

Healthy Habitats for Entrepreneurship

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I Introduction

Entrepreneurs are shaping economic and social change around the globe. Increasingly, economic competitiveness, social cohesion and the quality of life are co-determined by the businesses rooted in communities. Jobs, productivity, innovation, sustainability, economic growth and life chances hang in the balance of which businesses exist, which enterprises are created, where they are established and how they are run. Healthy habitats for entrepreneurship for a culture of innovation and shared value should foster not only a good return on investment and economic success, but also social cohesion and sustainable development. They should aim at maximizing a bottom line that accounts for both financial and non-financial outcomes of their enterprise. For example, the bottom line should consider social and employee-related aspects, respect for human rights, environmental matters, anti-corruption issues, and workforce diversity. Such a bottom line will be referred to as a “genuine bottom line” in this paper.

Just as the beyond GDP debate on measuring economic success has taken into consideration social progress, a debate mirroring this framework has evolved in and around the private sector. The idea of *creating shared value* (CSV) through enterprise (Porter and Kramer 2006), demonstrates the dovetail relationship between long-term competitive advantages and solving social problems. In today’s world socially and environmentally irresponsible businesses don’t fare well economically in the long-term. Calculating the bottom line of business and (even the economic) value of companies goes beyond revenue and profits. Companies that do not understand the wider impacts of their operations and the needs of societies as a whole can lose out on consumer confidence, reputation and revenue in the longer run. The concept of “corporate sustainability,” meaning “the capacity of companies and organizations to remain productive over time and to safeguard their potential for long-term maintenance of profitability” (DVFA and efas 2014), increasingly depends on their positive interaction with, and impact on, society and the environment. Creating shared value through enterprise and investment is about companies looking beyond the shortest pathways to immediate profits. It requires businesses to innovate, troubleshoot and connect with communities. Businesses are increasingly moving from being stakeholder-driven to being transparent, accountable partners to societies that value sustainability.

In this paper healthy habitats for entrepreneurship for a culture of innovation and shared value refer to situations in which:

- legal and social environments are conducive to innovation and sustainable growth, and
- maximizing the genuine bottom line is a key aim of businesses.

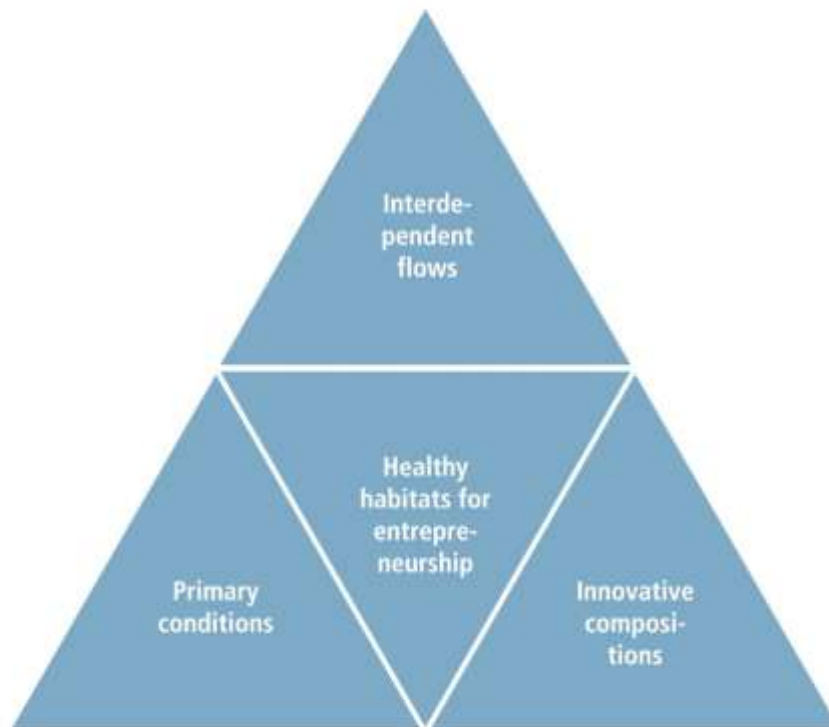
Such healthy habitats rely on a complex set of interactions that can be thought of in three dimensions:

- **Interdependent flows:** This refers to the interactions between businesses and societies as a whole. Positive interdependent flows exist when businesses create shared value, and relationships between businesses and greater society foster innovation.
- **Primary conditions:** This refers to the legal framework in which businesses operate. Tax and subsidy regulations, access to capital, simplicity of bureaucratic procedures for

establishing and expanding businesses, and employers' access to talent are part of this dimension.

- **Innovative compositions:** This refers to the way businesses are organized internally. An enterprise's capacity to innovate is determined in large part by company culture, management and talent diversity.

Healthy habitats for entrepreneurship for a culture of innovation and shared value



Source: Authors.

This framework is not meant to be comprehensive, but to include key policy issues, corporate culture elements and business-community interaction that heavily influence the outcomes of entrepreneurship.

This paper answers the key question: how can governments, enterprises and societies create healthy habitats for entrepreneurship for a culture of innovation and shared value in light of their converging interests regarding sustainable economic and social well-being? It offers a vision for a healthy habitat for entrepreneurship that takes a holistic societal approach to understanding how entrepreneurship can become an integral part of social and economic vitality in a rapidly changing world. Drawing from the Trilogue Salzburg background papers, this paper looks at key data and trends from which this new concept was extrapolated. It concludes with recommendations that foster healthy habitats for entrepreneurship for a culture of innovation and shared value, which help sustain vibrant economies and societies.

II Interdependent flows: Tackling social challenges as a core strategy

Interdependent flows form the pinnacle of the healthy habitats triangle. As Europe approaches a demographic tipping point, and its working-age population begins to contract (United Nations 2000),

innovation as a key driver of economic growth becomes increasingly important. In the future, increases in productivity and ingenuity in respect to products, services and production will co-determine social and economic well-being. The educated human capital needed to drive knowledge-based societies take increasingly long to develop, and some natural resources are becoming increasingly scarce. In the context of prosperous, innovative societies and enterprises, many divisions between what is good for enterprise and what is advantageous for communities are deteriorating. Consumers and businesses lead and follow in the pursuit of long-term and sustainable prosperity. Innovative businesses are creating products consumers never imagined or demanded that enhance people's abilities to communicate, collaborate and innovate further. Smartphones and apps are just examples of this. Civil society is also demanding more accountability and responsibility from businesses regarding the conditions under which products are produced, as well as the environmental cost of production and terms-of-trade (for goods produced abroad).

Good business is the sum of many parts. Increasingly, revenue and profits are seen as one of several key outcomes that contribute to a business' total value, and as only one component of securing its continued success. The concept of creating shared value sets out three ways in which companies can be in "the black" (Shared Value Initiative 2014):

- "Reconceiving products and markets – Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation.
- Redefining productivity in the value chain – Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development.
- Enabling local cluster development – Companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system."

As political, social and economic leaders interpret trends and analyze forecasts, whole-of-society interests and business interest have increasingly begun to align. This is particularly true in economically, politically and socially secure contexts, and in contexts in which technological and product innovation are norms. The private sector has recognized a business interest in creating shared value at a time when:

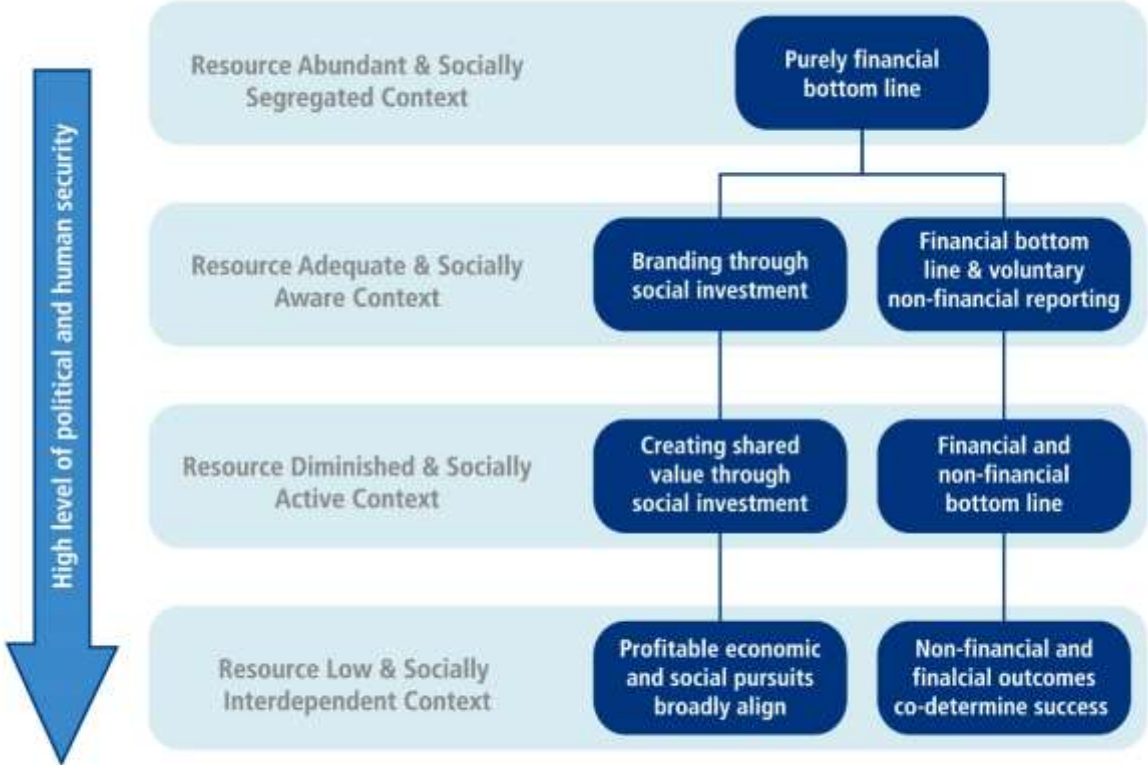
- natural resource depletion has become an international concern,
- people around the world are widely communicating and are concerned about social needs that are not being met, and
- the level of skills required to create innovation rise, making such human resources scarce, even if labor as such remains abundant globally.

Simultaneously, civil society is becoming more active and interested in purchasing power, consumer decisions and job choices. One might label such a context of converging whole-of-society and business interests as "unified rationalism."¹ Common interest for sustainable prosperity mesh with rational decisions about what to produce, sell and consume, as well as the conditions under which "value" is undisputedly created. Value can only be undisputedly created when the value of what is produced is higher than the resources (natural and human) expended to produce

¹ This term is unrelated to "economic rationalism."

goods and services. Unified rationalism is “unified” in its common concern for sustainable businesses and long-term prosperity. It is “rational” in its accounting of genuine financial and non-financial outcomes of enterprise. Regardless of how one defines such thinking, action along these lines is taking root around the globe, particularly in more developed settings, in which the basic needs of populations are being met and there is a high level of human security. Its continued development is dependent on political stability, human safety and a critical mass of resource security. In absence of these and in a context of fear, both “unity” and “rationalism” (as described in this paper) will likely not be possible.

Moving towards a genuine bottom line



Resource low refers to a situation in which an efficient and fair distribution of resources will satisfy the need for them. The arrow indicates the increasing relevance of security as resources become more scarce. Source: Authors.

The interdependence of whole-of-society and enterprise additionally takes the form of employer to employee relationships. The changing nature of these relationships will be explored more fully later in this paper. The connection can be broadly described here as co-determined. Employers rely on the talented *individuals* they engage to create the ideas that lead to innovative products and services. Corporate culture plays a significant role in making the most of skills and talent in enterprises.

In the digital age, the power to “own” the means of production is widely distributed. Single entrepreneurs with great ideas lead industries, with companies trailing them. In other words, we have entered an age in which people, their ideas and their talent define enterprises, add value and co-determine which businesses will succeed, as never before. The growing mesh of business, social and economic interests for sustainable growth and prosperity can be thought of as a “melting pot for sustainable well-being.” We are just at the beginning of this emerging trend.

Tracking and understanding this development in the way companies increasingly see sustainable well-being as an integral part of doing profitable business is important in order to foster it. The EU has already identified smart, sustainable and inclusive growth as part of the Europe 2020 strategy. And a number of indicators and indices have emerged that track both macro-level economic developments and company-level trends that go beyond the bottom line of GDP, or purely financial profits, and look at the sustainable well-being of societies and enterprises. A few such macroeconomic initiatives are the:

- Human Development Index,
- European Quality of Life Survey,
- Happiness Index,
- Social Progress Index and
- OECD's Better Life Initiative.

For example, at the macro-economic level the OECD's Better Life Initiative has produced guidelines for measuring subjective well-being. It "aims to measure society's progress across eleven domains of well-being, ranging from income, jobs, health, skills and housing, through to civic engagement and the environment. Subjective well-being – i.e. how people think about and experience their lives – is an important component of this overall framework" (OECD 2013). The Third European Quality of Life Survey found that "the strongest predictors of well-being [in EU member states] were material deprivation, health, work–life balance and lack of time, and satisfaction with public services" (Eurofound 2013).

At the company-level annual management reports are the most prevalent benchmark of non-financial indicators, yet individual company reports are not aggregated and measured against each other. A number of standards and guidelines exist for social accounting, auditing and reporting. A notable initiative that has emerged is the Shared Value Initiative (SVI), which was created in the fall of 2012 at the Clinton Global Initiative. It "serves as a global knowledge and learning hub for companies and other stakeholders in SV strategies of practice" (Sharedvalue 2014).

Standard reporting procedures that go beyond the traditional bottom line of financial indicators for a company's success are slowly becoming standardized internationally. For example, on April 15, 2014, the European Parliament adopted the directive on disclosure of non-financial and diversity information by certain large companies and groups (European Commission 2014). This directive has its roots in the EU's corporate social responsibility strategy (European Commission 2011). The EU understands corporate social responsibility as companies taking responsibility for their impact on society. According to the EU directive on disclosure of non-financial and diversity information, "companies concerned will need to disclose information on policies, risks and outcomes as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors" (European Commission 2014). Companies with more than 500 employees will be obligated to comply.

Additionally, the World Bank Enterprise Surveys, "provide firm-level data from over 135,000 establishments in 135 countries."² The surveys give insights into the quality of the business environment internationally. The Gallup world poll allows for some additional insights relevant to well-being and enterprise.

² <http://www.enterprisesurveys.org/>

The Bertelsmann Stiftung has launched creating a Corporate Responsibility Index (CRI), which aims to benchmark how corporate responsibility is managed in companies in Germany and to identify good practice in this area. It also aims to distill recommendations for how enterprises can improve their corporate responsibility engagements.³ The index was published in 2014 for the first time.

Recommendations

Raise awareness about creating shared value in communities

In a century yet unmarked by political philosophies and at a time when individualism is the dominant “-ism” in much of the developed world, it is important to raise awareness about the mutual responsibilities and interests shared by enterprise and the whole-of-society. This calls for better communication between civil society, governments and businesses concerning the needs communities have for investment and trouble-shooting the challenges they face. It also calls for enterprises to increase their interaction and exchange with local communities.

Expand and interlink the evidence-base regarding sustainable economic and social well-being

Sustainable well-being is currently measured by various indices, using a range of data and is measured at different economic levels (from individual companies to national economies to international contexts). Understanding what fosters progress towards sustainable economic and social well-being and which policies can accelerate such developments are becoming increasingly important to businesses and societies alike, as natural resources become more scarce and knowledge-economies require high-levels of slow-to-acquire-skills to fuel their enterprises. Therefore, both understanding the evidence base for what kind of business equates to sustainable, “good” business and expanding that empirical-base are important. Such information can help enterprises, policy makers and communities alike observe how companies impact societies and vice versa, so they can work together to increase the genuine bottom line.

III Primary conditions: Fostering entrepreneurship in order to secure long-term social well-being

Primary conditions form one foundation of the healthy habitats triangle. What defined German literature and art in the late 18th century, *Sturm and Drang*, could describe the dynamic nature of today’s rapidly changing global business landscapes, driven by technology and emerging markets. Entrepreneurs are a major force of economic and social change. In general, they think globally and seek out favorable conditions in which to operate. Where enterprises set up business, where they hire labor and where their supply chains are located impact employment levels and economies. Therefore, the ease of setting up and expanding business is an important ingredient of creating healthy habitats for entrepreneurship for a culture of innovation and shared value. Various indices and benchmarks attempt to measure the attractiveness of various economies around the world for doing business. For example, the Doing Business report contains 11 indicator clusters and covers 185 economies; it “provides objective measures of business regulations and their enforcement” and gauges these issues for small and medium-size companies (World Bank 2013). The 11 indicators are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. In the “Ease of Doing Business” composite ranking for 2014, Singapore, Hong Kong, New Zealand, the US and Denmark topped the charts. Germany was

³ <http://www.cr-index.de/cri.html#ziele>

ranked 21st and Austria 30th worldwide, placing them comfortably among the top 20% of places to do business easily.⁴

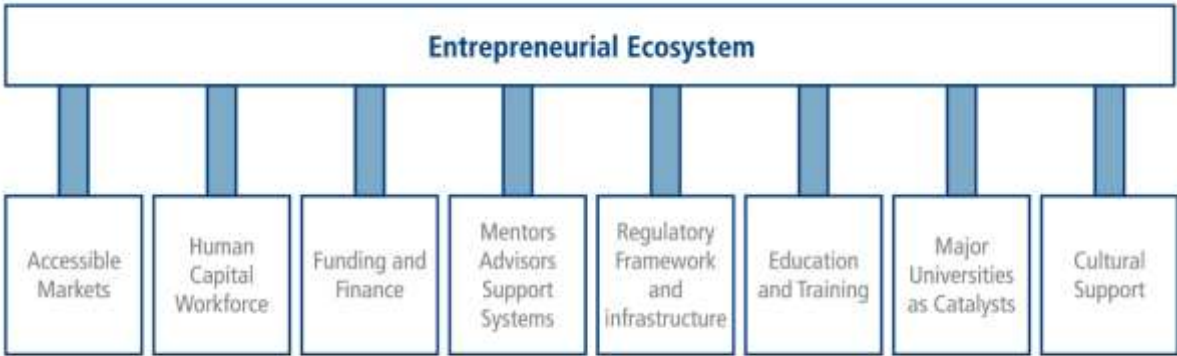
Ease of Doing Business Ranking 2014

Economy	Ease of Doing Business Rank	Economy	Ease of Doing Business Rank
Singapore	1	Taiwan, China	16
Hong Kong SAR, China	2	Lithuania	17
New Zealand	3	Thailand	18
United States	4	Canada	19
Denmark	5	Mauritius	20
Malaysia	6	Germany	21
Korea, Rep.	7	Estonia	22
Georgia	8	United Arab Emirates	23
Norway	9	Latvia	24
United Kingdom	10	Macedonia, FYR	25
Australia	11	Saudi Arabia	26
Finland	12	Japan	27
Iceland	13	Netherlands	28
Sweden	14	Switzerland	29
Ireland	15	Austria	30

Source: DVTI and Etas, Key Performance Indicators for Environmental, Social & Governance Issues, Frankfurt, 2014.

Approaching the issue from the perspective of entrepreneurs and early-stage companies, the World Economic Forum’s report Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics identified eight pillars that make up the “Entrepreneurial Ecosystem.” These are accessible markets; human capital workforce; funding and finance; mentors/advisors, support systems, regulatory framework and infrastructure; education and training; major universities as catalysts; and cultural support (World Economic Forum 2013). For each of these indicators the report defined data clusters that could benchmark each “pillar” for select cities, countries and regions. The report surveyed two groups of individuals in its analysis: individuals with extensive experience in early-stage companies, and founders and senior executives from 43 early-stage companies (World Economic Forum 2013).

Entrepreneurial Ecosystem



Source: World Economic Forum, Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics, Report Summary for the Annual Meeting of the New Champions 2013, Davos 2013.

⁴ <http://www.doingbusiness.org/rankings>

The World Economic Forum's report concluded that regarding the availability of these eight "inputs" to enterprise, North America (minus Mexico), led by Silicon Valley, had the most favorable entrepreneurial ecosystem. Europe placed second regionally, followed by Australia and New Zealand in equal measure. The Middle East and Africa were fourth and Asia placed fifth. South America, Central America and Mexico came in last.

Start-ups have become a formidable force in the economic prosperity of economies. OECD data covering the first decade of this century have shown that in 15 countries "young businesses aged less than five years are the main source of new jobs" (OECD 2007). Looking at young businesses and particularly from a city perspective, several cities around the world have developed strategies to create entrepreneurial ecosystems and to attract start-ups. For example, Vienna has become a hub for young businesses. AustrianStartups⁵ has fostered a vibrant community and ecosystem in Austria, and especially in Vienna, for entrepreneurs and new businesses. The Austrian Angel Investors Association and funds such as Speedinvest, or the Vienna-based incubator i5invest, have made more capital and funding available to entrepreneurs in Austria. The Viennese Pioneers Festival brings together start-ups, entrepreneurs and investors, and it raises the profile of such activity among the general population, as well as among policy makers. And the Austrian Wirtschaftsservice GmbH has set up a number of support initiatives for young companies in the country (Göllner and Kainz 2014). Berlin is another such city example. It is home to Rocket Internet, the world's largest internet incubator with a reference portfolio of over 100 companies (Göllner and Kainz 2014).⁶ Rocket Internet refers to Berlin as "Europe's Silicon Valley."⁷ Soundcloud, a music-sharing platform that has an estimated value of approximately \$700 million, is also Berlin-based. However, attracting capital is difficult in the country according to the German Startup Monitor 2013: "70 percent of all start-ups questioned state that obtaining venture capital is challenging in Berlin" (Göllner and Kainz 2014).

Both Austria and Germany offer relatively good entrepreneurial ecosystems, yet some policy fine-tuning could benefit both countries. One indication that start-ups still face too many barriers in these countries when compared to others is that many other countries outperform Germany and Austria in the "starting a business" indicator in the Doing Business Index for 2014: Germany was ranked 111th and Austria 138th (DVFA and Efas 2014).

In general, major product market regulation reforms in Europe took place over two decades ago. In international comparison, a few regulatory issues could be optimized in several OECD countries. For example, Germany is a country with complex regulatory procedures as compared with OECD countries, and the country "may be in need of an overhaul of their business license and permit system, which scores relatively poorly also when compared with that of some BRICS countries" (OECD 2007). Additionally, the access entrepreneurs have to funding could be improved: "According to the European Commission's Eurobarometer on Entrepreneurship, [access to funding] hinders 21 percent of all Europeans from becoming entrepreneurs" (Morner 2014).

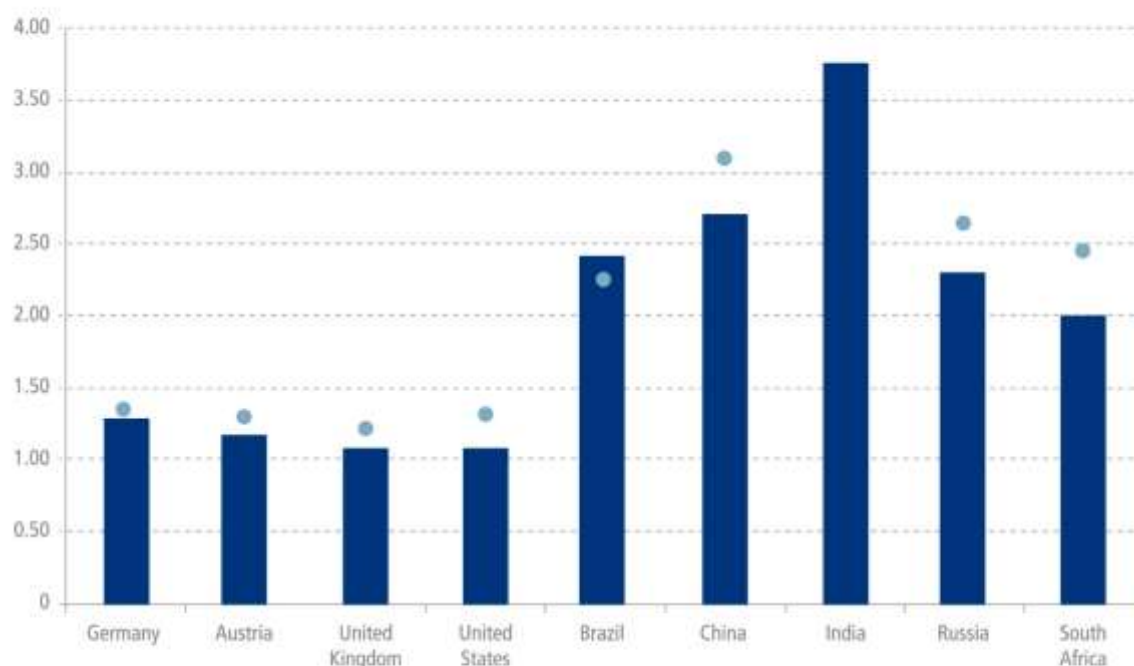
⁵ AustrianStartups is a non-profit platform of, by and for the Austrian start-up community to increase its visibility and strengthen the entrepreneurial ecosystem. See: <http://www.austrianstartups.com/about-us/>

⁶ See also: <http://www.rocket-internet.de/about-us>

⁷ <http://www.rocket-internet.de/about-us>

Product market regulation (PMR) index, 2013 and 2008

Index value (0=most competitive; 6=least competitive)



The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. They measure the economy-wide regulatory and market environments in 34 OECD countries in (or around) 1998, 2003, 2008 and 2013, and in another set of non-OECD countries in 2013. They are consistent across time and countries. The indicators cover formal regulations in the following areas: state control of business enterprises; legal and administrative barriers to entrepreneurship; barriers to international trade and investment. Not all data are available for all countries for all years.

Values for the United States refer to 2008 and 2003 respectively. Values for India are only available for 2008.

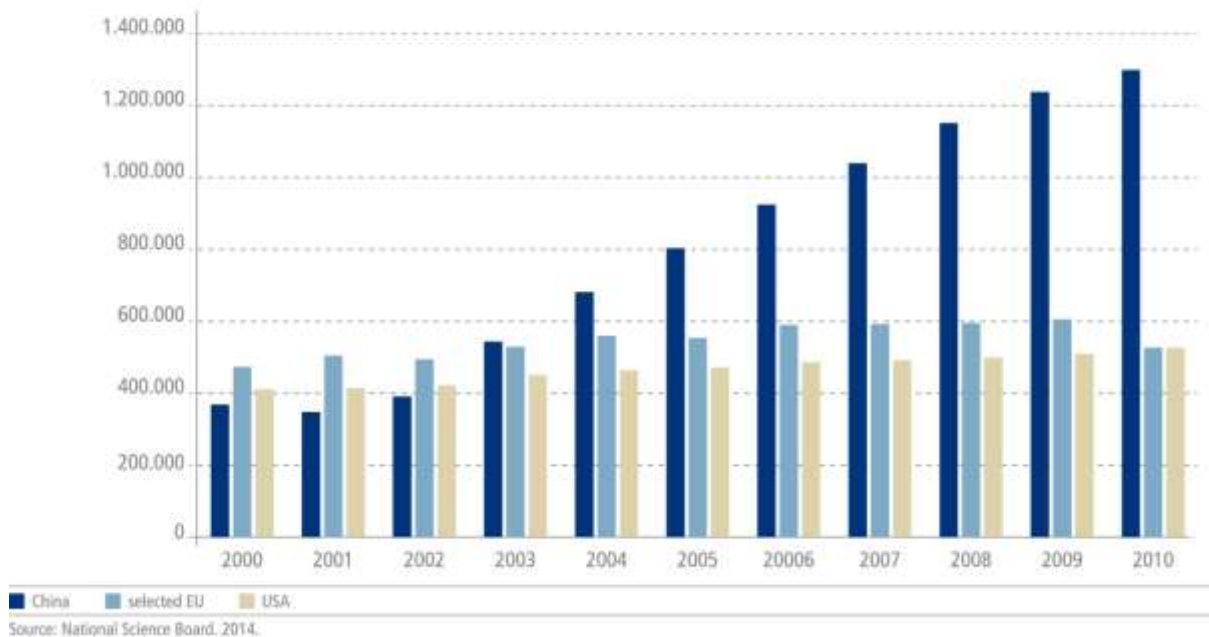
■ 2013 ● 2008

Source: OECD, Development Centre, Poverty Reduction and Social Development, Migration and the Brain Drain Phenomenon, Paris, 2007.

Beyond the availability of capital and regulatory issues, one of the major challenges businesses face is access to the kind of skills that drive innovation, jobs and growth. In the current economic climate, these are entrepreneurial talents, as well as science and engineering skills. And although there has been growth in the number of graduates in these areas, the global distribution of this talent is tipping toward China. The Science and Engineering Indicators 2014 report estimates that 5.5 million first university degrees in science and engineering were earned around the globe in 2010. The distribution of these degrees among regions was uneven: “Almost a quarter of those degrees were conferred in China (24 percent), 17 percent in the EU and 10 percent in the United States” (National Science Board 2014). The rate of increase in these types of degrees in the past decade has been strong in both the EU and the US, but only if one compares these regions to the world without China. For example, Germany doubled the number of science and engineering graduates between 2000 and 2010, from 67,000 to 139,000. The US grew its first-degree science and engineering holder cohort from 399,000 to 525,000. In the same period China more than tripled its stock of such first degree holders, from 359,000 to 1,300,000 degrees (National Science Board 2014). The rapid skill pool upgrade in science and engineering is historically unprecedented. This strong skill growth has to do with the share of students that opt for such studies: “Whereas 5 percent of all bachelor’s degrees awarded in the United States were in engineering, 31 percent of such degrees in China were in this field” (National Science Board 2014). China is likely to maintain its newly established position as the world’s leading source of new science and engineering graduates.

Total numbers of first university degrees in science and engineering, 2000-2010

EU data from countries producing the largest cohorts: Germany, France, Italy, Spain, Poland and the UK. There is no data available for France for 2010



Employers in the United States anticipate talent shortages in areas like computer science. Initiatives like code.org, “a non-profit dedicated to expanding participation in computer science by making it available in more schools, and increasing participation by women and underrepresented students of color,”⁸ are drawing attention to sectoral talent gaps and making an effort to remedy these. For example, they point out that there will be one million more computer science jobs than students by 2020.⁹ The initiative reports that nine out of 10 schools in the US don’t even offer computer programming classes.

Additionally, entrepreneurship education is an area in which a high return on investment can be achieved in Europe: “Surveys suggest that between 15 percent and 20 percent of students who participate in a minicompany program in school will later start their own company” (Morner 2014). Yet such education remains relatively rare in schools around the globe.

⁸ <http://code.org/about>

⁹ <http://code.org/stats>

Recommendations¹⁰

Foster entrepreneurial culture and skills in the population

With entrepreneurship at a premium, it is important for policy to engender a culture and attitudes that are conducive to business creation. For example, the education system, the media and business support organizations can help foster entrepreneurial motivations. Similarly, adequate entrepreneurship skills – which include small business management skills, strategic skills and entrepreneurial traits – can help new entrepreneurs to succeed. This implies the need for a change in the curriculum, methodologies, structures and strategies in education and training systems to better import these skills.

Design adequate business financing policies

Lack of external finance is one of the major problems affecting business innovation and entrepreneurship development. The problem is especially exacerbated in small and innovative enterprises. Small enterprises lack collateral and financial reporting that meets the standards required by banks. Innovative enterprises may paradoxically be considered more exposed to risks and uncertainty than non-innovative enterprises. Governments need to design policies that ease access to finance for innovative firms.

Make sure business regulations are not burdensome for business start-up and expansion

Sound regulatory policy is essential to avoid excessive and burdensome regulations that impede business start-up and innovation. Importantly, unneeded regulations and inconsistency in the way regulations are applied are especially problematic for new and small firms, which have limited human and financial resources to deal with administrative requirements. Regulatory impact assessment can help gauge whether the benefits of regulations justify the costs.

Bankruptcy laws should not be punitive or prevent unsuccessful entrepreneurs from trying again. Evidence shows, in fact, that serial entrepreneurs are often the ones able to create fast-growing companies since, like any other job, business ownership also benefits from experience. At the same time, reforms in this direction should take possible cases of moral hazard into account.

IV Innovative compositions: Investing in the DNA of businesses

Innovative compositions form the other foundation of the healthy habitats triangle. The DNA of a business can be thought of as its internal structure and talent makeup. The way enterprises are organized and run have a huge impact on the outcomes of their investment. Efficiency and creativity can at times become tradeoffs; research and development take time and money, but when done well can allow companies to stay in business and be profitable. Perhaps counterintuitive, risk-taking can be the best recipe for securing long-term stability for companies that operate in dynamic environments, especially for long-standing businesses that may see products – that have been on the market for long periods of time – in limited demand.

Especially long-standing and established companies face the challenge of inertia; they may have attained a satisfactory performance level, but they must never “rest” there. The constant evaluation of their own behavior and the behaviors of their competitors cause stress on company leadership and staff. Competing in global markets means inventing and innovating, rather than making incremental improvements on existing products and services. The demands an enterprise faces can best be met if the internal composition of the enterprise is conducive to making the most of the

¹⁰ See Marchese and Thompson 2014.

talent it employs and if this talent is in an environment in which the sum of its interactions is greater than what each person could achieve on his or her own. Enterprises today must *invite disruption* into their operations; they must find ways to channel this disruption into innovation and to bring great ideas to market.

The jury is “in” regarding ways in which enterprises can enhance creativity and innovation from within. The prescription for enhancing innovation in companies amounts to a relatively clear set of targets, such as:

- foster creative thinking,
- open internal communication (including horizontal, non-hierarchical interaction),
- optimize cognitive distance (employ a pool of diverse thinkers),
- recognize and support intrinsic motivation,
- increase interdisciplinary teamwork,
- develop a culture of common knowledge and co-creation,
- allow for some self-organization,
- include external partners in some innovation processes,
- hire a complementary talent pool and a critical mass of “intrapreneurs”¹¹, as well as
- empower a leadership that operates non-hierarchically and is open to taking smart risks, etc.

Perhaps the biggest challenge in sculpting enterprises into “forms” that have the internal structures and cultures (the DNA) that make the most of talent (as well as incubate, accelerate and implement innovation) is that for some employees innovation can be played as a zero-sum game. In particularly bad cases, introducing innovators into an enterprise can become a lose-lose proposition, in which creativity and motivation of the management and staff are mutually destroyed in an effort to prevent the withdrawal of hierarchical privileges, demotion or loss of “social standing.” The consequences of an “autoimmune” reaction to innovation, in which a company attacks and destroys itself from within, could be “fatal” for it, and detrimental to all its employees.

Managing the “social shifts” that thought leaders can incur on internal social orders is an important part of fostering innovation: “It is naïve to believe that management always has enough knowledge to adequately instruct and supervise innovative activities” (Morner 2014). In long-established, hierarchical company cultures, this means that fostering innovation can lead to internal winners and losers, even though, in total, innovation is not a zero-sum game, and should be a win-win proposition. But because of the power shifts innovators can cause within companies, barriers to innovation can be hard to identify and remove; the barriers may indeed be upheld by some employees who see themselves as potential “losers” in light of such innovations.

¹¹ Intrapreneurs is a term given to those who seek challenges and opportunities deliberately and on their own initiative.

The innovation-leadership dilemma in hierarchical organizations

		Relevance of new ideas to an enterprise	
		Applicable creativity	Irrelevant inspiration
Idea "originator"	Entitled decision maker (high ideas conductivity)	<ul style="list-style-type: none"> ● High probability of idea-application and innovation 	<ul style="list-style-type: none"> ● Risk of spending resources on peripheral idea ● Risk of hierarchical disruption
	De facto thought leader without decision making powers (low ideas conductivity)	<ul style="list-style-type: none"> ● Risk of idea being lost, or falsely attributed ● Risk of hierarchical disruption 	<ul style="list-style-type: none"> ● High probability that ideas will (rightly) not be pursued

Hierarchical disruption refers to a power struggle, in which the role of the entitled decision maker is explicitly or implicitly put in question and negatively impacts operations.

Source: Authors.

The degree of hierarchy needed in organizations will vary, yet “heterarchy is necessary to involve all members of a company – independent of their position – into the knowledge generation of the company” (Pöppel 2014). Heterarchical structure could help avoid the negative outcomes of those described in the “innovation-leadership dilemma.”

Another major challenge is fostering “ideas diversity,” which is also referred to as cognitive distance. In other words, when companies become hubs for like-thinkers, they are likely to create lower levels of innovation; talking to ten people who have similar ideas is not much different than talking to one person. Ideas diversity is of particular importance in human resource planning and in executive compositions.

Recommendation

Get out of innovation’s way and make the most of talent

Fostering entrepreneurship in companies is as much about removing barriers to innovation as it is about creating the right incentives. Understanding the talent one employs and constructing company DNA that is innovation-friendly is key to fostering innovation from within enterprises.

V Conclusions

Healthy habitats rely on a complex set of interactions that can be thought of in three dimensions:

- **Interdependent flows:** This refers to the interactions between businesses and societies as a whole. Positive interdependent flows exist when businesses create shared value, and relationships between businesses and greater society foster innovation.
- **Primary conditions:** This refers to the legal framework in which businesses operate. Tax and subsidy regulations, access to capital, simplicity of bureaucratic procedures for establishing and expanding businesses and employers' access to talent are part of this dimension.
- **Innovative compositions:** This refers to the way businesses are organized internally. An enterprise's capacity to innovate is determined in large part by company culture, management and talent diversity.

This paper has explored ways in which societies, governments and businesses can foster healthy habitats for entrepreneurship for a culture of innovation and shared value. The recommendations distilled from this analysis can be thought of in terms of policy recommendations and calls for action.

VI Policy recommendations¹²

Foster entrepreneurial culture and skills in the population

With entrepreneurship at a premium, it is important for policy to engender a culture and attitudes that are conducive to business creation. For example, the education system, the media and business support organizations can help foster entrepreneurial motivations. Similarly adequate entrepreneurship skills – which include small business management skills, strategic skills and entrepreneurial traits – can help new entrepreneurs to succeed. This implies the need for a change in the curriculum, methodologies, structures and strategies in education and training systems.

Design adequate business financing policies

Lack of external finance is one of the major problems affecting business innovation and entrepreneurship development. The problem is especially exacerbated in small and innovative enterprises. Small enterprises lack collateral and financial reporting that meets the standards required by banks. Innovative enterprises may paradoxically be considered more exposed to risks and uncertainty than non-innovative enterprises. Governments need to design policies that ease access to finance for innovative firms.

Make sure business regulations are not burdensome for business start-up and expansion

Sound regulatory policy is essential to avoid excessive and burdensome regulations that impede starting up businesses and innovation. It is important to note that, unneeded regulations and inconsistency in the way regulations are applied are especially heavy for new and small firms, which have restrained human and financial resources to deal with administrative requirements. Regulatory impact assessment can help gauge whether the benefits of regulations justify the costs.

Bankruptcy laws should not be punitive or prevent unsuccessful entrepreneurs from trying again. Evidence shows, in fact, that serial entrepreneurs are often those able to set out fast-growing companies since, like any other job, business ownership also benefits from experience. At the same time, reforms in this direction should be wary of possible cases of moral hazard.

¹² See Marchese and Thompson 2014.

VII Calls for action

Raise awareness about creating shared value in communities

In a century yet unmarked by political philosophies and at a time when individualism is the dominant “-ism” in much of the developed world, it is important to raise awareness about the mutual responsibilities and interests shared by enterprise and the whole-of-society. This calls for better communication between civil society, governments and businesses concerning the needs communities have for investment and trouble-shooting the challenges they face. It also calls for enterprises to increase their interaction and exchange with local communities.

Expand and interlink the evidence-base regarding sustainable economic and social well-being

Sustainable well-being is currently measured by various indices, using a range of data and is measured at different economic levels (from individual companies to national economies to international contexts). Understanding what fosters progress towards sustainable economic and social well-being and which policies can accelerate such developments are becoming increasingly important to businesses and societies alike, as natural resources become more scarce and knowledge-economies require high-levels of slow-to-acquire-skills to fuel their enterprises. Therefore, both understanding the evidence base for what kind of business equates to sustainable, “good” business and expanding that empirical-base are important. Such information can help enterprises, policy makers and communities alike observe how companies impact societies and vice versa, so they can work together to increase the genuine bottom line.

Get out of innovation’s way and make the most of talent

Fostering entrepreneurship in companies is as much about removing barriers to innovation as it is to creating the right incentives. Understanding the talent one employs and constructing company DNA that is innovation-friendly is key to fostering innovation from within enterprises.

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