



Toward a theory of sustainable entrepreneurship: Reducing environmental degradation through entrepreneurial action

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Abstract

This article explains how entrepreneurship can help resolve the environmental problems of global socio-economic systems. Environmental economics concludes that environmental degradation results from the failure of markets, whereas the entrepreneurship literature argues that opportunities are inherent in market failure. A synthesis of these literatures suggests that environmentally relevant market failures represent opportunities for achieving profitability while simultaneously reducing environmentally degrading economic behaviors. It also implies conceptualizations of sustainable and environmental entrepreneurship which detail how entrepreneurs seize the opportunities that are inherent in environmentally relevant market failures. Finally, the article examines the ability of the proposed theoretical framework to transcend its environmental context and provide insight into expanding the domain of the study of entrepreneurship.

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For far-sighted companies, the environment may turn out to be the biggest opportunity for enterprise and invention the industrial world has ever seen.

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1. Executive summary

Despite extensive economic growth and increases in the quality of life over the last century, concern remains that the era of industrialization has had substantial negative effects on the natural environment and that these effects diminish the vitality and sustainability of our economic systems (Boulding, 1966; Ehrlich, 1968; Schmidheiny, 1992; United Nations, 1987; World Resources Institute, 2004). In addition to the localized problems of air pollution, surface–water degradation, and toxic wastes in groundwater, recent scientific discoveries have revealed global scale effects such as ozone depletion, climate change, and the worldwide destruction of ocean fisheries (World Resources Institute, 2004; United Nations, 1999, 2004). The long-term economic impacts of these effects may be quite substantial as a large portion of the world's economic output is dependent upon the viability of natural systems (Costanza et al., 1997).

The role of entrepreneurship in resolving such environmental challenges is emerging as a subject of some debate. Traditional theory from environmental and welfare economics largely concludes that the market failures inherent in the economic system prevent entrepreneurial action from resolving environmental problems and indeed often motivate environmentally degrading entrepreneurial behaviors (Pigou, 1932; Tietenberg, 2000; Cropper and Oates, 1992; Bator, 1958). In contrast, some authors promote entrepreneurship as a means of resolving market failure problems (Coase, 1974; Buchanan and Faith, 1981; North and Thomas, 1970; Demsetz, 1970) and, more specifically, environmental issues (e.g., Anderson and Leal, 1997, 2001).

Synthesizing theory from the entrepreneurship, environmental and welfare economics literatures, we develop a conception of environmental entrepreneurship as a subset of the broader concept of sustainable entrepreneurship and outline the means by which entrepreneurial action can resolve environmental challenges by overcoming barriers to the efficient functioning of markets for environmental resources. We argue that the growing desire of many individuals in the marketplace for the cessation of environmentally degrading activities, combined with a willingness to pay for reduction of these activities, represents opportunity for entrepreneurial action that can lead to the enhancement of ecological sustainability. This conception of sustainable entrepreneurship differs substantially from explorations of social entrepreneurship (Dees, 2001; Mort et al., 2003) which tend to address mission-driven, rather than profit-driven entrepreneurial endeavors. Regardless of its mission, the sustainable entrepreneurship we discuss is defined by its alleviation of environmentally relevant market failures through the exploitation of potentially profitable opportunities. Therefore, we seek to address the environmentally relevant subclass of sustainable entrepreneurship which is typically understood as meeting “the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987). Consequently, our intention is to begin the process of understanding the concept and domain of sustainable entrepreneurship through more specific theoretical development of the concept of environmental entrepreneurship, offering conceptual precision in developing a theoretical explanation for why environmental problems arise and persist and how sustainable entrepreneurship can reduce or eliminate them.

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