

inaugural report to the world  
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**growing up:  
entrepreneurship  
and its role in  
stimulating sustainable  
economic development**

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page	section
03	introduction
	why we need to think
06	section 1.0
	why we need to think about entrepreneurship
12	section 2.0
	drivers of change: why we need to think about
	innovation and entrepreneurship
27	section 3.0
	call to action
29	appendix 1.0

## introduction

# introductory remarks: why we need to think

This report is a call to action. We have plenty of research that tells us that entrepreneurship is important and what we need to do to get more entrepreneurs. We have policies aplenty to create entrepreneurial cultures, to deepen our scientific and technological knowledge and to widen access to education, finance and the internet. But while we believe that entrepreneurship may lead to economic growth, we are less clear on what we need to do to ensure that it creates a sustainable future for the world.

And we do not need any more compelling reasons to act. Although the Indian economy grew at a rate of 9.2% over the past year to December 13th 2007, some 34.3% of the Indian population lived below the United Nations Development Programme's (UNDP) benchmark of \$1 a day. Although the International Labour Organisation's assessment of progress towards the UNDP's goals was on target for all except Sub-Saharan Africa and the Middle East<sup>1</sup> in 2006 50% of the world's population is in so-called vulnerable employment (self employment or family workers) and 16% were living on less than \$1 a day.

Put simply, rapid economic growth is not producing economic development. As Muhammad Yunus points out, despite the fact that technological progress is more rapid now than at any point in our history, and despite the fact that businesses across the world are growing and trade is thriving, some 60% of the world's population lives on just 6% of the world's income.<sup>2</sup> Combine this with the fact that the most recent report from the Intergovernmental Panel on Climate Change recorded, "unequivocal" evidence of climate warming,<sup>3</sup> warned of increased "reasons for concern," and pointed to the net "economic costs" as additional grounds for change as soon as possible.

The costs of inequality and poverty and the costs of climate change are unsustainable. As the Stern Report argued, it will be the developing countries of the world that bear the majority of the impact of climate change. The risks of not tackling climate change now outweigh the costs and risk "mitigation" (in other words, taking evasive action now to avoid costs in the future) can be done in a way that is growth-oriented both for the developed and the emerging world.<sup>4</sup>

1. International Labour Organisation, Key Indicators in the Labour Market, 2007: <http://www.ilo.org/public/english/employment/strat/kilm/download/chap1a.pdf>

2. Yunus, M. with Weber, K. (2007): "Creating a World without Poverty: How Social Business can Transform our Lives." Public Affairs Publishers, New York.

3. [http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/17\\_11\\_07\\_ipcc4.pdf](http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/17_11_07_ipcc4.pdf). P 1, p 18, p23

4. [http://www.hm-treasury.gov.uk/media/4/3/Executive\\_Summary.pdf](http://www.hm-treasury.gov.uk/media/4/3/Executive_Summary.pdf)

Entrepreneurs are the world's change agents. They are the people that convert market potential into business propositions, who turn social, economic, technological innovations into new markets for goods and services. The biggest challenges that the world faces are also its biggest opportunities. Throughout human history it has been entrepreneurs who have turned opportunities into development and the majority of entrepreneurs start up their activities because of the idea in the first instance, not the money.<sup>5</sup>

Whether in large organisations or small, whether in social enterprises or mainstream businesses, whether through new technologies or through action on the ground and whether through start-ups or through existing employment, it will be the entrepreneurs of the world who take up the challenges of global poverty and climate destruction and turn them into viable markets. It is up to the world's policy makers, business leaders and thought leaders to ensure that this really is a force for wealth creation – not just in terms of money, but in terms of our social and environmental future.

Entrepreneurs flourish within an ecosystem, irrespective of type, background or motivations. At their earliest stages they require the education and skills, science and innovation, transport and physical infrastructures, support in terms of networks, training, mentoring and coaching as well as appropriate forms of finance (from microcredits to pre-seed and seed finance) that allow them to grow. They need the exposure to larger firms and other entrepreneurs in order to allow them to develop growth expectations and strong enough roots to be able to sustain growth.

As they grow, they are no less reliant on infrastructures, networks and support, but become increasingly reliant on access to growth finance and business planning, mentoring and leadership skills and access to networks

and markets. These become more important as the company grows and the role of growth finance, as the lifeblood of the ecosystem becomes more critical. Clearly this finance varies depending on the type of entity (whether social, environmental or mainstream), its growth potential and its national cultural background. But as the business entity grows, it becomes increasingly reliant on external forms of finance and exit routes as a means of realising value in the entity.

And it is this value that is ultimately the key to sustaining the ecosystem, again irrespective of the starting characteristics of the entrepreneur themselves. The new entrepreneurs of tomorrow rely on the entrepreneurs of today for their experience and know-how. They rely on the corporate responsibility as well as the corporate venturing strategies of the largest global companies to ensure that they gain access to potential markets and knowledge as well as feed back some of their innovations and ideas. And increasingly, the role of Venture Philanthropy indicates a powerful way in which the poorest people of the world can be helped to find appropriate and sustainable ways out of poverty by incorporating them into the new global entrepreneurial ecosystem.

5. Department for Business, Enterprise and Regulatory Reform (2005): "Household Survey of Entrepreneurship." 2005

## CASE STUDY

### INTEGRATING STAGES OF FINANCE

Co-Financing Of Micro And Small Enterprises (BFV-Societe Generale and Entreprendre a Madagascar)

The micro-finance penetration rate in Madagascar is approximately 5% while Micro and Small Enterprise creation is severely hampered by a lack of access to financing. Micro Finance Institutions have insufficient capital to meet the demand of the Micro and Small Enterprises, whilst other local banks have not been willing to lend to this sector without imposing barriers to access which are seen by applicants as very high. For example, the collateral requirements being set at a rate regarded as onerous. Micro Finance Institutions are limited in their ability to lend to Small and Medium sized Enterprises due to capital constraints.

The larger bank is co-financing the Small and Medium sized Entrepreneurs, who are screened and given business advice by the experts within the local Micro Finance Institution.

This project covers the gap between the levels of finance needed for those enterprises which need to access the next levels of funding. For the larger bank it gives them access to a wider customer base and for the institution which formerly targeted those below this level it widens their portfolio and allows them to pass clients on to access higher levels of appropriate finance. The situation is therefore more of a conveyor belt of finance rather than the series of steps it was before.

of the ecosystem. For example, microcredits have had success in some parts of the world by granted access to finance for some of the world's hardest to reach and most disadvantaged groups. However, they can only really be successful as catalysts for sustainable change if there is subsequent coaching, mentoring, access to infrastructures and markets and, ultimately, access to the growth finance that allows the entities to establish themselves on a firm footing.

This report looks at the entrepreneurial ecosystem in its different contexts around the world. It argues that, no matter where an individual is trying to start an activity or what they are trying to do, no matter what their motivations are, and no matter how much growth potential there is in the business, true value is creating only if the complete ecosystem is accessible to the founding entrepreneur. Completing the system is straightforward once we realise that it is a system and not a linear process. If entrepreneurs are to make the difference in terms of sustainability and economic development, then we must focus on creating that system.

All of these stages are necessary. None alone is sufficient. Failure to build "entrepreneurial cultures" in one country or another is arguably because the key actors in business, in policy and in thought-leadership have failed to recognise the connections between the different parts

## section 1.0

# why we need to think about entrepreneurship

**“Entrepreneurship is a way of thinking that can be applied to all avenues in life. It is a way of looking at the world, a mindset that is sharpened and improved by experience.”**

Sir Ronald Cohen *The Second Bounce of the Ball* (2007<sup>6</sup>)

Does the world really need another report on entrepreneurship? At first thought, the answer to that question would probably be a fairly resolute, “no”. As a field of study its origins arguably go back to the beginnings of economics itself with the “entrepreneur” seen as the owner-manager of a firm responsible for allocating resources (including capital) to ensure that the company supplies expectations of market demand. The role of the entrepreneur as a change agent and an innovator was first explored by Schumpeter in 1939.<sup>7</sup> Recent interest in the subject, arguably over the last twenty years<sup>8</sup>, has focused on entrepreneurs as wealth

creators through the new markets that they open up and, through the links with innovation, to improve productivity.<sup>9</sup>

In short, the amount of that has been written during that time would appear to render most of the questions asked and most of the answers found. A simplistic summary might be as follows:

- Innovations are at the base of change and can occur with many contexts – organisational, technological, environmental, economic, political or social.
- Entrepreneurs are innovative, energetic and risk-taking individuals who see the opportunities in these innovations and turn them into commercial propositions. They perceive opportunities and make judgement-calls as to the market viability (i.e. the risks) of those opportunities<sup>10</sup>

9. Generation of economic growth from within the economy through the commercialisation of Research and Development, new technologies and innovations is termed “endogenous growth” and has been at the base of the Treasury’s economic thinking since 1997. For more information and a discussion see Harding, R. and Harding, D. (2007): *“Global Competitiveness and Regional Advantage.”* Report for the Business Without Borders, conference, June 2007. University of Bedfordshire Centre for Global Competitiveness. Endogenous growth theory has been a feature of evolutionary approaches to economics since Schumpeter’s work but its use as a model for economic management was developed by Aghion, P. and Howitt, P. (1998): *“Endogenous Growth Theory”* MIT Press, Cambridge, Massachusetts. See also Department for Trade and Industry (2003): *“Competing in the Global Economy – the Innovation Challenge”* DTI Economics Paper, No 7. HMSO, London, November 2003.

10. Casson, M. (1982): *“The Entrepreneur: An Economic Theory”* Martin Robertson, Oxford.

6. Cohen, R. with Ilott, T. (2007): *“The Second Bounce of the Ball: Turning Risk into Opportunity”* Weidenfeld and Nicholson, London.

7. Schumpeter, J. (1939): *“Business Cycles.”* Harvard University: a theoretical, historical and statistical analysis of the Capitalist process.” McGraw Hill, London.

8. See Casson, M., Yeung, B., Basu, A. and Wadeson, N. (2006): *“The Oxford Handbook of Entrepreneurship.”* Oxford University Press. 2006

- Entrepreneurs rely heavily for their success on a set of political, social, economic and technological “framework conditions” such as an effective science base and routes to commercialisation from that science base, skills and education, access to finance and a strong financial system, transport and physical infrastructures, a robust but smart regulatory regime and the rule of law and, increasingly, a bundle of factors around access to Information and Communications Technologies (ICT), networks and social networking and cultural factors that support entrepreneurship.
- To create wealth and growth through entrepreneurship, creating an “entrepreneurial ecosystem”<sup>11</sup> is key. Entrepreneurs are symbiotically<sup>12</sup> dependent for their success on this ecosystem since it is the source of the “entrepreneurial capital”<sup>13</sup> (finance, knowledge, human and social). Without this “entrepreneurial capital”, any growth and sustainability of innovative entrepreneurship is restricted. According to specialists, this is done partly through the market itself, and partly through light and non-bureaucratic government.<sup>14</sup>

So if we take as given the notion that entrepreneurs create economic growth and prosperity, it is logical that we would also want more of them. As one senior venture capitalist once said, “You may not be able to get the economic models to prove that entrepreneurship creates economic growth, but I’ll tell you one thing. You won’t get growth without them.”<sup>15</sup>

Entrepreneurs still have an image problem and this in itself justifies another report. In the words of a high ranking

official from a leading UK Think Tank giving evidence to a Select Committee a few years ago, “I’m sure some entrepreneurs are really nice people and everything; it’s just that I’m not sure that I would like to live next to one.” Yet most entrepreneurs are motivated by the desire to drive change for the better and more young people in the UK find the idea of setting up a business for social or environmental purposes more compelling than the idea of setting up a mainstream entity. While not all entrepreneurs feel like this all of the time, during the course of the research for this project we were repeatedly told, “Money is a nice to have – and a by-product. It’s the idea first and foremost.”

Where there’s a will, then, there’s a way and given the dual issues of rising inequalities of wealth and opportunity, and given the irrefutable evidence on climate change, it is important to be clear on exactly what we want these entrepreneurs to do. It is no longer enough for the world’s economies to grow; they must develop as well. Our interest in entrepreneurs as wealth creators needs to be more inclusive. For example, a recent report from the World Bank argued, where there is more “micro-entrepreneurship” financed by micro credits, this can actually *increase* inequalities in the short term because the entrepreneur gains credit where the non-entrepreneur does not.<sup>16</sup> In other words, the report argues, micro-credits, while important, need to be seen as part of an integrated financial and support system that allows for growth finance as well in order that entrepreneurship can indeed be a route out of poverty.

More than this, there is increasing recognition that the entrepreneurs and their enterprises that grew rapidly to create the dotcom boom at the end of the 1990s are only a fraction of the total number of start-ups and small

11. Harding, R and Harding, D. (2007): “Global Competitiveness and Regional Advantage.” Report for the Business Without Borders Conference, University of Bedfordshire, June 2007.

12. Harding, R. (2001): “Competition and Collaboration in German R&D” *Industry and Corporate Change* Vol 10, No. 2 pp389-417. June 2001, Oxford, OUP

13. Audretsch, D., Keilbach, M. and Lehmann, E. (2006): “*Entrepreneurship and Economic Growth*” Oxford University Press, Oxford

14. Baumol, W.J., Litan, R. and Schramm, C. (2007): “*Good Capitalism, Bad Capitalism and the Economics of Growth and Prosperity*,” 2007

15. Harding, R. (2004): GEM UK report.

16. World Bank (2008): “Finance for All: A World Bank Policy Research Report: Policies and Pitfalls in Expanding Access.” [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/12/10/000020953\\_20071210133522/Rendered/PDF/417920PAPER0Fi18082137291301PUBLIC1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/12/10/000020953_20071210133522/Rendered/PDF/417920PAPER0Fi18082137291301PUBLIC1.pdf)

and medium sized businesses in the world and that, by focusing just on this group, we exclude the large numbers of entrepreneurs who take up opportunities within large organisations and equally importantly the entrepreneurs who act within a social context.

There is a growing academic and policy interest in the role of this latter group, the social entrepreneurs, as the phenomenon itself grows globally. Indeed in the UK alone some 3.3% of the adult population are estimated to be social entrepreneurs while the social enterprises that they run are some 1.2% of the total business stock in the country.<sup>17</sup> Social entrepreneurs are seen as “pragmatic, innovative and visionary” with a particular role in creating social value.<sup>18</sup> They are vital in creating the social innovations that drive positive change in delivery of services and welfare<sup>19</sup> but equally important in defining a new and sustainable business model that integrates the desire for social or environmental sustainability by addressing negative externalities with the need to make revenue and profitability simultaneously.<sup>20</sup>

Social entrepreneurs are the entrepreneurs who, “recognise that a part of society is stuck and provide new ways to get it unstuck”.<sup>21</sup> They act as change agents in the social sector”: they innovate and act according to the desire to create and sustain social value and consider themselves to be accountable “to the constituencies they serve for the outcomes they achieve”. In short, they are

“one species within the genus ‘entrepreneur’. They are entrepreneurs with a social mission”<sup>22</sup>.

### CASE STUDY

BUSHPROOF is a social enterprise active in water and sanitation and renewable energy. It specialises in scaling up affordable access to safe drinking water and energy products to those at the bottom of the market pyramid. It has products which are tried and tested and seeks to break into new markets by stimulating competition and creating new markets. Its products aim to replace dangerous existing ones or provide alternatives to inferior products. In doing so, it aims to replace or at least have alternatives made available for the benefit of those least able to afford them in the past. Material advantage is gained but the quality of life is enhanced as well. Products such as sand or straw based water filters, cheap and efficient hand and footpumps, solar disinfection bags and a range of solar powered batteries and lights.

Bushproof was set up by emergency aid and development professionals achieve maximum social and environmental benefits, via Non Governmental Organisations achieving maximum impact of their projects. Increasingly they are developing market opportunities among the poor for low-cost products that create tangible financial savings and health benefits through better drinking water and renewable energy products.

The importance of understanding the motivations of social entrepreneurs and the role that the enterprises they establish have to play in generating wealth across the world in terms of jobs and income as well as in terms of welfare, cannot be understated. Entrepreneurship has tremendous power to transform and change society.

17. Harding, R. (2006): “Social Entrepreneurship Monitor.” London Business School.

18. Nicholls, A. (2006, ed): “*Social Entrepreneurship: New models of sustainable social change*” Oxford University Press, Oxford

19. Mulgan, G., with Tucker, S., Ali, R. and Sanders, B. (2006): “Social Innovation: What it is, why it matters and how it can be accelerated.” Skoll Centre for Social Entrepreneurship Working Paper: <http://www.youngfoundation.org.uk/files/images/SI-sp.pdf>. See also, Mulgan, G., Rasanara, A., Halkett, R. and Sanders, B (2007): “In and out of synch: the challenge of growing social innovations.” Young Foundation/NESTA 2007

20. Harding, R. (2007): “Understanding social enterprise” *Industry and Higher Education*, London, March 2007, pp74-86.

21. Boshee, J. and McClurg, D. (2003) “*Toward a better understanding of social entrepreneurship some important distinctions.*” Minnesota, MN: Institute for Social Entrepreneurs.

22. Dees, J. Gregory (2001 – revised version): *The Meaning of ‘Social Entrepreneurship’*. Stanford Graduate Business School.

The conventional view is that entrepreneurship is about mainstream start-up businesses and the contribution that they make to economic growth. However, if we are to harness the role that all entrepreneurial activity plays then entrepreneurship should be conceived more broadly as it has a wider applicability to important social concerns and may even be a better driver of regeneration and employment in deprived communities than orthodox activity<sup>23</sup>.

### why entrepreneurs matter, irrespective of motivation

The CEO of a large networking organisation commented, “Most social entrepreneurs will tell you straight – they are businesses, even if they are so-called not-for-profits. They have to make money in order to do any good!” Accordingly, there is no evidence to suggest that social entrepreneurs behave in different ways to mainstream entrepreneurs – they are confident, motivated and unlikely to fear failure in similar ways.<sup>24</sup> Traditionally, economists regard entrepreneurs as market creators who are motivated by their own desire for, “wealth, power and prestige” as a reward for the risks that they take<sup>25</sup>, but many who observe entrepreneurs generally and social entrepreneurs in particular argue that it is more complicated than this. Commonly it is argued that there are three characteristics that make up the overall “genus” of entrepreneur, regardless of the form that their entrepreneurial activity takes<sup>26</sup>:

- **They are innovators** – they want to make a difference by bringing a product or service to market. How they go about doing that, and then how they distribute their profits (either back into the organisation or to the community or stakeholders or to shareholders) is immaterial. They are natural change agents either in the economic or the social space.
- **They are risk takers and naturally take that risk on themselves** – many entrepreneurs regard risk as part of the excitement of their work, whether that work is in setting up a business or in “paid” employment. Many are prepared to take reputational and financial risks in order to see an idea through because their evaluation of the opportunity suggests that the ultimate returns will be worthwhile. Accordingly, they collect information, make judgement calls, raise finance and set up new business entities (either within firms or outside of them) to carry their opportunity forward.<sup>27</sup>
- **They are entrepreneurial as a state of mind** – they push at the boundaries of accepted norms – of behaviour or knowledge or business practice. In the words of one senior Human Resources professional, “They are a pain to manage and a pain to keep in the business. But the rewards of keeping them are so great that we have to do everything to keep them.”<sup>28</sup>

So it is the person who is an entrepreneur, not their nationality nor even their cultural or economic setting. They are positive, energetic, and heavily reliant on social capital and networks and in pursuit of solutions to the economic or social problems that they see.<sup>29</sup> They may

23. The social entrepreneurship monitor of 2004 found that unemployed people and excluded groups were proportionately more likely to set up social rather than mainstream enterprises.

24. Harding, R. (2007): “Social Entrepreneurship Monitor” forthcoming, Barclays

25. Baumol, W.J. (1990): “Entrepreneurship: productive, unproductive and destructive.” *Journal of Political Economy* 98, pp893-291 cited in Metcalfe, S. (2006): op cit.

26. See also Parker, S. and van Praag, M. (2006): “The Entrepreneur’s Mode of Entry – Business Takeovers or New Venture Start?” Max Planck Institut für Wirtschaftsforschung, Jena, Discussion Paper No 26-2006 for a more detailed discussion of the personal characteristics of entrepreneurs, their schooling and their social capital background and the likelihood that they will take over an existing firm or start a new one.

27. Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): “Introduction” Chapter 1 in Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): “*The Oxford Handbook of Entrepreneurship*.” Oxford University Press, Oxford.

28. GEM England Regional Entrepreneurship Monitor (2007) Expert Interview.

29. Love, JH, Roper, S. (2001): “Location and network effects on innovator success: evidence for the UK, Germany and Irish Manufacturing.”, *Research Policy* 2001 demonstrate the importance of networking effects; Harding, R. (2006): “Social Entrepreneurship Monitor 2006” London Business School demonstrates the greater confidence amongst social and mainstream entrepreneurs compared to their counterparts in the UK population. Wadeson, N. (2006): “Cognitive aspects of entrepreneurship: decision-making and attitudes to risk.” Chapter 4 in Casson et al (2006): “*The Oxford Handbook of*

create new markets but, more accurately, they build on knowledge or opportunities or innovations to create new opportunities for wealth creation.

## scope of the report

This report is based on nearly fifteen years of studying innovation, entrepreneurship and economic development. It is intended as a summary of some of the key parts of the literature and the research and policy evidence but not as a comprehensive overview. To this extent it is just an overview of where we have got to as an “entrepreneurial sector” and an attempt to put that knowledge into a political economy that demonstrates the importance of the sector and that puts forward a call to action.

There are two central themes of this report. First, is that our definitions of entrepreneurs and entrepreneurship have been rather too narrow and we should regard entrepreneurs as change agents, not just as market creators. We have seen entrepreneurs as wealth creators since the early 1980s and have developed economic models to demonstrate how they are more productive and grow more quickly than their larger counterparts. But in doing this, we have also excluded the equally important groups of entrepreneurs in large organisations and of entrepreneurs who are motivated by goals other than profit and returns to shareholders. Yet entrepreneurs as change agents are a major force for sustainable growth and by reorienting our definition to reflect this, we are more able to use their energies as drivers for positive change.

Second, entrepreneurs, irrespective of their motivations, the types of business they set up, the structures those entities have and the background from which they come

require an ecosystem in which to survive. There are four stages from the earliest, “infrastructure and culture” stage, through growth and development and through expansion to re-investment which comprise this ecosystem. All stages are interdependent with the public and the private sector playing different roles at different stages. No one stage will alone be sufficient to make the ecosystem a sustainable one. It is not enough to put money in to one stage, for example microcredits, and then leave the subsequent stages to chance.

Creating this Global Entrepreneurship Ecosystem is key to creating sustainable economic development through entrepreneurship. In this inaugural report, we look at the literature and benchmark policies and cases across the world in terms of how they help develop the ecosystem. It is a summary of existing research but lays the foundations for a more robust examination of policy and cases in future years. It looks first at entrepreneurs as drivers of change on the basis of a literature search and makes a clear distinction between “innovators” (who create opportunities) and “entrepreneurs” who exploit opportunities by turning them into solutions to problems. The two groups can survive independently, but clearly are better when combined. The “innovative entrepreneur”, therefore, is a person who identifies an opportunity from an innovation, whether social or commercial, evaluates its market potential based on their own knowledge networks and social, financial or educational capital, and establishes an organisational structure, either within an existing entity or by creating a new one, that allows that innovation to be developed. In short, the innovative entrepreneur is key to our new understanding of entrepreneurs as change agent.

The report then goes on to look at the development challenges we face. It argues that although entrepreneurial activity is indeed prevalent in many developing nations at level that is higher in the more developed nations, this

*Entrepreneurship* Oxford University Press, Oxford. See also Casson, M. (1982): “*The Entrepreneur: An Economic Theory*” Martin Robinson, Oxford. Arenius, P. and M. Minniti. 2005. “Perceptual Variables and Nascent Entrepreneurship.” *Small Business Economics Journal* 24(3):233-247. Arenius, P., & De Clercq D. 2005. A Network-based Approach on Opportunity Recognition. *Small Business Economics*, 24(3): 249-265.

is really because of under-developed labour markets that “displace” people in to “vulnerable” self-employment. It goes on to look at ways of addressing this problem through the creation of a four-stage entrepreneurial ecosystem by means of case studies of policies and business practice that provides routes to sustainability for enterprises of all shapes and sizes.

The final section is a call to action and argues that not only must we change our definition of entrepreneurs to realise their role as drivers of change, but we must also focus on creating the global entrepreneurial ecosystem within which they can not just survive, but build sustainable businesses. The challenges we face as a world are too important to ignore this wake-up call.

## section 2:

# drivers of change: why we need to think about innovation and entrepreneurship

In essence, entrepreneurs provide ways of creating sustainable adaptation to change through the commercialisation of innovations (social, environmental or technological). Yet it is worth dwelling for a while on the use of terminology in this whole area as there is a tendency to use “entrepreneurship” and “innovation” interchangeably. Yet the two are quite distinct phenomena. The “entrepreneur” perceives opportunities and makes judgement calls as to the market viability (i.e. the risks) of those opportunities<sup>30</sup>. The innovator is the source of those ideas and opportunities and is the conduit of knowledge between the knowledge-base and its future commercialisation, effectively converting uncertainty, which cannot be calculated into risk, which can.<sup>31</sup> While the literature from 50 years ago or more was clear on this distinction, the boundaries between the two have become blurred in recent writing and thinking.

While technology, innovation and knowledge and their long term impact on economic growth is well understood<sup>32</sup>, and while entrepreneurs are known to be

a critical part of that process<sup>33</sup> the two literatures have focused on different aspects of economic change.

The former has focused on understanding and measuring innovation as a process of change and, hence, how companies, countries and economic systems adapt to or assimilate that process of change. For these authors, the most important resource for any economy is knowledge and the most important process is learning and the steady accumulation of intangible knowledge assets and cumulative competencies.<sup>34</sup> Knowledge transfer is critical to the process of learning and the relative efficiencies of national systems can therefore be measured in terms of knowledge outputs such as patents, citations, strategic

Rates Differ.” *Research Policy* Vol 16. Elsevier, New Holland Amsterdam or Romer, P (1990): “Endogenous Technological Change.” *Journal of Political Economy* Vol 98 pp 71-102. See also Bergheim, S. and Hofmann, J. (2005): “Globale Wachstumszentren 2020: fundierte Langfristprognosen mid Hilfe von Formel-G”. Deutsche Bank Research, April; www.db.com and Freeman, C. and Louca, F. (2001) “*As Time Goes By: from the industrial revolution to the information revolution.*” Oxford University Press, Oxford

33. This understanding goes back to Schumpeter, J. (1939): “*Business Cycles.*” Harvard University: a theoretical, historical and statistical analysis of the Capitalist process.” McGraw Hill, London. Reflecting the uncertainty at the time as to whether innovation was exogenous (i.e. external to the market system) or endogenous (i.e. generated from within the system) he argued that the effect of entrepreneurship is to create new products, processes, export markets, sources of raw materials or organisational structures.

34. Nelson, R. and Winter, R. (1982): “*An Evolutionary Theory of Economic Change.*” Bellknapp Press, Cambridge, Mass. See also, Lundvall, B.A (1992): “*National Systems of Innovation: towards a theory of innovation and interactive learning.*” Pinter, London. Harding, R. (2007): “The Unmovable Elephant: Germany and the UK’s productivity performance compared.” *German Politics*, Vol 16, No. 1 pp 137-149. Taylor and Francis, London

30. Casson, M. (1982): “*The Entrepreneur: An Economic Theory*” Martin Robertson, Oxford.

31. Tidd, J., Bessant, J. and Pavitt, K. (2007): “*Managing Innovation: the integration of technology, markets and organisational change.*” John Wiley, Chichester

32. See for example, Fagerberg, J. (1987): “A Technology Gap Approach to Why Growth

alliances, knowledge workers and so on.<sup>35</sup> Differences in outputs as measured can be explained in terms of the intrinsic differences between Capitalist “systems” – those with more rigid labour markets such as the Rhineland system likely to produce “incremental innovations” while those with more flexible labour markets, such as the Anglo-Saxon system, more likely to produce “radical” innovations.<sup>36</sup>

The latter literature has tended to focus on understanding entrepreneurs themselves – how they make their decisions, allocate resources, calculate risks and access finance on the supply side<sup>37</sup> and, on the demand side, how their ideas originate and the importance of social capital in the development of entrepreneurial networks and clusters at a regional level.<sup>38</sup> Only recently has there been an attempt to integrate a theory of entrepreneurship into a theory of economic growth<sup>39</sup> and although the intellectual heritage of this work is in the innovation literature cited above, it uses “enterprises” (i.e. start up rates) rather than enterprising activity as its proxy for measuring the amount of activity that is going on and uses established smaller firms to estimate relative investments in and

production of knowledge or the impact of policy on start-up behaviours.<sup>40</sup>

Yet the key issue for both literatures is they are dealing with change and the process of change. Tidd et al summarise the role of innovation in change as follows: “innovation is essentially about change – in the thing itself or in the way in which it is delivered.” They go on to argue that the degree of novelty determines the extent to which the innovation is a minor, or incremental, change or a major, or radical change.<sup>41</sup> To further understand the whole spectrum of change that innovation produces, they use the following definitions which are derived from Freeman’s seminal work on innovation<sup>42</sup>:

1. *Incremental change*: These are the bread and butter changes in innovation that occur on a day-to-day basis. They involve small improvements in processes or products or services that do not profoundly affect the overall production process. The introduction of anti-lock braking systems into cars may be seen as an incremental innovation.
2. *Radical change*: These are discontinuous “leaps” in the product or the process that fundamentally alter a good or service is delivered or the way in which it is delivered. The introduction of a radical innovation has knock-on effects throughout a particular industry or sector. Freeman uses nylon, or float glass and one could add i-pods are entirely new products and as examples of radical innovations.

35. Furman, J., Porter, M., and Stern, S. (2002): “The Determinants of National Innovative Capacity” *Research Policy* 31, 899-933. Elsevier, New Holland. See also Kitson, M., Martin, R. and Tyler, P. (2004): “Regional Competitiveness: An Elusive yet Key Concept?” *Regional Studies* Vol 38, No 9 pp991-1000; Malecki, E. (2004): “Jockeying for Position: What it Means and Why it Matters to Regional Development Policy when Places Compete.” *Regional Studies*, Vol 38, No 9, pp 1101-1120, Carfax, London. Cooke, P. (2007): “To Construct Regional Advantage from Innovation Systems, first Build Policy Platforms.” *European Planning Studies* 15 (2): 179-194

36. Hall, P. and Soskice, D. Eds. (2001): “An Introduction to Varieties of Capitalism.” Chapter 1 in “*Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*.”

37. Casson, M. (1982) op cit., Blaug, M. (2002): “Entrepreneurship Before and After Schumpeter.” Chapter 2 in Swedberg, R. (2002): “*Entrepreneurship: the Social Science view*.” Oxford University Press, Oxford Management Readers, Oxford. Reynolds, P., Bosma, N. and Autio, E. (2005): “The Global Entrepreneurship Monitor: Data Collection, Design and Implementation, 1998-2003.” In *Small Business Economics* vol 24 (3) 205-231.

38. See Saxenian, A. (1996): “*Regional Advantage: Culture and competition in Silicon Valley and Route 128*.” Harvard University Press, Cambridge, Mass. Iyer, S., Kitson, M. and Toh, B. (2005): “Social Capital, Economic Growth and Regional Development.” *Regional Studies*, 39 (8): pp1015-1040, Nov 2005 or Beugelsdijk, S. and van Schaik, T. (2005): “Differences in Social Capital between 54 Western European Regions.” *Regional Studies* 39 (8): pp1053-1064; Beugelsdijk, S. (2007): “Entrepreneurial Culture, Regional Innovativeness and Economic Growth.” *Journal of Evolutionary Economics*, 17 (2): pp187-210.

39. Audretsch, D., Keilbach, M. and Lehmann, E. (2006): op cit

40. Acs, Z. (2006): “Start-ups and Entry Barriers: Small and Medium-Sized Firms Population Dynamics.” Or Storey, D., “Evaluating SME Policies and Programmes - Technical and Political Dimensions.” Chapters 8 and 10 respectively in Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): “*The Oxford Handbook of Entrepreneurship*.” Oxford University Press, Oxford. See also, Stam, E., van Stel, A., Suddle, K., and Hessels, J. (2007): “High growth entrepreneurship, public policies and economic growth” Max Planck Institut für Wirtschaftsforschung u. Universität Jena Discussion Paper. These authors argue that the greater ambition and growth potential exhibited by entrepreneurs, the greater the association with economic growth in a country.

41. Tidd, J., Bessant, J. and Pavitt, K. (1997): op cit.

42. Freeman, C. (1982): “*The Economics of Industrial Innovation*.” Second edition, Pinter, London. Freeman, C. and Perez, C. (1988): “Structural Crises of Adjustment: Business Cycles and Investment Behaviour.” In Dosi, G., Freeman, C., Nelson, R., Silverberg, G. and Soete, L. (1988): “*Technological Change and Economic Theory*.” Pinter, London. Freeman uses his own examples to illustrate the stages of innovation.

3. *New technology system*: These changes will alter several industries through the networks and supply chains of organisations in which the innovation originated since they are organisational as well and process or product innovations. For example, companies like Zara, whose lean production system built around a network of designers who work to short production cycles has transformed the way in which suppliers to Zara work, but also the way in which the whole clothing sector operates.

4. *Shift in techno economic paradigm*: This is a major shift, usually in technology, that alters the whole economy. An example would be the microchip which spawned a series of radical innovations in the 1980s followed by organisational changes that could be deemed a changed technology system in the 1990s and has created rapid productivity growth and a communications revolution that has altered the way in which the economy, services, work and even our domestic lives are organised and, indeed, the way in which we think about those things.

Yet these changes do not happen by themselves. They are driven by people in organisations, in universities and independent thinkers who see a problem – economic, social, technological or environmental – and want to fix it. As Baumol points out, “It seems to be taken for granted in the literature that, even if entrepreneurs are not in complete control of our economic destiny, they influence its direction as few, if any, others are able to do.”<sup>43</sup>

There are, then, two approaches to the same issues of change: on the one hand are those who regard innovators as the drivers of change and, on the other, are those who see entrepreneurs as the mechanism by which innovation *potential* is converted into actual market change through the development and implementation process. The characteristics of each, from the discussion above, are summarised in Figure 1:

Taking change to be a natural feature of the evolving landscape, then, the Innovator “genus” naturally looks

43. Baumol, W.J. (1993): “Formal Entrepreneurship Theory in Economics: Existence and Bounds.” *Journal of Business Venturing* Vol 8, Issue 3, May 1993, pp 197-210. Elsevier, Holland.

**FIGURE 1**  
The distinctive nature of innovators and entrepreneurs

Innovators	Entrepreneurs
Deployment of knowledge to create opportunities of various forms: market creation, process improvements, exports, organisation, social, environmental, material	Deployment of knowledge to search for commercial or equally ‘change’ opportunities with financial on non-financial returns and evaluate own risks
Skills, experience and formal learning essential to deployment of knowledge	Formal qualifications less important than capacity to learn, adapt and move swiftly
Strong links to knowledge base	Strong links to know how through social capital embodied in networks
Deals with risk: developing opportunities and ideas from information scanning	Deals with uncertainties or high risks that cannot be insured since information is imperfect and implies some experimentation
Financial risk is the idea as it develops may not be commercialisable	Financial risk is that the enterprise may not be successful

Source:

for change opportunities in the knowledge base.<sup>44</sup> The Entrepreneur “genus” takes opportunities and turns them into something that is viable as an “enterprise” (in both the commercial and the activity sense of the word). Of course, within each “genus” are a number of different species – it is possible to be innovative and entrepreneurial in many different contexts.<sup>45</sup> Common to both, however, is the fact that they are drivers of change in society. The innovator to a large extent provides the platform for that change but, as Piore and Sabel argue, although change is endemic, the direction of that change is determined by choice.<sup>46</sup>

But, and this is a critical difference, it is the entrepreneur who makes some systems more capable of driving wealth creation from the process of innovation since it is the entrepreneur who is a “specialist in taking difficult and complex decisions for which other people do not want to take responsibility.”<sup>47</sup> It is the entrepreneur who makes the choices about which innovations will reach the market, when they will reach it and how. The entrepreneur takes that reputational risk while, since the finance is often external, it is the financial system that takes the real risk that they might in the end not see the required return on investment. It is, then, the capacity of an economy to produce entrepreneurs that differentiates its capacity to create wealth through innovation since it is the entrepreneurs who have the potential to transform opportunities into business propositions. Effectively, it is the entrepreneurs themselves who make this form of wealth creation endogenous.<sup>48</sup>

44. Or, indeed, as Florida would argue, in the creative base as well (see Florida, R. 2002: *The Rise of the Capitalist Class: and how it's transforming work, leisure, community and everyday life.* Basic Books, New York. A full discussion of this goes beyond the scope of this report but another way of assessing the creative propensity of a particular society is to look at the numbers of people who would classify as “creative” beyond the orthodox “Creative Industries.”

45. Harding, R. (2006): “Entrepreneurs: the World's Lifeline?” *Business Strategy Review* Blackwell Publishers, Oxford, Vol 17, Issue 4 pp 4-8.

46. Piore, M. and Sabel, D. (1984): *The Second Industrial Divide: possibilities for prosperity.* Basic Books, New York

47. Casson et al (2006): op cit

48. Metcalfe, S. (2006): op cit

## CASE STUDY

### Barefoot Power: innovative entrepreneurship in the social and environmental arena

Barefoot Power was established by energy professionals to provide both the resources and advice to provide sources of power for those rural poor who do not currently benefit from its provision. They see that investments in improved energy services for the world's poor makes good economic, social and environmental sense.

Barefoot Power aims to improve livelihoods by providing people with improved energy services, by identifying how to further develop power supplies in these communities and by identifying and helping any micro-enterprise that would benefit from improved energy supply; Its aim is to become a trusted company in rural communities, to form partnerships with businesses and NGOs that have existing on-ground networks in rural areas. Barefoot Power builds the technical capacity of these organizations, and by doing so encourages the development of new renewable energy service providers. They also aim to assist these organisations in attracting financial assistance to support their activities and the rural communities that they serve.

The market for village power is huge. It is in this market that Barefoot Power is open to sharing project experiences, partnering for specific projects and establishing alliances with other individuals or organisations who are interested in co-operation rather than competition to improve livelihoods in rural communities worldwide. The company embraces the concept of social entrepreneurship, where social entrepreneurs combine a social vision with the entrepreneurial skills of the private sector.

Finally, there is increasing political and business interest in those innovative entrepreneurs who innovate in the social space. There is little in the innovation literature itself that focuses on the social innovators<sup>49</sup> and yet, as a business sector, this area is growing rapidly as a route, not to economic growth as such but to sustainable economic *development*. The area is still emerging and there are issues around the appropriate organisational structures for maximising and perpetuating social innovations with some arguing that the profit motive is more consistent with business and technological innovation while a not for profit organisational structure is more appropriate for producing replicable social innovations.<sup>50</sup> There is, however, a growing number of “not just for profit” or “profit with a purpose” companies who combine social innovations with business or technological innovations. A full discussion of social innovation and socially innovative entrepreneurs goes beyond the scope of this paper. However, these companies employ an innovative type of business model – that of social enterprise<sup>51</sup> - and their growing importance suggests that they are too important to be excluded from any analysis of innovative entrepreneurs generally and the typology of innovative entrepreneurs developed below can arguably be applied as much to the social arena as to the mainstream business arena since, as discussed above, we are defining all entrepreneurs as *change agents* rather than simply economic wealth creators.<sup>52</sup>

49. Interest in the area is growing and work at the Skoll Centre for Social Entrepreneurship and the Young Foundation is increasingly focusing on this area. See, for example, Mulgan, G. with Tucker, S., Rushandara, A. and Sanders, B. (2007): “Social Innovation: what it is, why it matters and how it can be accelerated.” Skoll Centre for Social Entrepreneurship, Working Paper and The Young Foundation.

50. Mulgan, G. et al (2007): op cit

51. The important point here is that, along with the Small Business Service definition of social enterprise, these are companies that can be for profit but use/recycle their profit for the purpose of continuing with their social or environmental goals or objectives.

52. Attempts to measure the scale and scope of social entrepreneurship through survey work are embryonic and limited to the Small Business Survey of Social Entrepreneurs, the Small Business Service Annual Small business Survey and GEM UK since 2004. None of these surveys include innovation or social innovation explicitly.

## why we need to think about entrepreneurship and economic development

The growing interest in what is termed “philanthropy” amongst the world’s most successful and high profile entrepreneurs suggests that awareness of the global challenges of income and opportunity inequalities is gaining ground. The need to “put something back” is a phrase used by many who have in some sense, “made it”. Projects like the Hunter Foundation, the Gates’ Foundation and Entrepreneurs Unite are ways of helping development through entrepreneurship and real assistance for deprived communities. Similarly, new and emerging organisations and networks of young entrepreneurs, such as the XL network are beginning to build giving and social enterprise into their business plans from the outset.

As these projects realise, it is no longer enough to put money into projects and move out again, if, indeed, it ever was. Organisations like Global Angels are increasingly taking the good will and strength of philanthropic giving and turning it into a long term investment in projects to relieve poverty (in this case amongst children) that provide durable solutions. In simple terms, there is plenty of entrepreneurial activity in developing nations which can be used to create routes out of poverty and clean solutions to the environmental problems of rapid economic development. Harnessing this energy is less easy, however, since much of it is actually perpetuating poverty and choosing an appropriate mechanism or strategy is central to finding an appropriate solution.

## CASE STUDY

### Global Angels

Global Angels has been supporting a diverse range of projects implemented through Nema Foundation in Guludo, Northern Mozambique. Nema's objective is to relieve poverty while protecting the environment, achieved through replicable, low cost projects designed to empower rural communities.

In Guludo life expectancy is estimated at 38 years old with 29% of children, less than 2% of houses have latrines and less than 1% of children reach secondary school. In the last 12 months, with Global Angel's support, Nema has implemented a school feeding programme, tripling school attendance, protected over 10,000 women and children from malaria through training and net distribution, ran hygiene and sanitation workshops in every household in six villages, provided every eligible child in the region a chance for a

secondary school scholarship and is currently building 2 primary schools and providing over 15,000 people with clean water through the rehabilitation of 26 wells/boreholes. This has all been achieved through training community volunteers who implement and monitor the projects and integral involvement with the government.

Nema Foundation is part of a larger model under the umbrella of Bespoke Experience, which operates commercial tourism lodges. The lodges operate in such a way that maximise all possible benefits to the local area while giving a growing percentage of revenue to Nema projects. The commercial entity ensures that all administrative costs are covered so 100% of all donations go directly to projects on the ground.

Figure 2 illustrates this in stark terms. It shows the scale of the inequality problem across the world: over 50% of employment was "vulnerable" in 2006. "Vulnerable" employment, according to the UNDP and the International Labour Organisation (ILO) is work that is potentially

## FIGURE 2

Indicators of poverty: Vulnerable employment as a share of all employment and proportion of population living at under \$1 US a day

Region	Vulnerable Employment Shares		Working Poor Shares (US \$1/day)	
	1996	2006	1996	2006
World	53.3	50.2	25.0	16.7
Developed Economies and European Union	11.2	9.4	0.1	0.0
Central and South-Eastern Europe (non EU) and CIS	19.9	19.7	7.5	1.9
East Asia	64.8	56.2	19.5	9.5
South East Asia and the Pacific	64.9	59.2	22.1	10.6
South Asia	81.4	78.2	56.6	33.5
Latin America and the Caribbean	31.2	32.7	12.1	8.0
North Africa	37.7	32.1	2.8	1.6
Sub-Saharan Africa	76.3	74.1	58.5	53.5
Middle East	37.7	33.3	2.3	4.9

Source: International Labour Organisation, Key Indicators in the Labour Market, 2007

short term or threatened by seasonal fluctuation. This includes work as “contributing family workers” and self-employment. Where the figure for vulnerable employment is high, the ILO argues that the level of subsistence is potentially also high, the formal employment sector low and lacking in growth and poverty higher since there are few safety nets for this group.

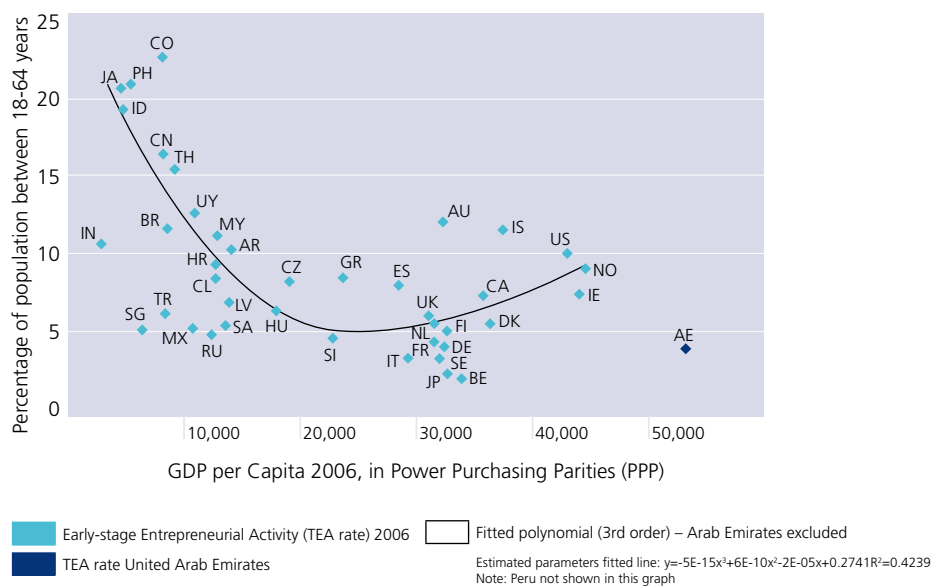
The table suggests that although there is evidence that the proportions of people in vulnerable employment and on less than a dollar a day has generally declined, more than 70% of employment in South Asia and in Sub-Saharan Africa was “vulnerable”. These were also the regions with the highest numbers of people living on less than a dollar a day.

This helps us to de-bunk one of the myths that surrounds the whole area of entrepreneurship and economic development, illustrated in Figure 3.

The Global Entrepreneurship Monitor (GEM) is one of the world’s most authoritative and systematic sources of data on early stage entrepreneurial activity. It is a household survey of the adult population of working age in some 42 countries around the world and asks respondents whether they are engaged in any form of start up activity (either independently or as part of their work) and whether they are the owner or manager of a business. It also asks how long the respondent has been engaged in that activity. From the results an estimation of the numbers of individuals involved in the earliest stages of entrepreneurial activity up to 42 months (the TEA rate) in the whole population is calculated.

**FIGURE 3**

The link between per capita Gross Domestic Product (GDP) and early stage entrepreneurial activity: 2006



Source: GEM Executive Report, 2006

Figure 3 illustrates the findings for 2006 and shows, as previous years had done,<sup>53</sup> that early stage entrepreneurial activity, or TEA, is higher in those countries with lower per capita GDP than in countries with higher per capita GDP.

The connection between Figures 1 and 2 is in the definition of entrepreneurship and self employment. For policy makers in the developed world, for example, self-employment is a means to increase engagement in the labour market, particularly amongst groups that are under-represented such as women, the unemployed or minority ethnic groups. Used interchangeably with entrepreneurship, then, the conclusion is that increased entrepreneurship leads to greater labour market inclusion.

In the developing world, higher proportions of the population are self-employed but this is a measure of poverty, necessity and vulnerability, not a measure of labour market engagement. Entities are set up by individuals who respond that they are creating markets, they are innovative (in fact according to GEM more likely to be producing goods and services in new market areas) and more likely to be using new technologies (since the diffusion of technology is widespread, the definition of "new" technology does not mean that these entrepreneurs are using new technologies per se but rather that they are new to them). But these entities are, according to the ILO and the World Bank, likely to be very small and often on a subsistence scale.

So Figures 2 and 3 are just showing differences in the labour markets between the developed and the developing world. Necessity entrepreneurship, or self employment according to ILO definitions, is a measure of poverty and not of growth potential.

This is not to suggest that there is no scope for using the energies and innovations of the self-(or vulnerable) employed to create sustainable development, however, merely that there needs to be a way of creating a funding and support system that enables this growth to happen. The examples of how the Grameen Bank, working with the government and NGOs has developed microcredits alongside a support structure of grants and loans in Bangladesh demonstrates one way in which this may aid economic development.<sup>54</sup> As the World Bank argues, if the choice (for an individual) is subsistence farming, waged employment or entrepreneurship then the choice will be entrepreneurship because of its potential for growth and wealth creation. However, the success of any firm is critically dependent on access to appropriate forms of finance and support at key stages of development. Microcredits are necessary but not alone sufficient to allow businesses to grow up effectively.

### **an entrepreneurial ecosystem: the importance of policy and strategy**

Interestingly, this is not unique to the developing world. Successive studies have shown that the key reason why businesses fail to grow across the world is lack of finance. More than this, there is increasing realisation amongst practitioners interviewed during the course of 2007 as part of this research that finance is alone insufficient: that entrepreneurs need mentoring, coaching and skills training as well as access to infrastructural support (such as university research, office space, transport etc.). What is key here is that policy makers, business leaders, entrepreneurs and support agencies all have a role to play in the development of entrepreneurship.

Indeed, there is a growing acceptance in the literature that it is the process of entrepreneurship, i.e. the means by which innovations are developed into commercial (or

53. See Reynolds, P. and Bosma, N. et al (2005): "Global Entrepreneurship Monitor: Data Collection, Design and Implementation, 1998-2003." *Small Business Economics* 24: 205–231 \_ Springer 2005 DOI 10.1007/s11187-005-1980-1

54. Yunus, M. with Weber, K. (2007): "Creating a World Without Poverty: How Social Business can Transform our Lives." Public Affairs, New York.

social) entities, that creates wealth. No innovation or entrepreneur is alone sufficient to create enduring change. Nor is it enough to have an entrepreneur with a great innovation but no way of implementing it. In short, there must be a conducive “ecosystem” around the innovative entrepreneur as well: again, no one aspect of capital is alone sufficient but all are necessary.<sup>55</sup>

This ecosystem is the source of capital for the innovative entrepreneur that can take various forms: from family background, networks and knowledge links<sup>56</sup> and social capital to finance capital and the co-existence of large firms who rely on the entrepreneurial base as a source for transformational innovations.<sup>57</sup> It must support risk taking behaviours and the financial system must both support risk and, critically, have the instruments in place to allow investor returns from the risk they take right the way through from the “seed” of an idea to final exit.<sup>58</sup> There should be strong and supportive government policy to ensure access to growth finance, fiscal incentives to innovate and to invest in innovation and to ensure that the market and institutional environment is supported by strong but supportive regulations. In short, all of these factors comprise the “entrepreneurial capital” of a nation, region or locality and in themselves add to the likelihood that innovative entrepreneurs will be able to realise their capacity to create wealth.

This is illustrated in Figure 4 which shows the Delta Global Entrepreneurship Ecosystem.

**Stage 1:** Role for policy is substantial in creating a strong demand-side for entrepreneurship alongside

55. For a discussion of this in the context of venture capital, see Harding, R. (2002): “Plugging the Knowledge Gap: an international comparison of the role for policy in the venture capital market.” *Venture Capital* Vol 4, No 1. pp59-76. Routledge, London.

56. Minniti, M. (2005): “Entrepreneurship and Network Externalities.” *Journal of Economic Behaviour and Organisation* Vol 57 (1) pp 1-27.

57. Della-Giusta, M. and King, Z. (2006): “Enterprise Culture” chapter 24 in Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): *The Oxford Handbook of Entrepreneurship*. Oxford University Press, Oxford.

58. Harding, R. (2000): “Venturing Forward: the role of venture capital policy in stimulating entrepreneurship.” IPPR, London.

the supporting infrastructures such as finance (loans, microcredits, awareness of business angels), education and skills training, an appropriate tax and regulatory regime, research and development infrastructure. Private sector engagement is through links with innovation base or social responsibility.

**Stage 2:** Role for policy is becomes less explicit and more in the form of appropriate fiscal measures to encourage investment and intellectual property regimes to encourage knowledge transfer. Role for private sector is in providing the appropriate forms of mentoring, support, coaching and ultimately development finance.

**Stage 3:** Role for policy is in creating appropriate capital gains tax regimes for when companies are sold on. Role for private sector dominate.

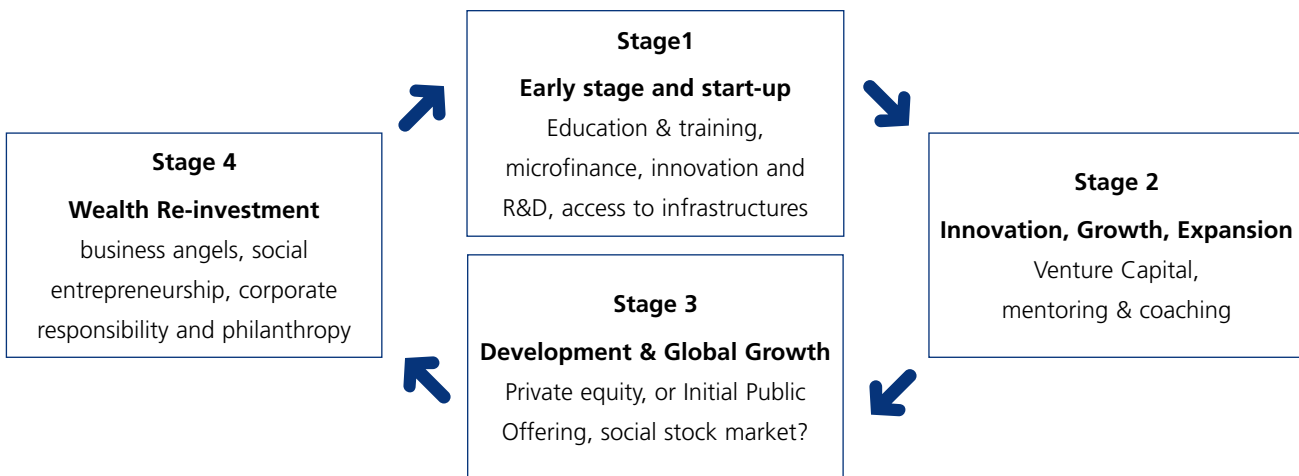
**Stage 4:** Role for policy is in providing appropriate fiscal regime (eg capital gains tax) for investment in venture capital trusts, business angel activity and in foundations or charities. Role for individual or company is to use know how and financial resources to coach the next generation of entrepreneurs.

Several things are important about this model:

1. It represents an ecosystem of entrepreneurship: all parts of it, the demand side (culture, infrastructure and attitudes), the supply side (finance and fiscal regime), the public sector, the private sector and the entrepreneurs themselves are inter-dependent.
2. It demonstrates the importance of creating not just a growth structure (stages 1-3) but also of enabling a structure whereby the knowledge, experience and, where appropriate, the resources of successful entrepreneurs and wealth creators can be reinvested, or recycled, back into the system.
3. It applies equally to social enterprises as to mainstream enterprises: although the growth mechanisms for social

**FIGURE 4**

The Global Entrepreneurial Ecosystem of Sustainable Development



Source: Derived from interviews, discussions and literature

enterprise are less well-developed, there is nevertheless a growing awareness of the innovation and growth potential of social enterprise as a sustainable business model that embodies in its own right the life-cycle represented here – where revenues are re-invested rather than returned to share-holders.

4. It demonstrates the complexity of building an entrepreneurial system in the developing world: where the need for infrastructures and the need for micro-credits is well established, the need for growth finance alongside appropriate mentoring and support is less well developed. The links between the four stages are weak with the result that a heavy reliance on philanthropy has the potential to perpetuate poverty rather than ameliorate it. Policy makers and businesses alike should be developing models that allow the effects of programmes to multiply and become sustainable.

## CASE STUDY

### completing the ecosystem?

#### Diversification to LPG for domestic and productive use

The high demographic growth of the urban population in Madagascar is leading to an increased demand for charcoal as a key fuel. The sources of charcoal are relatively unregulated and the commercial market is not supplying the demand. Charcoal is supplied from illegal logging and clearing of all types of forest, including much that is of excellent environmental value. Thus increased consumption of charcoal is leading to deforestation and environmental degradation with commensurate threats to the biota.

As an alternative, Liquid Propane Gas (LPG) is cleaner, more efficient and will not perpetuate the threats to the environment outlined above. It will reduce the levels of carbon emissions, and lower the levels of smoke inhalation currently suffered by indoor cooking. It is a viable alternative to charcoal, is cleaner, more efficient and will allow its supply to become a more regulated market.

The plan by Vitogaz and Comité Malgache du Butane (CMB) is to allow the initial subsidized purchase of a LPG bottle and cooking device to be made by a micro-credit and follow up activities to be made through Information Education Communication with the support of WWF.

The project is currently on hold due to the change in tax status of LPG in Madagascar since January 2006 (from VAT=0 to VAT=20%) that added to the increase of the oil price. This has created a situation where the price for LPG doubled, making it out of reach for the poor. Lobbying is currently occurring to try to change this situation.

What is vital about the ecosystem, however, is that policy makers and business-leaders see it as just that – an ecosystem. No one part of it can survive alone and no one species can survive in it alone.

## CASE STUDY

### completing the ecosystem?

#### ANGLO-ZIMELE

Anglo Zimele – Anglo American's enterprise development fund and a catalyst for emerging black business in South Africa – was established to empower black entrepreneurs through the creation and transformation of small and medium enterprises (SMEs). Since its inception in 1989, it has invested in over 150 SMEs across various industries, and provides loan and equity finance to support start-up or expanding businesses.

Anglo Zimele ensures the long-term economic viability of these enterprises through skills transfer and guidance, and assists its investee companies by offering strategic operational, financial, and business expertise on a hands-on basis. Such support is offered in several areas, including marketing, corporate governance; safety, health and environment, among others.

At the outset input is significant, but with time dependency is reduced, realising its philosophy of 'independence through enterprise'. Derived from the African languages Xhosa and Zulu, 'Zimele' means to 'be independent' or to 'stand on one's own feet' and, as such, clear exit strategies are defined in all shareholder agreements.

Investment opportunities must exhibit commercial viability and growth prospects, and must actively involve a black economic empowerment (BEE) partner or entrepreneur in daily operations.

If a project meets Anglo Zimele's investment criteria, engagement takes place with all parties, a business plan/investment proposal is compiled and a due diligence exercise conducted.

An integral part of Anglo Zimele's activities is driving transformation in the Anglo American supply chain. It assists the Group's procurement departments in identifying BEE suppliers, which ensures the channelling of supply opportunities to BEE companies. During 2006, Anglo American South Africa, its business units and independently-managed subsidiaries reported a procurement spend of R12,3 billion with black-owned and managed SMEs.

## CASE STUDY

### financing the ecosystem?

Big Issue Invest is the leading provider of finance to high-performing social enterprises delivering business solutions that tackle social problems. It is a member of The Big Issue Group of Companies. Both social and financial returns to investors and dividends are reinvested in The Big Issue and Big Issue Invest.

Big Issue Invest is led by social entrepreneurs and is staffed by mission-driven financiers with a wealth of experience from the World Bank, ShoreBank (the oldest and largest community bank in the US) and private retail and investment banking. This combination, along with the first-hand experience gained through The Big Issue, ensures both trust and understanding of the social enterprise sector.

The Loan Fund provides finance tailored to meet the needs of social enterprises wishing to scale-up. Since February 2006, £4.5 million to 20 social enterprises with no defaults or late payments has been provided. Investments span employment generation, community

trusts and transport and the environmental and health sectors. This, combined with innovative financing products including royalty structures, guarantees and loan conversions allows the fund to make investments and take risks that are normally associated with equity financing.

Big Issue Invest has launched a Contract Finance Fund which offers social enterprises bidding on public sector contracts a new source of low-cost, flexible contract finance – typically 6-7% per annum with no arrangement fees in packages of up to £2,000,000. This initiative primarily looks at the strength of the social enterprise to deliver the contract rather than its balance sheet.

Big Issue Invest is now raising a Social Venture Fund. Venture philanthropy has typically provided grants but this is an investment approach that offers both financial and social returns to investors. The aim is to provide risk capital for scalable social ventures and works alongside the unique Acquisition model of purchasing controlling interests of commercial companies and backing them into established social enterprises with strong management and proven delivery records. Knowledge of the market and experience in structuring innovative financing are natural strengths of the fund.

The final aspect of the Big Issue Invest business model is to find innovative solutions to tackling financial exclusion through its Alternative Credit Ratings Index. The first initiative under this scheme is focused on increasing access to regulated, affordable credit among low-income people. Eight million people are refused mainstream credit each year. They have no alternative but to borrow at very high rates of interest from doorstep and high street lenders. Such people may not be poor credit risks, rather there is too little information in their credit files to assess their creditworthiness.

They are conducting a feasibility study of adding in new sources of positive data, such as rent payment data, to credit assessment models so as to increase access to mainstream credit. They believe that we could bring 750,000 to 1,900,000 people into mainstream regulated credit and away from the predatory lenders.

The approach can be equally applied to policy and here it is easier to see where the gaps are. More detailed approaches to policy by global region are given in Appendix 1 and summarised in terms of the ecosystem approach in Figure 5:

### developing the business global entrepreneurship ecosystem

The cases covered in this section can be summarized into Figure 4 which shows where each fits into the ecosystem model and where the gaps are.

**FIGURE 5**  
Corporate Strategies to Create the Global Entrepreneurship Ecosystem

	LPG diversification	Global Angels	Anglo-Zimele	Big Issue Big Invest
Stage 1	Demand-led/ environmental concerns but top down	Need-led (identifying poverty issues/problems and projects)	Providing resources to allow entrepreneurship/black empowerment through integration into Anglo supply chain	Credit facilities to enable access to finance for excluded groups
Stage 2	Using microcredit to generate sales	Using revenues from charitable fundraising to support entrepreneurial development projects lifting people out of poverty	Social investments on the basis of business plans and viability of project; mentoring and support provided	Loan fund and contract finance fund with investment rather than repayment criteria allowing it to behave like equity.
Stage 3	Missing: blocked because of tax regime	Projects must be developed and running already therefore with sustainable potential	Businesses must have growth potential – provides strong support for growth; links with business and private sector	Social Venture Fund to inject growth into the business model
Stage 4	WWF support activities	Taking resources from corporate responsibility and philanthropy to re-invest in poverty solutions	Corporate responsibility: funded through Anglo-American (although independent) and works with the SEAT (Social, Economic, Assessment Tool) on welfare benefits of decisions	Reinvestment of social and financial returns in Big Issue and Big Issue Invest.

Source:

**FIGURE 6**

A stylised summary of policy across global regions

	US/Canada	South and Latin America	Emerging Asia	Africa	Europe
Stage 1	Identify target “under-represented” groups to build cultures	Focus on demand-side – developing an entrepreneurial culture	Focus on education and building cultures	Heavy reliance on microcredits and localised projects	Focus on building cultures through young people and underrepresented groups. Increasing interest in social enterprise
Stage 2	Support structures through mix of public investments, PPPs and cultural support	Some informal and formal investment capital but business support structures and finance emergent	Developing relatively swiftly: at policy level still at discussion stage but there is emerging market	Emerging but growth finance and systemic approach really missing	Under-developed in most of Europe compared to US but public support measures for risk capital and business support developing
Stage 3	Developed risk capital market	Emerging	Emerging – often through corporate venturing from global companies	Emerging venture capital association and strong inflow of investment resources into key centres in Nigeria and South Africa	Under-developed risk capital market in comparison to US although fragmented across the region. Dominance of the MBO/I market and persistent equity gap
Stage 4	Strong business angel, corporate venturing and philanthropy sectors	Emerging	Emerging, although potential for growing entrepreneurial population to act as role models	Strong support from Corporate responsibility functions of global corporations – needs mainstreaming beyond microfinance	Emerging: business angel activity not as widespread; corporate venturing stronger in some regions (eg Denmark) than in others; corporate responsibility often goes out of Europe rather than to under-developed areas within Europe.

Source:

## summary

Policy and business tend to focus on their areas of responsibility and not to regard the life-cycle of entrepreneurship as an iterative and symbiotic set of relations between the entrepreneurs themselves, the ecosystem in which they find themselves and the larger financial and corporate organisations that benefit from the activities of entrepreneurs – both financially and as a source of ideas and innovations. Yet only if this interdependency is fully understood, and the model made to function effectively can the poverty trap of vulnerable self-employment and low wages be converted into a motor of economic development.

More than anything, it has to be clear that there is no one policy and no one enterprise model that will fit all situations. But what this section has demonstrated is that there is one ecosystem that needs to be developed to allow entrepreneurs to take their entities and activities through to their full growth potential. Exactly how this ecosystem will operate in each country, or indeed in each business situation will, of course, differ. But the tools for business leaders for policy makers are there – the key is to identify where the gaps in the ecosystem are and plug them if we are to allow entrepreneurs to reach their full “change agent” potential.

## section 3:

# call to action

This report took as its starting point two main challenges: first, that the world is currently changing for the worse, especially in terms of inequalities and climate change and that therefore the status quo is unsustainable. Second, we need to broaden our definition of entrepreneurs beyond the “orthodox” economic concept of the entrepreneur as a market creator, an opportunist and a wealth creator motivated by their own desire for reward and recognition. Instead, as policy makers, business leaders and academics we need to think of entrepreneurs as change agents who hold the key to the sustainable economic development of the planet.

The report demonstrated that innovation and entrepreneurship are two catalytic responses to the need for change. Innovation can occur as much in the social and environmental space as in the economic space while the entrepreneur takes the opportunities generated by the innovator and turns them into viable market propositions. Harnessing this energy is critical to creating the structures and policies that support and engender effective adaptation to change.

The global entrepreneurial ecosystem developed here suggested that growing successful entrepreneurial entities

based on a desire for sustainability is not a linear process but instead relies heavily on the role of the individuals and organisations who have the resources (human as well as financial) to re-invest those resources in future generations of entrepreneurs. This reinvestment can take the form of “clean” investments, social entrepreneurship and philanthropy but also the more “orthodox” forms of wealth recycling such as business angel activity and investment in foundations and venture capital trusts. Whatever else, this ecosystem demonstrates the need for all players to see themselves as mutualistically interdependent, if not symbiotic, with one another.

### recommendations

So what can we all do about it? This report is a summary of what we know already but develops a new way of looking at solving the problems through a “Global Entrepreneurship Ecosystem.” It is relatively easy for policy makers and businesses alike to classify qualitatively their strategies and measures into each of the four stages and then to assess where the gaps might lie.

However, this will not be enough and there are some really tangible steps that we, as policy makers, business practitioners and thought leaders can take:

## **Shore up the evidence base**

It is much easier to formulate policy on the back of hard evidence of gaps yet so much policy and strategy around the world is constructed on the basis of weak, inconsistent, non-comparable or even non-existent data. Creating change through the world's entrepreneurs is still a matter of faith rather than judgement, and while many of us believe that this is indeed the "right" thing to do, appropriate data and information helps us to understand where our inputs can be most effective.

## **Use the word "entrepreneur" to mean change agent**

Much research has been done about the problems in building an entrepreneurial culture. One of the biggest barriers, according to the Global Entrepreneurship Monitor, is fear of failure. Yet if people felt they were making a difference, however small, there would be nothing to fear. Entrepreneurship would become a force for good rather than a route to increased individualism. Amongst the entrepreneurial world, this is already happening but there is still much to be done.

## **See the ecosystem and help to build it**

The ecosystem is reliant on everyone realising that their roles and actions are interdependent. This means increased action-oriented dialogue between the policy, business and research spheres to ensure that we complement each other.

## **Use the ecosystem as a way of measuring your own success**

Whether you are a small social enterprise, a global corporation or a department within government, the ecosystem approach allows you to "box" your own activities. To develop a sustainable entrepreneurial

framework, all four stages of the ecosystem need to be in place and if every organisation starts to think in these terms, then it helps the world to start thinking of the drivers of change entrepreneurially too.

## appendix 1: policy measures

### north america

#### The US

Politicians from across the world have been convinced by the productivity growth of the US at the end of the 1990's and beyond that its model is a benchmark for everyone else to follow in stimulating entrepreneurial activity. The immense resources committed to research and development at nearly 3% of GDP in the US should not be forgotten of course, but the most important factor in the US economic story is that building an entrepreneurially based economy does not happen over-night. The Small Business Administration (SBA) was established in 1958 to provide business support and advice to the small business sector in the interests of strengthening the US economy. Its remit was to:

- Provide loan guarantees
- Give guidance on winning public and private sector contracts
- Provide counselling and mentoring to small businesses
- Provide other business support as necessary<sup>59</sup>.

59. <http://www.sba.gov/aboutsba/index.html>

It is this last point that has given the SBA its flexibility over time to identify where gaps in the entrepreneurial support market might be and to put together delivery mechanisms to address those gaps. Thus, for example, it set up the Small Business Investment Company (SBIC) in 1958 which encouraged private venture capital firms to invest in high risk entrepreneurial firms by providing co-investment and guarantees to long term debt and equity investments thereby addressing the issue of growth financing.

The SBA has since evolved to be an adaptive enabler of entrepreneurship policy through delivery. It now has a \$45 billion loan portfolio for entrepreneurial and small businesses and has specific programmes to support excluded groups such as minority communities, veterans and native Americans as well as resources to support through finance and mentoring youth entrepreneurship and women.

#### Canada

Canadian policy towards entrepreneurship is more recent than that in the US.<sup>60</sup> Industry Canada has a remit to provide Canadian businesses with information, services

60. Harding, R. (2003): "New challenges for innovation systems – cross country comparison." *International Journal of Technology Management* Vol 26, Nos 2-4; 2003, pp 226-246. Inderscience Publishers.

and advice and has a raft of financing mechanisms to enable entrepreneurs to access growth finance in the form of debt and equity. Other Canadian government priorities are:

- The reduction of red-tape
- Providing a matching service for entrepreneurs to product and service markets.
- Enabling economic empowerment in minority and indigenous communities through entrepreneurship (including finance and mentoring packages).
- Providing a one-stop-shop to entrepreneurs seeking start up advice through Canada Business Portal. The Canada Business Portal has a mandate to supply the most up-to-date business information and advice on government programmes and business opportunities and delivers these through local business support agencies across Canada's regions.

## south america, latin america and the caribbean

Policy in this region focuses to a large extent on building political and financial stability and establishing the correct frameworks for businesses to survive<sup>61</sup>. As a result, an overview is hard to find, but many of the international organisations are working with international organisations to promote competitiveness and entrepreneurial activity. For example, the World Bank has put \$300m behind a project in Mexico with the goals of furthering innovation, technology development and training, improving the investment climate, improving trading facilities and making more transparent and sustainable the energy sector in the country. There is a particular priority in World Bank programmes and IFC work to educate young people, and

work with national governments to promote appropriate and sustainable access to finance.<sup>62</sup>

Policy makers have prioritised economic stability and creating a robust and secure financial system and legal framework. These are preconditions. However, initiatives like venture capital in Chile which supports innovative firms or the Brazil Rural Energy Enterprise Development initiative which works with the UN to provide funding, training and support to rural energy entrepreneurs in the interests of creating sustainable energy businesses<sup>63</sup> demonstrate the strengths of collaborative initiatives on the ground in developing an entrepreneurial culture.

## emerging asia

The focus in the emerging economies of the regions, broadly those within ASEAN (the Association of South East Asian Nations) is on converting entrepreneurial activity on a small scale into the entrepreneurship that will create growing businesses. Much of this requires developing financial, legal and cultural structures to develop entrepreneurship. ASEAN identifies five areas in which its member nations must do more to generate an entrepreneurial culture:

- Access to finance, technology and markets
- Developing an entrepreneurial culture
- Lack of start-up information
- Failure to comply with international standards
- Insufficient use of ICT

It has developed a series of programmes around building an entrepreneurial culture in the region through education and skills development and capabilities building (for example in networking and marketing and e-commerce). Working with national governments, ASEAN is also committed to increasing access to appropriate growth

61. [www.eclac.org](http://www.eclac.org)

62. [www.worldbank.org](http://www.worldbank.org)

63. [www.brazzilmag.com/contents/view/7589/53](http://www.brazzilmag.com/contents/view/7589/53)

finance through microcredits, loan guarantees and venture capital.<sup>64</sup> An example of this is the Gema PKM programme in Indonesia through the UN and ASEAN which aims to develop the structures for providing a clear and transparent microcredit market in the country through effective legislation and policy<sup>65</sup>.

## entrepreneurship in europe, the middle east and africa

Entrepreneurship policy in Europe is based on a belief that, “entrepreneurs are the lifeblood of a prosperous economy”.<sup>66</sup> The Lisbon Agenda of 2000 set out an ambitious set of objectives to achieve 3% GDP growth and 20 million jobs across the EU by 2010 allowing Europe to become the world’s “most competitive region in the knowledge-based economy.”<sup>67</sup>

One of the central pillars of the Lisbon Agenda was developing a strong and entrepreneurial start-up and SME sector within the EU as a precondition for generating jobs and innovation.<sup>68</sup> Across various EU commissions, the goal was to increase levels of innovation, streamline support for small enterprises through better access to finance, reduced regulation and red tape and cheaper start up costs. By 2005 it was apparent that the targets of the Lisbon Agenda were unlikely to be met and a relaunched agenda was developed around an Entrepreneurship Action Plan whose implementation was finalised in 2006:

- **Encouraging young people into entrepreneurship as a career:** by making entrepreneurship part of the school curriculum in Member States, providing financial support for school pupils to set up “mini-companies” and extending the UK’s Enterprise Week across Europe.

- **Reducing the Europe-wide “stigma” attached to business failure:** by helping entrepreneurs manage risk through effective planning and mentoring while encouraging Member States to make bankruptcy law less “punitive”.
- **Facilitating culture and attitudinal change towards entrepreneurship:** Including European Enterprise Awards for public sector authorities who do the most in their region or area to promote entrepreneurship.
- **Implementing the Multi-Annual Programme on Enterprise (2001-2006) and the Competitiveness and Innovation Programme (CIP) (2007-2013):** The Multi-Annual Programme (MAP) on enterprise gave some €510million in guarantees and investments to improve the financial environment for start-ups. Its successor, the CIP is not fully implemented until 2007 but is integrated across Directorates to focus on reducing red tape, increasing research and innovation by streamlining support for research, and improving further the financial environment for start ups and SMEs, especially those with environmental technology as their base where Europe is seen to have a particular strength.<sup>69</sup>

64. The Asian Policy Blueprint for SME Development, 2004-2014: [www.aseanec.org/pdf/sme\\_blueprint.pdf](http://www.aseanec.org/pdf/sme_blueprint.pdf)

65. [www.aseanfocus.com/asiananalysis/article.fm?articleID=998](http://www.aseanfocus.com/asiananalysis/article.fm?articleID=998)

66. The policy review and all quotations for this section are taken from [http://ec.europa.eu/enterprise/smes/index\\_en.htm](http://ec.europa.eu/enterprise/smes/index_en.htm)

67. <http://www.eu2005.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1114071804875>

68. [http://ec.europa.eu/enterprise/enterprise\\_policy/charter/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm)

69. [http://ec.europa.eu/enterprise/enterprise\\_policy/cip/index\\_en.htm#entr](http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm#entr)

