JOURNAL OF SMALL BUSINESS STRATEGY

SPECIAL DISTINGUISHED COMMENTARY

DOING WELL BY DOING BETTER: ENTREPRENEURS AND SUSTAINABILITY

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ABSTRACT

We examine how entrepreneurial ventures can employ sustainability to do well (create a competitive advantage) by doing better (creating more social good than is created by Corporate Social Responsibility). We compare and constrast CSR and sustainability and examine factors influencing the competitive strategies of large, established firms versus entrepreneurial firms. We conclude that established firms are likely to focus on CSR while entrepreneurial ventures are more likely to pursue sustainability as a strategy for creating private and social value and durable competitive advantage. Established firms will do well by doing good, while entrepreneurial ventures will do well by doing better.

Keywords: advantages of newness, corporate social responsibility, durable competitive advantage, entrepreneurial strategy, sustainability

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Editor's Note: This manuscript provides insights from a leading entrepreneurship researcher, a prominent social responsibility scholar and a new researcher with a full command of the subject. This important topic has been fundamentally discussed and debated historically from the vantage points of Adam Smith and Karl Marx. Enjoy this synthesis!

INTRODUCTION

In recent years, scholars have devoted increasing attention to sustainability as a strategy for new ventures (e.g., Binder & Belz, 2013; Hall Daneke & Lenox, 2010; Hockerts & Wustenhagen, 2010; Shepherd & Patzelt, 2011), small businesses (Nadim & Lussier, 2010), and large corporations (e.g., Hockerts & Wustenhagen, 2010; Kiron, Kruschwitz, Haanaes, Reeves, & Goh, 2013; Kiron, Kurschwitz, Reeves & Goh, 2013). In their article on sustainable entrepreneurship, Shepherd and Patzelt (2011) suggested that sustainable development is perhaps the most prominent topic of our time. Binder and Belz (2013) identified more than 30 articles on sustainable entrepreneurship that were published between 2009 and 2013.

However, despite growing interest, the entrepreneurial strategy of creating durable value, both private and social, through sustainability has received little attention compared to the strategy of differentiation through corporate social responsibility (CSR) employed by established firms (Nadim & Lussier, 2010). Furthermore, while discussions of sustainability have been grounded in the literatures of environmental management and sustainable development (Dean & McMullen, 2007; McMullen, 2010; Parrish, 2010; Patzelt & Shepherd, 2011), the closely-related literature on CSR has been ignored. Therefore, we offer a detailed comparison and contrasting of sustainability and CSR and their relative abilities to create social good. By doing so, we help clarify the definition of sustainability and provide strong arguments that entrepreneurs will be more likely to pursue the strategy of sustainability, while managers of established firms will be more likely to continue to pursue the strategy of CSR.

There is an exhaustive literature on how firms can do well (meaning financial performance) by doing good (meaning furthering some social goal). Much of the "good" being done by firms is a result of corporate social responsibility (CSR), a concept with a long and rich history (for an excellent review, see Carroll, 1999). We argue that entrepreneurial ventures can do well by doing better (providing sustainable solutions), and the "better" will provide more social benefit than CSR. To advance our argument we look first to the extensive literature on creating value through CSR, and how this continues to be a focus for large, established firms. We then examine the gain, measures, and shortcomings of CSR and explain why sustainability has captured increasing attention. Finally, we examine the different incentives of established firms and entrepreneurial ventures to show that established firms will, in general, continue to favor CSR, leaving vast needs for sustainable solutions to be offered by entrepreneurs. In meeting these needs, entrepreneurs can create social good and durable competitive advantage in new markets.

We define social responsibility as a form of ethical self-regulation wherein businesses align their actions (e.g., use of economic and environmental resources) with the interests of their primary stakeholders, which Mitchell, Agle & Wood (1997) define as including investors/owners, customers, workers, suppliers, and their community. Calls for responsible business behavior date back thousands of years, and rules were often included in religious texts (such as the discussion of charging interest to poor borrowers in the Talmud). Writers such as Upton Sinclair and Ida Tarbell brought widespread attention to the irresponsible behavior of unfettered business following the industrial revolution,

even though the philosophical debate will always range from Adam Smith to Karl Marx. Legal scholars joined the debate by questioning whether it was appropriate for managers of publically held firms to "administer wisely and fairly in the interest of all" (Dodd, 1932:1155). However, it wasn't until the 1950s that academia began a serious examination of social responsibility (e.g., Bowen, 1953) and joined the battle for more responsible business in a serious way. The last quarter of the 20th century saw a rapid growth in the public's demands for social responsibility on the part of large firms, which increasingly resulted in positive responses, especially when media attention was relentless.

The academic literature about social responsibility has been primarily concerned with large, for-profit organizations where managers are increasingly required to both maximize returns for shareholders and demonstrate social responsibility (McGuire et al., 1988; McWilliams & Siegel, 2001; Vogel, 2006). While acceptance of this additional responsibility has grown significantly over the past 60 years and is now widespread, managers often feel ill-equipped to address the demands of multiple stakeholders with divergent, if not contradictory, goals. Therefore, the type and level of response to stakeholder's demands still varies greatly. Interest in comparing firms has resulted in numerous attempts, with limited success, to quantify the firm's social performance (SP).

Despite the widespread attention to CSR, criticism continues, primarily protesting that firms do too little (Frankental, 2001; Newell, 2005; Utting, 2005; Valor, 2005). This criticism is easily levied at firms that reject social responsibility as a co rporate responsibility. Because most MNCs now embrace some elements of social responsibility, this complaint is waning. However, even when CSR has positive effects, it has been characterized as public relations that is used to mask the devastating impact of MNCs globally (Pendleton, 2004) or simply "too little, too late." The latter can be seen in criticism of corporate "green" programs. For example, in response to calls to be more environmentally responsible, some large firms adopted programs that lowered the net waste they produced. These included such initiatives as recycling, replacing disposable products with reusable ones, and reducing the amount of harmful emissions by installing more efficient scrubbers (Orange, 2010). While no one questions these steps or the improvement they bring, they are still seen as only marginal improvements that will not bring about the amount of change that is needed from business (Broomhill, 2007).

A more recent and more global concern has been on the role of business in global sustainability (see, for example, Crane & Matten, 2007; Dyllick & Hockerts, 2002; Salzmann et al., 2005). Sustainability requires much more than simple improvement in current practices. As defined in the UN Brundtland Report in 1987, sustainability refers to meeting our current needs without compromising the ability of future generations to meet their needs. So, in terms of the environment, sustainability requires minimizing the carbon footprint, not just making marginal improvements. In terms of sustainable business practices, sustainability requires respecting the long run needs of employees and communities, as well as consumers. As a subset of social responsibility, all sustainable practices are socially responsible, but not all socially responsible practices, such as recycling, are sustainable.

In Table 1 we compare and contrast the characteristics of CSR to those of sustainability.

Table 1: Comparing/Contrasting CSR and Sustainability

CSR	Sustainability
Social and ecological good	Social and ecological good
Private value	Private value
Competitive advantage	Durable competitive advantage
Marginal Changes	Revolutionary Changes
Improvements in technology	Disruptive technologies
Adapting current practices	New business models
Transparency	Social Contracts and Trust
Regulatory Compliance	Maintaining Ecosystems
Philanthropy	Developing Sustainable Livelihood
Green Technology	Clean Technology
BoP as consumers	BoP as producers (building native capacity)
Adapt existing products	Develop appropriate new products
Use existing distribution	Use indigenous distribution channels
Current stakeholder needs	Current, distant, and future needs

Sources: Binder & Belz (2012), Bower & Christensen (1995), Frankental (2001), Hart & London (2005), Kiron, Kruschwitz, Haanaes, Reeves, & Goh (2013), Kiron, Kurschwitz, Reeves & Goh (2013), Patzelt & Shepherd (2010), Prahalad & Hart (2002), Shepherd & Patzelt (2010), Vogel (2006), Vos (2009)

In general, large firms have not yet satisfactorily responded to the call for sustainable business practices. Indeed, while there has been widespread—though certainly not universal—acceptance of CSR, sustainability has not yet been recognized as a valid responsibility by most large corporations and their acceptance of CSR may be a factor impeding that recognition. One reason for this is that CSR typically requires only marginal changes in business practices (such as philanthropy, recycling, transparency, etc.) that can be "tacked on" to current processes, while sustainability may require radical changes and development and implementation of new processes, such as distributed generation of power, (Ahlstrom, et al., 2009), which may severely discount the value of the installed capital base of large, established firms. Therefore, there are significant disincentives for these firms to develop new, sustainable technologies and business models, so instead, they continue to focus on CSR. Those same disincentives do not exist for entrepreneurs.

Entrepreneurs have no installed capital base and therefore nothing to lose from developing and employing new technologies and business models. In fact, they have much to gain, because they may have a competitive advantage at "recognizing" the opportunities and organizing the resources that can create sustainable solutions (Cohen & Winn, 2007; Dean & McMullen, 2007; Hockerts & Wustenhagen, 2010; Parrish, 2010; Patzelt & Shepherd, 2011). Entrepreneurs are not tied to economies of scale that require capital intensity and therefore are free to develop labor-intensive processes, which

can create native capacity/sustainable livelihoods in undeveloped areas (Acs & Audretsch, 1987; Chandy & Tellis, 2000; Katila & Shane, 2005).

CORPORATE SOCIAL RESPONSIBILITY

There is great pressure for large, established firms to engage in "socially responsible" behavior, including pure philanthropy, compliance with laws and regulation, progressive domestic human resource policies, transparency of off-shore suppliers, going "green," etc. McWilliams and Siegel (2011) suggested that complying with these demands may be a way to differentiate a firm's products, enhance its reputation and avoid further regulation, making CSR an important strategic variable that is part of a firm's differentiation strategy. This would allow a firm to create additional private value that is captured in profits, while doing good, that is, creating social value.

With the increased interest in socially responsible firms over the last 30 years, sources of information about their social performance have developed as well. Firms have added information about social responsibility to their annual reporting, business media now report regularly on social performance, and investment analysts have added social performance to their list of tracked information even to the point of developing indices of corporate social performance, e.g., the KLD indices (www.msci.com/products/esg/), which in turn allowed for the development of socially responsible investment (SRI) funds (Benson & Humphrey, 2008; Chegut et al., 2011). These funds are attempts to encourage and "reward" firms for creating social value. There can be no doubt that social good has been created by the attention to CSR, but the amount of social good that will be generated by continuing to focus on CSR is limited.

Shortcomings of CSR

There are fundamental shortcomings to CSR that limit its contribution to social good, including:

- Marginal improvements that displace significant change
- Shallow commitment to the minimum legal and regulatory requirements
- Response to coercive demands limited to current and local stakeholders
- Viewing the Base of the Pyramid (BoP) as merely potential customers
- Managers as agents of shareholders with short term perspectives
- Sustainable competitive advantage that relies on exploiting regulatory bodies and which causes allocative inefficiency

Managers may believe they have a social responsibility, but they still must balance the costs and benefits of responding to different stakeholder demands for CSR and shareholder value. Marginal changes associated with CSR, such as increased transparency, may have high returns for shareholders, especially when they are trumpeted by the media. For example, Nike relied on increasing its transparency to make tremendous strides in repairing a corporate image that had been severely damaged by reports of poor labor conditions in their Asian vendor's factories. The global media was instrumental in both pointing out the labor conditions and in heralding Nike's move to transparency (Locke, 2002).

More radical change, such as ensuring fair wages for all production workers, including those of foreign suppliers, is often very costly, but returns are far off and unpredictable. Conservative management favors inexpensive marginal change with more certain return for shareholders over expensive radical change with risky return; therefore, Nike's response to unfavorable publicity did not extend to demanding that suppliers pay fare wages. Such marginal change creates limited social value. In fact, the International Council on Human Rights Policy has found that reliance on social responsibility has often been detrimental to workers and communities (2002).

Pure philanthropy is perhaps the most obvious example of a marginal change with limited impact. Corporate philanthropy is often criticized because it doesn't result in business models that help people lift themselves out of poverty (Guth, 2008). Much like foreign aid, philanthropy often just eases current conditions, without providing the incentives to develop sustainable livelihoods (Friedman, 1995). It changes nothing about the core business of the firm, but because it benefits the image of the company, it is an easy step to social responsibility that benefits shareholders.

Being socially responsible through protecting the environment is another area where change began, and often remains, as marginal improvements. These improvements, which are referred to as "green," may include solutions such as hybrid vehicles, recycling, shunning bottled water, and reducing the use of disposable products such as copy paper and paper cups. These are on the low end of "being green," but bring the advantage of allowing the firm to tout social responsibility (which may be referred to as greenwashing [Vos, 2009]). Changes that go much further in reducing the carbon footprint of companies are increasingly referred to as "clean." "Clean" is a subset of "green," but given a different designation to highlight the significant improvement over mere "green," that is, the standard for being "clean" is more stringent than the standard for claiming "green." Unfortunately, the radical changes needed to achieve "clean" solutions often require disruptive technologies that are costly to develop, render current capital worthless, and are inherently risky to boot. For example, had compact fluorescent light bulbs been developed concurrently with incandescent ones, they would not have had to compete with an established technology, and they might have beat out the less efficient incandescents. However, Thomas Edison invented the incandescent light bulb in the 1890s, almost 90 years before Ed Hammer, an engineer for General Electric, a company built on Edison's incandescent light bulbs, developed the compact fluorescent (CF) bulb in 1976 as a response to the 1973 oil "crisis" that drove up energy costs. According to Hammer, GE shelved the innovative product because it would require entirely new manufacturing facilities at a cost of $25 million (Kanellos, 2007), which delayed the widespread use of CFs by several more decades. It was also risky to make this change in 1976 because the bulbs, which early on cost several times as much as incandescent bulbs, might not have had a customer base.

Some scholars include meeting legal and regulatory requirements as CSR (Husted and de Jesus Salazar, 2006), but some practices that remain legal are considered to be detrimental to the long term health of the environment, such as strip mining. Strip mining, which represents more than a third of U.S. coal mining, can result in toxic ground water, decreased air quality, and a permanently degraded ecosystem.

Government regulations require mining firms to lay topsoil and re-seeding after mines are closed, making a marginal improvement over earlier mining practices, but re-vegetation is difficult and the ecosystems are changed forever (nanjowe, 2010). Merely complying with legal and regulatory restrictions may "count" as being socially responsible while falling far short of actual environmental sustainability.

Managers may commit to CSR not because they believe in its merits, but rather because of the coercive demands of local stakeholders (Husted & de Jesus Salazar, 2006). However, responding to local stakeholders may fall far short of achieving improvements in the lives of "distant" stakeholders. For example, CSR may require that a firm refrain from polluting local water sources, prompting the firm to move operations to a less developed country whose government is more interested in tax revenues and local economic development than it is in environmental consequences. The firm has, indeed, stopped polluting the (previously) local water source, but it has not stopped polluting water. Similarly, local labor demands may drive a company to move production to countries where locals accept deplorable work conditions. Current socially responsible production may also deplete resources, harming future generations. For example, tuna can be overfished while using dolphin-safe methods.

Even when managers have to respond to local consumers' demands to be socially responsible globally, they may make only marginal changes to improve conditions in offshore supplier plants, rather than make radical changes. For example, consumers complained that foreign factories treated employees poorly, prompting MNCs to require suppliers to provide better (i.e., more western) working conditions. It remains unclear how much workers in poorer countries actually benefit from this. Recent controversy over MNCs' audits of the electronics vendor Foxconn's plant in Longhua, China, makes it clear that the demands of MNCs alone may not be sufficient to improve working—and living—conditions in some countries (Chan, et al., 2013).

In addition to being concerned about workers in the supply chain of MNCs, stakeholders have increasingly brought attention to the plight of the base of the economic pyramid (BoP), those two to four billion people living on less than $4 per day (Prahalad & Hart, 2002). A common response of MNCs is to provide benefits to these profoundly poor merely as consumers, by making their products more "affordable." They are being socially responsible by addressing the needs of the very poor, but the changes to their products are only marginal—often limited to packaging— and the risks to the firms are minimal as they treat the BoP merely as an underserved consumer market. Contributing to economic development—such as local production and distribution—that increases incomes, so that these consumers can afford more and better products and services, would contribute much more social value, but would also be costly and risky for the MNCs. It remains eminently appropriate that managers of MNCs spend little effort on CSR strategies that affect distant stakeholders when their primary concern is maintaining their competitive advantage by serving their current customers and satisfying their shareholders.

In limited circumstances a durable competitive advantage[1] based on CSR may be possible through exploiting the regulatory environment (McWilliams, et al., 2002). For example, a firm, or group of firms, may position themselves as being socially responsible because they protect U.S. jobs, that is, they keep production in the U.S. If they can use this CSR stance to lobby for subsidies for their product, they can continue to produce in the U.S. but sell at world prices, even though production in the U.S. is much more costly than production in other countries. For example, since the 1930s, the U.S. has protected the cotton industry from foreign competition through subsidies. Even though U.S. costs may be double the costs in Brazil and some African countries (Womach, 2004), U.S. producers continue to be able to compete on the world market. The problem with this is that world production of cotton could be achieved using fewer resources, if prices fairly reflected the cost of the resources, rather than being manipulated by U.S. government subsidies. This is the concept of comparative advantage.

In his 1817 book *On the Principles of Political Economy and Taxation*, David Ricardo developed the concept of the comparative advantage of nations by demonstrating that world production will be higher, given a fixed amount of resources, if each nation produces what it does best (lowest opportunity cost) and there is free trade between countries. This has been the basis for liberalizing trade for nearly 200 years. When governments intervene, resources are wasted in the sense that the resources could be put to better use, yielding more global value. For example, the land used in the U.S. to produce cotton for export might be used instead for a food crop. Here is another example of where CSR and sustainability diverge. It may be socially responsible to protect local industry, but that may reduce the productive capacity of the world economy, which is not sustainable.

These shortcomings with CSR persist, at least in part, because of the incentives of large firms to make only marginal changes that do not disrupt their current successful operations, as opposed to changes that require massive infusions of capital to create or adopt new technologies that render their current assets effectively worthless. So, while CSR does create positive social value, the amount created is generally marginal. Managers feel that they have met demands for social performance and consumers may view them more positively and while this creates private good—increased profits—it garners little social good—sustainable improvements.

SUSTAINABILITY

As mentioned earlier, sustainability has been defined as achieving current goals, such as production and consumption, without reducing the ability of future generations worldwide to achieve theirs (UN Brundtland Report,1987). This is a broader responsibility than has been associated with CSR, which is concerned predominately with meeting the demands of current identified stakeholders (Mitchell, Agle & Wood 1997), i.e. primary stakeholders. CSR does not include future or distant stakeholders who are not involved in current production or consumption of the firm's output and nearly never includes the four billion people at the "bottom of the

[1] We refrain from the use of the phrase "sustainable competitive advantage" because it is confusing in the context of sustainability. We substitute the phrase "durable competitive advantage" and hope this wording will prevail.

pyramid." As opposed to CSR, Sustainability typically requires more substantial change from the firm. To sustain the planet will require new technology that significantly lowers the use of natural resources and the production of toxic waste in the production of energy and that significantly lowers the cost of use for the BoP. Such technology is likely to disrupt current industries (Kiron, Kruschwitz, Haanaes, Reeves, & Goh, 2013; Kiron, Kurschwitz, Reeves & Goh, 2013).

Bower and Christensen (1995) used the term "disruptive technology" to describe a new technology that unexpectedly displaces an established technology. With the introduction of a disruptive technology, the firms that are heavily invested in the older technology will see their capital equipment become much less valuable, as will commercial customers also heavily invested in complementary technology. An excellent example of this was when lower cost magnetic disk storage and less expensive computing power made IBM punch cards obsolete in the 1980s. The arrival of this cheaper, more efficient technology was a major blow to IBM for whom the cards represented a major portion of profits for many decades. It was also a blow to IBM customers who had invested in complementary machinery, systems and skills. However, this change in technology was a step in the process that has resulted in connectivity in the poorest countries in the world. Sustainable/disruptive technologies developed for the BOP may be less reliable and less scalable than current technologies, and therefore not attractive to large established firms. If not scalable, they will not generate acceptable profit margins and if not reliable they will not be accepted by consumers in developed economies. Consumers in developed economies are accustomed to affordable consumer goods, cheap food, reliable, cheap energy, and abundant fuel for transportation, and they will not amiably accept alternatives; that is, established firms face what Hamel and Prahalad (1991) refer to as "the tyranny of the served market."

Sustainability and Competitive Advantage

Like CSR, sustainability can be an important part of a differentiation strategy that leads to competitive advantage. However, in contrast to CSR, sustainability, while more difficult to achieve, is harder to imitate, may confer first-mover advantages and is more likely to result in durable competitive advantage because it cannot be based on marginal or cosmetic changes. Durable competitive advantage may derive from disruptive technologies and business models, coupled with the reputational effects that come with focusing on sustainability (Kiron, Kruschwitz, Haanaes, Reeves, & Goh, 2013; Kiron, Kurschwitz, Reeves & Goh, 2013).

Established Corporations and Constraints on Sustainability

The fundamental constraint on sustainability is that it is impossible to accurately predict what the needs and expectations of future generations will be. This makes it impossible to determine reasonable trade-offs between current and future consumption. What is possible is reasonable estimation of the degradation and depletion of resources that will occur if current production methods and consumption levels continue. This is what has created an awareness of the need for sustainable solutions with some urgency.

The move to sustainability is hampered by the inertia of the current system. The use of current technology constrains the development of disruptive technology; the

opportunity to invest in proven firms limits the availability of capital for new ventures; current knowledge and skills constrain the ability and will of workers to adapt to new business models; and current consumption constrains the will of consumers to support new, simpler products. Taken together, these represent a powerful impediment to progress toward sustainability, especially among the established corporations.

Corrupt, unstable governments and lack of legal protections also prevent MNCs from developing and deploying sustainable solutions in some areas. Hart has suggested that social contracts and trust must replace legal protections at least for the BoP (2010). An example of this is the growth of micro financing, which, unlike philanthropy, creates a valuable social network based on trust (unsecured loans) in which the profoundly poor can become both producers and consumers (Khandker, 2005).

Failure to understand the consumer or the distribution channels has also deterred MNCs from developing sustainable business models for the BoP. When they fail to turn a new technology or product into a profitable business quickly enough to satisfy their internal financing requirements, MNCs will turn the project into a donation through a philanthropic/CSR arm of the company, as P&G did with its water purification technology designed for the BoP (Reisch, 2008). This not only kills the MNC's interest in further development of products for the BoP, it also limits the ability of indigenous businesses to develop sustainable livelihoods for the same reasons that pure philanthropy is criticized.

Perhaps the strongest deterrent to sustainable solutions is the unwillingness of MNCs to embrace radical new technologies and business models that disrupt their current business, introduce uncertainty, and decrease the value of their installed capital. The strategies of large, established companies continue to be shaped by legacies of sunk costs, the "tyranny of the current served market," and institutional inertia (Hart, 2010: 233). In many cases, switching to sustainability would require major capital investment in new plants, equipment, and distribution channels, as well as retraining and re-staffing and the development of new markets for which demand is uncertain, which is unappealing to MNCs.

The inability and unwillingness of established corporations to introduce radically new solutions, such as sustainable technologies, products, and business models, is extensively discussed in the literature on radical innovation (see, for instance, Chandy & Tellis, 2000; Ghemawat, 1991; Rosenbloom & Christensen, 1994). This stream of literature identifies several reasons for the relative weakness of established corporations when it comes to systematically changing their business models and earning logics. The established corporations derive a significant portion of their revenues from the existing products and business models based on the current technology or incremental improvements in the current technology, thus favoring CSR initiatives over sustainable solutions. Adopting sustainable solutions would require established corporations to invest in solutions demonstrating weaker short term profit potential. Shifting over to sustainable business models requires established corporations not only to cannibalize their current sales, but also to cannibalize their investments in various other assets, such as manufacturing facilities, knowledge stocks, customer and supplier relationships, and organizational routines (Chandy & Tellis,

1998; Henderson & Clark, 1990). Thus, established corporations are likely to perceive smaller incentives to introduce radically new solutions than non-incumbents (Almeida & Kogut, 1997; Chandy & Tellis, 2000; Conner, 1988; Scherer, 1980).

Second, organizational theorists argue that established corporations possess organizational filters that make them less effective at radical innovation (Hannan & Freeman, 1977; Henderson & Clark, 1990; Nelson & Winter, 1982). Organizational filters are cognitive structures that screen out information unrelated to the organization's major tasks. The organization's success in its current product category is partly due to the organizational filters that direct managers' attention to the utility of the current technology to current customers. However, the very same organizational filters may cause established organizations be less effective in identifying, developing, and marketing radically new products and services (Henderson, 1993) based on sustainability principles.

Third, established corporations develop organizational routines that are geared towards efficiently developing incremental improvements based on the current business model (Hannan & Freeman,1977; Henderson & Clark, 1990; Nelson & Winter, 1982). As these routines are known to have contributed to the success of the incumbent in the past, the managers are likely to hesitate abandoning them and developing new organizational routines (Staw, 1981) required by sustainable solutions.

Fourth, large and established organizations exhibit a high degree of bureaucratization, which stultifies the skills and aspirations that make their employees likely to pursue novel solutions (see, for instance, Merton, 1968; Weber, 1968; Whyte, 1956). For instance, rigid and closely monitored tasks combined with high role specialization constrain employee's discretion to challenge the status quo (Dobrev & Barnett, 2005; Sorensen, 2007; Thompson, 1965; Kacperczyk, 2012).

Fifth, managers of MNCs are inherently risk averse, because they are agents of shareholders who choose to invest in large corporations because these tend to be less risky than new ventures, and then these shareholders evaluate managers on short-term performance (Rappaport, 2005). These forces pressure managers to be conservative and make only safe, marginal changes in areas like CSR that do not affect core competencies.

> *Proposition 1: Large corporations are more likely to engage in CSR activities than to adopt sustainable business models.*

While it is clear that there are significant disincentives for large firms to make radical changes, those same conditions create incentives for entrepreneurs.

Sustainability and the Role of Entrepreneurs

The incentives of young firms resemble a mirror image of the disincentives experienced by established corporations when it comes to sustainability. Young firms are typically not burdened by the factors that prevent established corporations from adopting sustainable business models, such as sunk costs and inertia. While new ventures may suffer from liabilities of newness (Stinchcombe, 1965), they also benefit from advantages of newness facilitating the identification and

implementation of sustainable business models.

First, entrepreneurs are likely to have more freedom to experiment with sustainable business models than established corporations. The entrepreneurial firms do not have sunk costs in existing markets, products, and technologies or specialized structures and routines (Baker, Miner & Easley, 2003; Katila & Shane, 2005). Thus, they do not need to cannibalize their existing sales and assets to pursue sustainable business models. In addition, the fact that new ventures are often self-funded or obtain capital from private sources, such as family and friends, help entrepreneurs avoid the discipline of the capital markets, allowing for more idiosyncratic goals and conduct (Noteboom, 1994). This enables entrepreneurs to transform their personal values more freely to business practices (Bird, 1989; Kotey, 1995; Casson, 1992) and have a powerful impact on the direction and strategy of their business (Chapman, 2000). Prior research also demonstrates that there exists a significant number of aspiring entrepreneurs interested in sustainability. The study by Kuckertz & Wagner (2010) indicates that individuals concerned by issues of sustainability exhibit stronger entrepreneurial intentions.

Young firms are not the focus of media and special interests as they do not control vast resources. Thus, entrepreneurs are not burdened with the demands of stakeholders driving them towards more conventional CSR initiatives and the constraints of aging technology. In fact, for young firms, being less conservative can be beneficial and may be requisite for securing venture capital. Venture capitalists make their money by backing risky ideas; therefore, they prefer disruptive technologies and business models (Cochrane, 2005:5), including ideas that focus on sustainability (Eurosif, 2007).

Second, young firms are better equipped to dealing with competitive ambiguity associated with sustainable business models in market niches that are too hard or small for large corporations to tap (Bhide, 1992; Christensen & Bower, 1996; Katila & Shane, 2005; Cooper, et al., 1986; Porter, 1980; McDougall, et al., 2003). The prior entrepreneurship literature also maintains that entrepreneurial firms pursuing a niche strategy are more likely to survive (Bhide, 1994; Gartner, Starr & Bhat, 1999). Therefore, Sustainability becomes an opportunity for entrepreneurs to establish a competitive advantage by differentiating their products and achieving lower costs, as well as developing a positive image which may make the competitive advantage durable. The vast size of the market at the base of the pyramid represents a global niche that is waiting to be served through truly innovative solutions—not just smaller packaging of products by global giants such as Unilever.

As discussed earlier, entrepreneurial firms possess a competitive advantage over large established corporations when it comes to bringing radical innovations to the market (see, for instance, Chandy & Tellis, 2000; Ghemawat, 1991; Rosenbloom & Christensen, 1994). Thus, entrepreneurs play a vital role in market economies, filling consumer needs and desires in new ways, creating jobs, and generating tax revenue by taking on risks that managers may not be willing or able to assume (Schumpeter, 1947). In addition to being less constrained by the sunk costs and external pressures, the innovativeness of entrepreneurial firms stem from their organic, less bureaucratic and more clannish structures that are likely to improve flexibility, collaborative

competency, and communication. This enables entrepreneurs to better tap into the internal and external sources of knowledge (Hausman, 2005; Olson, Walker & Reukert, 1995; Sivades & Dwyer, 2000), learn from the mistakes of others, imitate the best practices of others, and respond more quickly to change.

Proposition 2: Entrepreneurs are more likely to benefit from adopting sustainable business models than are large corporations.

In Table 2 we summarize the discussion above and contrast characteristics of large established firms with characteristics of entrepreneurial firms. These characteristics will influence the differences in decision making and lead us to expect entrepreneurs to be a growing force in the drive to sustainability.

Table 2: Characteristics of Established vs. Entrepreneurial Firms

Large, Established Firms	**Entrepreneurial Ventures**
Installed capital base	Little or no capital base
Existing business models	New business models
Incremental innovation	Disruptive innovation
Current served market	Opportunity recognition
Broad markets	Niche markets
Conservative	Risk Neutral
Shareholders' interests	Entrepreneurs'/investors' values
Employee	Owner
BOP as consumers only	BOP as co-creators and consumers
Bureaucratic rigidity	Organic structure
⇩	⇩
Corporate Social Responsibility	Sustainability

Sources: Acs & Audretsch (1987), Baker, et al. (2003), Bird (1989), Bhide (1992), Casson (1992), Chandy & Tellis (2000), Cochrane (2005:5), Cohen & Winn (2007), Cooper et al. (1986), Dean & McMullen (2007), Eurosif (2007), Henderson (1993), Hockerts and Wustenhagen (2010), Katilia & Shane (2005), Nelson & Winter (1982), Noteboom (1994), Parrish (2010), Patzelt & Shepherd (2010), Rappaport (2005).

SUMMARY AND CONCLUSIONS

While large firms in wealthy economies have responded to demands for CSR, in much of the world this has not resulted in significant improvement in maintaining the environment, protecting natural resources or improving the human condition. The changes from CSR, while positive, have been mostly marginal due to the inertia of the established firms and their aversion to disruptive changes. However, these marginal changes are often rewarded so that firms do well by doing good.

Sustainability requires more fundamental change that will likely involve disruptive technologies, such as distributed generation

of power, that are less focused on achieving economies of scale. Large firms have little incentive to invest in such innovations or in the adoption of new radical technologies, especially given that consumers in developed economies expect the supply of cheap goods and services to continue, regardless of the fact that they often come from older technologies that deplete non-renewable resources and that irreversibly degrade the environment. Sustainability may also require fundamentally new business models, rather than cosmetic changes to existing practices.

Entrepreneurs, however, are not constrained by a large installed capital base and have much to gain by developing sustainable business models and creating new ventures based on radical technologies that address social problems. Entrepreneurs see the opportunities in disruptive technologies and are willing to bear the risk of organizing resources into a sustainable business. Because sustainability is difficult to imitate, it can be a source of durable competitive advantage. Consequently, entrepreneurs can, and perhaps should, leapfrog mere CSR to instead focus on sustainability and thereby achieve better long-term results, both private and social, by making sustainability central to their differentiation strategy. Entrepreneurs will be rewarded by doing well by doing better.

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