

# Entrepreneurship as a Driver of Sustainable Development in Resource-Constrained Economies

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## ABSTRACT

This paper examines how entrepreneurship functions as a mechanism for sustainable development in economies where resources are limited and institutional frameworks are weak. Drawing on established theories of entrepreneurship and sustainability, the paper argues that resource constraints do not simply impede entrepreneurial activity; in many cases, they shape distinctive forms of innovation and enterprise that contribute to economic inclusion, employment, and environmental adaptation. The paper reviews the theoretical basis for linking entrepreneurship with sustainable development, examines specific mechanisms through which this relationship operates, and considers the institutional conditions that either support or suppress entrepreneurial impact. Special attention is given to informal economy entrepreneurship and social entrepreneurship as expressions of market activity in constrained settings. The paper concludes by identifying conditions under which governments and development organizations can channel entrepreneurial energy toward sustainable outcomes, and argues for greater precision in how researchers conceptualize and measure entrepreneurial contributions to sustainability in low-resource contexts.

**Keywords:** Entrepreneurship, sustainable development, resource constraints, informal economy, social entrepreneurship, institutional environment

## INTRODUCTION

The idea that entrepreneurship drives economic growth has been around for nearly a century, but its relationship to sustainable development is more recent in the scholarly conversation. Economies with limited capital, fragile institutions, and scarce natural resources present a particular challenge to researchers and policymakers alike. On one hand, these are precisely the settings where entrepreneurship might do the most good. On the other hand, they are also the environments where entrepreneurship faces the steepest barriers.

This paper takes that tension seriously. It does not assume that entrepreneurship is automatically beneficial for sustainability, nor does it treat resource constraints as simple obstacles to be cleared. Instead, it asks what kind of entrepreneurship tends to emerge in constrained settings, and under what conditions it can serve the goals articulated in international frameworks like the 2030 Agenda for Sustainable Development (United Nations, 2015).

Sustainable development, as first articulated by the World Commission on Environment and Development (1987), refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This definition is simultaneously straightforward and demanding. It requires attention to economic performance, social equity, and environmental integrity, and in most of the world's lower-income economies, delivering on all three at once is genuinely difficult.

Entrepreneurship, in its most general sense, involves the identification and pursuit of opportunities under uncertainty (Shane & Venkataraman, 2000). This activity takes different forms depending on context. In wealthy economies with functioning credit markets and strong property rights, entrepreneurship tends to be formalized and oriented toward productivity and profit. In economies with weaker institutions and scarcer capital, it is more likely to operate informally, often driven by necessity rather than opportunity. Understanding how both forms relate to sustainable development is the central task of this paper.

## **LITERATURE REVIEW**

### **Theoretical Foundations of Entrepreneurship**

The intellectual origins of modern entrepreneurship theory owe a great deal to Schumpeter (1934), who saw the entrepreneur as the primary engine of economic change. For Schumpeter, entrepreneurial innovation disrupted existing equilibria and created new productive configurations. This process, which he later called creative destruction, was the force behind long-run economic growth and structural transformation.

Kirzner (1973) offered a different picture. Rather than dramatic innovation, Kirzner emphasized the role of alertness: entrepreneurs, in his view, noticed opportunities that others had missed and acted on the gap between what was and what could be. This conception of entrepreneurship as discovery rather than creation has particular relevance for resource-constrained settings, where the most economically consequential opportunities are often not technological breakthroughs but rather the identification of unmet local needs.

Baumol (1990) extended this foundation in a direction that matters considerably for this paper. He argued that the supply of entrepreneurship in an economy is relatively stable, but its allocation between productive, unproductive, and destructive activities depends on the institutional reward structure. Where institutions channel entrepreneurial energy into rent-seeking or corruption, the economy suffers. Where they reward innovation and genuine value creation, growth tends to follow. This insight is essential for understanding why entrepreneurship does not produce uniformly good outcomes in resource-constrained economies.

Shane and Venkataraman (2000) formalized the field by defining entrepreneurship as the scholarly examination of how, by whom, and with what effects opportunities to create goods and services are discovered, evaluated, and pursued. This framing is broad enough to accommodate the varied forms of entrepreneurship found in both formal and informal economies.

From the strategic management literature, Lumpkin and Dess (1996) identified entrepreneurial orientation as a multidimensional construct encompassing autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness. Their work helped shift attention from the individual entrepreneur to the organizational and contextual conditions that shape entrepreneurial behavior.

### **Sustainable Development: Conceptual Background**

The concept of sustainable development, as codified by the World Commission on Environment and Development (1987) in the Brundtland Report, was a direct response to the recognition that economic growth models of the postwar decades had generated significant environmental costs. The report argued that development strategies needed to integrate environmental considerations rather than treating them as afterthoughts.

This conceptual move found its most complete institutional expression in the United Nations' 2030 Agenda, which established 17 Sustainable Development Goals (SDGs) addressing poverty, inequality, health, education, economic growth, and environmental sustainability (United Nations, 2015).

Entrepreneurship is directly referenced in Goal 8, which calls for decent work and economic growth, and Goal 9, which focuses on industry, innovation, and infrastructure. These connections are not incidental; they reflect a broad recognition that private initiative and market mechanisms will have to carry a significant part of the load if the SDG targets are to be met by 2030.

### **Entrepreneurship in Emerging and Constrained Economies**

The research on entrepreneurship in emerging economies has grown considerably in recent decades. Bruton et al. (2008) noted that the field had tended to develop theory primarily in high-income, institutionally mature contexts, and that this created gaps when researchers tried to explain entrepreneurial behavior in settings with different institutional logics. They called for greater attention to the role of informal institutions, family and social networks, and the particular forms of uncertainty that characterize developing economy environments.

This point matters because resource-constrained economies are not simply less-developed versions of wealthier ones. They have their own institutional textures: norms, social structures, and informal rules that shape who becomes an entrepreneur, what kinds of ventures they start, and how those ventures grow. Treating these economies as simply deficient in the inputs that support entrepreneurship elsewhere misses the creative adaptations that often emerge precisely because of constraints.

### **Conceptual Framework: Linking Entrepreneurship to Sustainable Development**

The connection between entrepreneurship and sustainable development is not automatic. It would be a mistake to assume that more entrepreneurship always produces more sustainability. The relationship is conditional: it depends on what kind of entrepreneurship is occurring, what institutional context it operates in, and whether the outcomes align with the social, economic, and environmental dimensions of sustainability.

A useful way to think about this is through Baumol's (1990) distinction between productive and unproductive entrepreneurship. In settings where institutions are weak and regulatory enforcement is inconsistent, entrepreneurship may be productive at the individual level while being extractive or damaging at the social level. A trader who corners a local market for essential goods and charges monopoly prices is, in a narrow sense, acting entrepreneurially, but this activity does little for sustainable development and may actively harm it.

Productive entrepreneurship in resource-constrained settings tends to have certain identifiable characteristics. It tends to serve underserved markets rather than capturing established ones. It tends to deploy local knowledge rather than imported technologies. It tends to create employment in communities where formal sector jobs are scarce. And it tends to adapt available resources in ways that reduce dependence on expensive imported inputs. These characteristics, taken together, align entrepreneurial activity with several of the SDGs, though the alignment is often imperfect and context-specific.

Audretsch (2007) argued that entrepreneurial activity is the mechanism by which knowledge gets converted into economic value, and that regions and economies differ substantially in their capacity to make this conversion. In resource-constrained economies, the relevant knowledge is often not scientific or technological but rather local, contextual, and relational: knowledge of community needs, of informal supply chains, of local preferences. Entrepreneurship that draws on this kind of knowledge is more likely to produce outcomes that are sustainable in both the economic and developmental senses.

## **ENTREPRENEURSHIP IN RESOURCE-CONSTRAINED ECONOMIES: KEY MECHANISMS**

### **Innovation Under Constraints**

There is a body of evidence suggesting that resource constraints can, in certain conditions, stimulate rather than suppress innovation. When entrepreneurs cannot rely on well-capitalized research and development processes or sophisticated manufacturing infrastructure, they are forced to solve problems with what they have. The results are often simpler, cheaper, and more appropriate for local conditions than imported alternatives.

This matters for sustainable development because technological and product appropriateness is a genuine barrier to sustainability in resource-constrained settings. Prahalad (2006) made a version of this argument in the context of low-income markets, contending that serving these markets profitably required businesses to reimagine products and services from the ground up rather than simply offering scaled-down versions of what was designed for wealthier consumers. Entrepreneurs operating within constrained environments are often better positioned to make this kind of reimagining precisely because they face the same constraints their customers do.

### **Job Creation and Economic Inclusion**

One of the most direct connections between entrepreneurship and sustainable development runs through employment. In economies where formal sector employment is limited and labor markets are segmented by gender, ethnicity, or geography, new ventures created by local entrepreneurs can provide income and productive engagement for groups that larger firms or government programs do not reach.

This connection is not simply about headcounts. The quality of employment matters for sustainability: work that provides stable income, builds human capital, and offers some degree of security contributes more to social sustainability than precarious, low-wage employment. Entrepreneurial ventures in constrained economies often sit across a wide range between these poles. Understanding where they fall, and what conditions push them in one direction or the other, is an open empirical question that deserves more systematic investigation.

### **The Informal Economy as an Entrepreneurial Space**

In many resource-constrained economies, the informal economy accounts for more than half of economic activity and an even larger share of employment. Webb et al. (2009) argued that informal sector activity should not be automatically categorized as unproductive or evasive. Much of it represents a rational entrepreneurial response to institutional voids: when formal registration is costly, slow, and provides little benefit, entrepreneurs who operate informally are making a reasonable calculation.

The implications for sustainable development are complicated. Informal entrepreneurship generates income and livelihoods. It also limits access to finance, restricts the ability to scale, and can perpetuate low-productivity equilibria. It often places workers outside the protections of labor law, which has obvious consequences for social sustainability. This suggests that policy approaches aimed at linking informal entrepreneurship to sustainable development need to focus on reducing the costs of formalization and improving the benefits it provides, rather than simply penalizing informal activity. Where formalization genuinely benefits entrepreneurs, they tend to pursue it voluntarily.

### **Social Entrepreneurship and Community Development**

Social entrepreneurship occupies a distinct position in this discussion. Mair and Marti (2006) defined it as a process that uses resources in creative and unconventional ways to pursue opportunities for social change

or to address social needs. In resource-constrained settings, social entrepreneurship often targets market failures that neither the private sector nor government has been able to address.

The relationship between social entrepreneurship and sustainable development is more direct than that of conventional entrepreneurship, since social entrepreneurs explicitly define success in terms of social and environmental outcomes rather than purely financial returns. Organizations working in areas like clean water access, off-grid energy, affordable healthcare, and small-scale agricultural supply chain development in low-income economies illustrate how entrepreneurial approaches to persistent problems can simultaneously contribute to economic, social, and environmental sustainability.

Porter and Kramer (2011) introduced the concept of shared value, arguing that businesses could create economic value in ways that simultaneously addressed societal needs. While their argument was directed primarily at large corporations, the logic extends to entrepreneurial firms in constrained economies: ventures that address genuine community needs while generating returns are creating shared value in the most direct sense, and they deserve more systematic support from both policy and research communities.

### **INSTITUTIONAL DIMENSIONS**

North (1990) established that institutions, both formal and informal, are the rules of the game that shape the incentives actors face. In resource-constrained economies, institutional environments are often characterized by weak property rights enforcement, unpredictable regulatory regimes, limited access to commercial credit, and sometimes significant levels of corruption. Each of these features affects the kind of entrepreneurship that emerges and its consequences for development.

Alvarez and Barney (2014) examined how entrepreneurs can, under the right conditions, create opportunities for poverty alleviation rather than simply responding to those that already exist. Their analysis suggests that the relationship between entrepreneurship and poverty reduction is not simply a function of how many ventures are created but of how entrepreneurial activity is structured and what institutional supports connect entrepreneurial energy with unmet social needs.

Bruton et al. (2008) noted that formal institutions in emerging economies often lag behind economic realities, and that entrepreneurs frequently rely on informal institutional arrangements, including social networks, community trust, and reciprocal obligations, to fill the gaps. These informal institutions are not merely second-best substitutes for formal ones; they are legitimate governance structures with their own logics and limitations.

The implication is that sustainable development policy in resource-constrained economies cannot simply focus on improving formal institutional conditions, though that matters. It also needs to understand and work with the informal institutional fabric that actually coordinates much economic activity on the ground.

### **POLICY IMPLICATIONS**

Several practical considerations follow from this analysis. First, policy should distinguish between necessity-driven and opportunity-driven entrepreneurship. Both can contribute to sustainable development, but they require different kinds of support. Necessity-driven entrepreneurs often need better access to capital, simpler regulatory environments, and targeted training. Opportunity-driven entrepreneurs in constrained settings often need connections to markets, mentoring, and infrastructure.

Second, the design of business formalization programs matters enormously. When formalization imposes costs without delivering proportionate benefits, entrepreneurs rationally stay informal. Policies that reduce formalization costs and increase the concrete benefits of formal status are more likely to shift

this calculation and bring more entrepreneurial activity into frameworks where it can be better supported, taxed, and regulated.

Third, social entrepreneurship deserves explicit policy attention in constrained economies. Conventional entrepreneurship policy is typically built on the assumption that market incentives are sufficient to direct entrepreneurial energy toward socially beneficial ends. In settings with significant market failures, this assumption often breaks down. Policies that support hybrid organizational forms, blended finance mechanisms, and impact measurement can help direct entrepreneurial activity toward outcomes that align with sustainable development goals.

Fourth, institutional reform should be guided by an understanding of existing informal institutional arrangements rather than assuming that formal institutions simply need to be built from scratch. Where informal institutions are already performing coordination and governance functions, formal institutional development needs to complement rather than displace them.

## CONCLUSION

This paper has examined how entrepreneurship relates to sustainable development in resource-constrained economies, drawing on theoretical foundations in entrepreneurship research, sustainable development literature, and institutional economics. Several conclusions emerge from this review.

Entrepreneurship is neither automatically beneficial nor automatically harmful for sustainable development. Its contribution depends heavily on the institutional environment, the type of entrepreneurship that predominates, and the extent to which entrepreneurial activity is oriented toward serving genuine social and economic needs rather than extracting rents from constrained markets.

Resource constraints, while genuinely challenging, are not simply barriers to overcome. They shape distinctive forms of entrepreneurial activity, including innovation under scarcity, informal economy ventures, and social entrepreneurship, that can contribute to sustainability in ways that are not well captured by frameworks developed in wealthy, institutionally mature economies.

The institutional environment is probably the most consequential variable in this relationship. Where institutions, both formal and informal, channel entrepreneurial energy toward productive activity and reward the creation of genuine social and economic value, entrepreneurship can be a meaningful contributor to sustainable development. Where they reward rent-seeking, corruption, or exclusion, entrepreneurship tends to produce outcomes inconsistent with sustainability goals.

Research in this area has tended to be either highly theoretical or focused on specific country cases. There is a clear need for comparative empirical work that can identify with greater precision the conditions under which entrepreneurship contributes to sustainable development outcomes in constrained settings. This is not a gap that can be filled by further conceptual work alone; it requires careful, context-sensitive empirical investigation in the field.

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