benefits from innovations due to their scale and scope. Acs et al (1999) found that in industries where market share is more concentrated among larger firms there is higher productivity growth. They suggested a Schumpeterian transition hypothesis where perhaps certain small firms introduce radical innovations, but their impact is magnified by large firms (these large firms may have recently been small or new ones that grew or large ones that are particularly agile).

In terms of resource allocation, Casson (1999) argues that the role of the entrepreneur is partly to identify persistent shocks to the environment, which will offer long-term opportunities, and then to synthesise the information and make judgmental decisions based upon it. Kirzner, (1997) further emphasises the function of entrepreneurs as that of being a ‘middleman’, who is alert to and sees

opportunities in the economy and uses this knowledge to gain a profit. Kirzner's view identifies a key role for entrepreneurship as an equilibrating force by restoring markets to equilibrium through the process of price adjustment. Schumpeter conversely views entrepreneurship as a disequilibrating force that causes economic development and leads to the 'creative destruction' of capitalism where some large firms, new firms and industries destroy older ones. McQuaid (2002a) suggests a staged process starting with innovative entrepreneurial behaviour in the firms who create the catalytic Schumpeterian event (such as a new technological development). This is followed by the entrepreneurial activities of identifying resulting opportunities, deciding on actions and allocating resources to take advantage of them (for example improving competitiveness through adopting new products or process innovations). Later the opportunities presented by the innovations reduce or are exhausted and firms focus on improving efficiency and price competition perhaps through 'routine' entrepreneurship (see below). At each stage different policies may be appropriate, with support for innovative start-up or more general firms or commercialising basic research and supportive 'entrepreneurial culture' in the first stage. In the second phase policies may try to ensure universal access to technological or other 'hard' or 'soft' infrastructure or to help to create markets and other micro-level policies. In the final stage the role may be to ensure a stable macro-economic environment and effective market operation. In each stage the types of policies overlap but there needs to be integration between policies and policy actors, and a long-term perspective.

Entrepreneurial behaviour - Entrepreneurship as a form of behaviour

Drucker (1985:49) suggests that entrepreneurship is "the purposeful and organised search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation". He continues to argue that an entrepreneur is someone who "always searches for change, responds to it, and exploits it as an opportunity" (p.25). According to this perspective entrepreneurship can flourish in any part of the economy or society - in government, local community organisations and NGOs as well as in business. Clearly each of these has a significant impact upon sustainable development and management. It also acknowledges the importance of social entrepreneurs within a society in NGO and other organisations (McQuaid, 2002b). This perspective points to the need for an 'holistic' or comprehensive view of entrepreneurship incorporating the individual(s) involved, the organisation they create or recreate and the external environment within which they operate. The OECD (2003) argues that support for existing social enterprise should essentially be the same as for profit-oriented firms (page 115). This may be broadly correct, although one needs to recognize the different motivation, operation and expertise on the board of directors, and the fundamentally different patterns of setting up such social enterprises.

The entrepreneur - Entrepreneurship as a set of personal characteristics

The third set of perspectives on entrepreneurship focuses upon the personal characteristics, cognitive styles, personality and the social and institutional context in which it operates (Chell et al, 1991, Mitchell et al, 2002). Samuel Smiles, in 1859, wrote about many of the most famous Victorian entrepreneurs in the UK, including Josiah Wedgwood who "by his energy, skill and genius, established the [porcelain pottery] trade upon a new and solid foundation" thus providing employment and good wages to many thousands of families. According to Smiles, the key psychological traits of an entrepreneur were integrity, self-learning, courage, conscientiousness, patience, perseverance, self-discipline and self-respect. More recent psychological and sociological approaches to entrepreneurship concentrate upon: particular qualities or attitude (see for instance: Robinson et al, 1991); motivations; their being a 'great leader'; or social forces (Reynolds, 1991). There are also links between entrepreneurs' cognitive styles and how they learn or use knowledge and information and their behaviour. These approaches to the characteristics of entrepreneurs have been criticised for sometimes providing long lists of traits that when taken together would result in the description of a sort of generic 'Everyman' (Storey, 1994) and they sometimes ignore the circumstances, including financial and social capital or resources and other supply and demand

factors, in which the entrepreneurship takes place. The study of characteristics can be useful in helping identify important policy questions. Why are certain groups or types of people over or under represented among entrepreneurs and how is this changing? It has, for instance, been argued that some groups such as women or some minorities have in the past been held back by institutional forces including not being able to so easily access appropriate finance or information.

Small Businesses - Entrepreneurship as owner-management and SMMEs

Fourth, entrepreneurship has often been considered as encompassing the role of the owner-manager of a small business. Most new businesses are not particularly innovative (Bhide, 2000). This type of entrepreneurship can be, 'routine entrepreneurship' (Leibenstein, 1968:72) involving the routine coordination and management of an existing business, which operates in well established and clearly defined markets. Successful small owner-managed firms may grow rapidly and change their management and ownership structures. SMMEs and the self-employed play an important role in an economy, including providing many jobs. However, an economy that can respond to technological, social and economic opportunities to have more sustainable enviro-socio-economic development is likely to also incorporate the crucial dynamism and job and wealth creation of medium and large firms and those small firms that grow to become larger organisations. This perspective of entrepreneurship can sometimes fail to distinguish an 'ordinary', routine owner-manager from one who transforms the business. New and SMMEs are important to development. Reassessments of the history of macroeconomic performance during the 20th century have given greater significance to the role of new and small firms (Acs et al, 1999, Story, 1994). Further analysis is required into the how new and small firms and economic performance inter-relate with poverty and sustainability. The link between entrepreneurship and economic growth is not clear-cut and there is a need for more evidence on the relative growth of SMMEs numbers and reductions in poverty or income inequality.

New Businesses - Entrepreneurship as creating a new business or organisation

The final, but arguably the most common, perspective on entrepreneurship is that it relates to the act or event of setting up a new business (Gartner, 1988). Here the focus is upon looking at the process of creating a new organisation rather than its current owner or manager, or even the individual person who originally created it. This suggests that the entrepreneurial role ends once a new organisation has been created. The organisation itself may continue (perhaps to growth, maturity and decline) but the original entrepreneur takes on different roles in each stage, moving from being an innovator to the non-entrepreneurial roles of being a small business owner, or senior manager of the firm if it becomes large. Others may argue that the organisation being created need not necessarily be a private business, but could be an Non-governmental Organisation (NGO) or other organisation not aimed at profit making, of which there are many local, national or international examples. This view has been an important component of economic development policies at the local, regional and national levels, where encouragement of business start-ups often plays a major role. However, Binks and Vale (1990:19) argue that such business start-up orientated policies, if used as the exclusive means to increase employment growth, need not be synonymous with per capita income growth and may be counter-productive to wider economic development. Indeed many developing countries have large subsistence economies have high shares of employment in new and small firms, often based upon the lack of other employment alternatives rather than as a desire to start their own business. However, if there are large numbers of start-up firms, particularly in more advanced technological sectors and in non-subsistence types of employment, then it can be argued that some of them are likely to grow into large and high productivity employers.

WHAT IS SUSTAINABLE DEVELOPMENT?

Sustainable Development (SD) encompasses many differing meanings, but the most frequently quoted definition is from the report *Our Common Future* (also known as the Brundtland Report).

The Brundtland report (WCED, 1987:43) defined SD as “*development that meets the needs of the present without comprising the ability of future generations to meet their own needs.*”

This definition has been criticized by many scholars and leading international institutions, such as the United Nations Economic Commission for Europe (UNECE) (2004), as vague since it does not specify the time horizon of future generations, gives no indication of the role of the environment and refers to the opaque concept of human needs. Accordingly, a variety of definitions of sustainability and SD are used in different contexts. In simple terms, SD refers to maintaining development over time but, so far, there are well over one hundred definitions of SD currently available in the literature (see Ahmed et al, 2004, Pearce et al, 1989, Holmberg, 1992, Murcott, 1997 and Elliot, 2001) providing different concepts, perspectives, concerns and solutions for SD. How they relate to each other and provide a clear understanding of our common future still remain a key question to be addressed. The sustainability agenda today poses challenges but also opens up significant innovation opportunities such as new or more sustainable products and services; new or more sustainable processes; new extended markets built on exploiting a growing concern with sustainability issues; and new business models reframing existing arrangements to emphasize sustainability (see Tidd et al, 2005, for more discussion).

CONCLUSIONS - LINKING ENTREPRENEURSHIP AND SUSTAINABLE DEVELOPMENT

In considering the relationship between entrepreneurship and sustainable environmental-socio-economic development it is useful to start by firstly considering the implications of the different meanings of entrepreneurship. The concept of entrepreneurship is multi-dimensional and often unclear. Various perspectives have different implications for how entrepreneurship is related to and can help promote sustainable environmental-socio-economic development. It is essential that research and policy development fully takes account of the differing perspectives of entrepreneurship and make explicit the particular perspective(s) that they are taking. No single definition necessarily fully captures the concept, but by being clear about our meaning of the concept and the underlying assumptions we can progress our understanding of entrepreneurship and its relationships to sustainable development.

Wealth and employment growth in many, particularly developing, countries is important, so where increased numbers of new firms and owner-managers or SMMEs help achieve this then supporting policies may be emphasised. However, as discussed above, relatively high or low proportions of SMMEs may both be linked to low growth and inequality. Entrepreneurship as a significant source of innovation suggests that it will make a major contribution to environmental innovation as well as to social and economic innovations that may promote sustainable development. Technology and innovation influence and are influenced by entrepreneurship and are important in developing new products and improving existing products, as well as doing things in a more efficient or effective way, to assist sustainable development. The technological regime has a great influence upon changes within firms, the types of firms entering an industry, and the survival of existing or new firms. It is often claimed that both large and small firms are significant engines of innovation, but in different circumstances one or other may have a relative advantage. Also important is the perspective of entrepreneurship as a form of behaviour. This can help create different appropriate ways of doing things and of doing new things that will be essential to sustainable development. Systematic search for opportunities is important for helping to ameliorate the many problems facing the globe. Fundamentally, advocates of entrepreneurship as a form of behaviour, such as Drucker (1985), argue that such behaviour can be taught, and so development is not reliant on personal characteristics of individuals in the population.

The interactions of entrepreneurship with the external environment within which entrepreneurship is practised in terms of a given place are important. An analogy is with the Upas tree in Africa, which stifles other vegetation nearby to ensure that it captures the maximum amount of rainfall around it, which has been used to describe the negative effects of older industries, such as

shipbuilding, upon the development of new industries nearby. These mature industries are seen as holding back the growth of new SMMEs and the transition to a more modern industrial structure. These negative effects may be smaller than they first appear as statistical measurements are crude and disguise the new industries being generated within old Standard Industrial Classifications. However, as Porter (1990) suggests there may be no 'bad' industries only 'bad' firms, so the determining effects of industrial dynamics may be overplayed. Alternatively there may be reasons for a Upas tree effect such as an absence of a locally accessible growing market, or inadequate funders with experience of newer industries, or the education and training networks being less geared to the newer technologies or industries. This shows the importance of path dependence for an economy, or indeed path dependency for individual entrepreneurs based upon their personal histories and experience. Flexible, effective and efficient local policies to support entrepreneurship and to utilise its two-way links with wider environmental-socio-economic factors is important.

The OECD (2003: 91) states that for policies, especially at the local level, it is important for "local flexibility in the design and implementation of policy". There is also a need to oversee and monitor local public provision to ensure that it is delivering high quality services and support (for instance in evaluating business incubators where business development, in terms of raising productivity and improving management, may be more important than short-term job creation). A key policy dilemma will be how to have policies that promote different forms of entrepreneurship in the economy and social realms, while reducing and reversing the impacts of development on the environment. There is an urgent need for strong commitment to education and training (including in entrepreneurial behaviour in its widest senses) in all countries particularly the low-income countries, as well as to the 'hard' infrastructure policies often so dominant in the past. Also strengthen the national entrepreneurship environments in all countries with clear policies on technology transfer, tax, finance, export...etc.

In terms of the definitions of entrepreneurship and sustainable development, what is important are the meanings behind the concepts and the setting out clearly of which aspects or meanings of the concepts we are using, i.e. the content of the concepts is more important than the labels. Differing concepts are likely to direct our thinking in certain ways. However, it is not a case of one definition being 'right' or 'wrong'. Rather, we should clarify the particular meaning used, and its underlying assumptions, to allow a useful discussion and progress in the development of useful ideas. As we work toward more Sustainable Development, we must strive not to lose sight of the big picture and that we must think *and* act both globally and locally. Finally, in conclusion, we are still in search of a meaningful definition of SD, agreement on particular indicators to measure our progress, and ultimately dream of achieving SD and a world free of poverty.

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