

Can startups be the vessel for solving climate change?

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Entrepreneurs in the business of protecting the environment may be more effective at addressing climate change than sweeping policies or legacy companies trying to go green, according to a new study out of CU

Boulder's Leeds School of Business.

Forthcoming in the journal *Organization Science*, the study comes as talks at the United Nations global climate summit in Glasgow, known as COP26, resulted in widespread disappointment. The world's leaders came to an agreement that all countries must act swiftly and do much more to stop climate change but failed to outline specific actions.

The study is the first of its kind to explore what leads to success of such companies. It also showed which businesses (entrepreneurial startups versus existing firms) are most likely to survive and where those businesses are most likely to flourish.

"Our research found environmental entrepreneurs, as we call them, do better in markets with high influence from both pro-market and pro-environment logics. This levels the playing field and allows them to compete effectively with existing firms," said Jeff York, lead co-author and professor of strategy and entrepreneurship.

In a time when climate change is a polarizing, political topic, these findings show small businesses with climate-cautious goods and services can establish a common ground between the two sides: The pro-market side, which values growing business (generally associated with conservative beliefs), and the pro-environment side, which values protecting the environment and natural resources (generally associated with liberal beliefs).

Entrepreneurial startups were also better at bridging the divide than existing companies that adopted green offerings, reflecting growing skepticism around the motives of large corporations in today's economy.

York said the findings have the potential to help reshape how we think about addressing climate change: Rather than looking to large

corporations to lead the charge, investing in environmental entrepreneurs to institute change at a local level could rally more support for climate initiatives.

"If we could think of addressing climate change as a growth opportunity, I think that's a much more powerful way of thinking about it," he said.

Small business, big movement

In Colorado, you don't have to look far to see how powerful startups can be: The craft brewing industry has mastered its craft at creating a movement out of a product that now rivals big beer companies like Miller and Coors. With more than 400 craft breweries in the state, one would think the market would be oversaturated—but instead, many breweries are thriving.

The culture of craft beer isn't the only example of an emerging industry pioneered by entrepreneurs leading to societal change. In fact, York says most new industries are started by entrepreneurs because they're more willing to take risks and challenge the status quo than existing firms.

What separates industries addressing climate change from more traditional startups is they're rooted in a moral issue.

"We call these industries 'moral markets,'" York said. "And this really got us thinking about how we could help environmental entrepreneurs succeed."

York's study focused specifically on the moral market of the green building industry—think LEED-certified buildings and high-efficiency windows, for example—between 1999–2007 when the industry was picking up steam.

He found, like craft beer, the green building industry has exceptions to the traditional economic "rules" of how competition and growth impact a business's likelihood of survival. Particularly, when green building companies are in pro-environment regions, competition doesn't have as much of a negative impact and market growth isn't as helpful.

But, interestingly, when these companies are in markets where there is heavy influence by both pro-environment and pro-market groups, entrepreneurs do better than if they were just in a pro-environment market.

"This means that green building businesses need to find a market where it's not just a bunch of greenies," York said. "What they actually want is a market that focuses on both market growth and protecting the natural environment—and it turns out those are mostly college towns."

Bridging the divide

If not all cities have pro-environment or both pro-environment and pro-market influence, then how can environmental entrepreneurs bridge the divide in the climate change debate? To York, the answer is simple.

He said there's a perception out there that solving climate change will have a negative impact on business and that to solve for climate change, we must sacrifice economic success in the short term. Instead, York argues, addressing climate change is a way to own the industries of the future—to capitalize on a market while also creating cleaner air and a better overall environment.

"If we can shift the conversation away from reining in business versus protecting the environment, and instead infuse the idea that protecting the environment can be done by supporting new businesses that do that, then that's where people can come together," he said.

People with pro-market beliefs innately are more likely to support small businesses. While they may be less inclined to consider climate change a problem, they are more likely to support local businesses that can promote economic growth. Even if those businesses are in the business of sustainability.

"Entrepreneurs represent a mechanism that we don't talk about nearly enough when we talk about solving [climate change](#)," York said. "I think that message can resonate across the divide."

More information: The study is available as a PDF at [www.colorado.edu/business/site ... g_forthcoming_os.pdf](http://www.colorado.edu/business/site...g_forthcoming_os.pdf)

Provided by University of Colorado at Boulder

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