

Factors Influencing Entrepreneurial Activities

Alan S. Gutterman

Founding Director, Sustainable Entrepreneurship Project

§1 Introduction

Shane et al. were particularly interested in improving the quality and conciseness of research on how human motivations influence entrepreneurship; however, they suggested a model that may well have broader application in the design of an analytical framework for studying the various factors that influence entrepreneurship.¹ Shane et al. believed that entrepreneurship was best viewed as a “process” that occurred over an extended period of time, rather than an isolated event or moment in time when a person decide whether he or she should become an “entrepreneur”. This process included a number of stages, including recognition of opportunities, development of ideas about how to pursue the opportunity by turning it into new products or services and, finally, execution of the activities required to harvest the desired profits from the opportunities. The execution phase involved array of tasks and activities such as evaluating the feasibility of the opportunity, product/service development, assembly of human and financial resources, organizational design and “market making” (i.e., identification and pursuit of customers). In their model, the success or failure of the entire entrepreneurial process, and the decisions made along the way, are influenced by several important factors. The motivational traits of the prospective entrepreneur is one of them; however, in order to get a complete picture it is necessary to also take into account other factors that Shane et al. felt had been ignored by previous researchers such as cognitive factors, the nature of the opportunity and environmental conditions.²

In order to address the concerns described above regarding the inadequacies of prior research on the relationship of human motivation to entrepreneurship, Shane et al. devised their own “model of entrepreneurial motivation and the entrepreneurial process” that focused on the factors that came into play at the various points where individuals (i.e., “entrepreneurs”) transitioned from one stage of the entrepreneurial process to the next. It was assumed that at each “transition point”, such as moving from “opportunity recognition” to “idea development”, influences might come from one or more categories of factors: entrepreneurial motivations, entrepreneurial opportunities and conditions and cognitive factors.³ However, the mix of influences in play at a particular stage was not

¹ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 274-276.

² Id. at 258 (“In our arguments, we explicitly assume that all human action is the result of both motivational and cognitive factors, the latter including ability, intelligence and skills. We also assume that entrepreneurship is not solely the result of human action; external factors also play a role . . .”)

³ This view was consistent with the observations of others such as Aldrich and Zimmer, who wrote that entrepreneurial activity “can be conceptualized as a function of opportunity structures and motivated entrepreneurs with access to resources”. See H. Aldrich and C. Zimmer, “Entrepreneurship through social

fixed, nor was the relative importance of specific factors. Interestingly, the model did not attempt to identify relationships between any of the factors and traditional measures of “success” or “performance”, such as profitability or growth rates, but simply focused on sensitizing researchers to the influences on the actions that entrepreneurs must take as they pursue development and commercialization of their ideas. In other words, in contrast to earlier models and assumptions Shane et al. recognized that the most relevant effects of factors such as “entrepreneurial motivations” on venture performance and growth may actually be more “indirect” than “direct”.⁴

The elements of the analytical framework suggested by Shane et al. were similar in many ways to those used by Baum et al. in studying the growth of small companies in the architectural woodworking industry.⁵ Baum et al. analyzed 29 variables divided among five different domains, including “traits and motivations”, which included motivational factors similar to those described by Shane et al., such as hard work, tenacity and drive; situation-specific motivation, such as goals and self-efficacy; cognitive skills; business strategies; and environmental factors. Interestingly, consistent with the arguments made by Shane et al., Baum et al. found that motivational factors did have an effect on the growth of the ventures included in their study but that the effects were “indirect”, meaning that motives came into play as influencers of other domains such as cognitive skills, situation-specific motivation and business strategies.⁶ The sections that follow combine the various factors and domains identified by Shane et al. and Baum et al. to describe an analytical model of the entrepreneurial process that would incorporate several key factors: entrepreneurial motivations, cognitive factors, entrepreneurial opportunities, environmental conditions, competitive strategies and, finally, certain non-motivational individual differences that have been shown to play an important role on the willingness of people to engage in entrepreneurial activities.

While not explicitly incorporated into the sections below, notice should also be taken of the “entrepreneurial process model”, which is a conceptual framework proposed by Kantis to analyze and understand the “entrepreneurial process” and facilitate comparison of the conditions confronting prospective entrepreneurs in different countries.⁷ While conceding, as others have done, that the entrepreneurial process does not necessarily follow a linear sequence, Kantis suggested that it was useful to analyze that process as

networks” in D. Sexton and R. Smilor (Eds.), *The art and science of entrepreneurship* (Cambridge, MA: Ballinger, 1986), 3-23, 3.

⁴ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 276 (“Motivations might be more or less stronger than these other factors in the degree that they influence particular transitions points. In addition, there might be important and interesting interaction effects between motivations and opportunities, [knowledge, skills and abilities] and environmental factors.”)

⁵ J. Baum, E. Locke and K. Smith, “A multi-dimensional model of venture growth”, *Academy of Management Journal*, 44(2) (2001), 292–303.

⁶ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 273.

⁷ H. Kantis, “A Systematic Approach to Enterprise Creation” in H. Kantis (Ed.), *Developing Entrepreneurship: Experience in Latin America and Worldwide* (Washington, DC: Inter-American Development Bank, 2005), 17-27.

three stages of events which, hopefully, lead to the creation of entrepreneurs and entrepreneurial firms.⁸ The first stage was “inception of the entrepreneurial venture” and involved three key activities and related questions. First, the prospective entrepreneur needs to acquire the motivation and skills needed to become an entrepreneur and this raises the following questions: what are the motivating factors that first lead a person to think about becoming an entrepreneur?; how does the entrepreneur’s immediate social context influence the motivational process?; and where does an individual find the motivation and skills needed to become an entrepreneur? Second, the business opportunity for the new enterprise must be identified and researchers would like to know the principal sources of business opportunities and how entrepreneurs find and identify these opportunities? Finally, business planning is required during the preparatory phase and the inquiries focus on what information and planning tools do entrepreneurs use? The second stage is “company start-up” and begins with the final decision to begin entrepreneurial activity. Kantis suggested that it is important to understand how entrepreneurs make the final decision to start a new business. Once the decision has been made, the inquiry turns to understanding how entrepreneurs access and mobilize the financial and nonfinancial resources needed to launch a business. The last of the three stages is early development of the firm including introduction to the market of the firm’s goods and services and management of the firm during the early years. The key questions for this stage include what factors influence market entry; what are the main problems confronting entrepreneurs during this phase and how to they deal with those problems; and how do entrepreneurs finance firm operations and growth?

Having defined and explained the “entrepreneurial process”, Kantis suggests that a model of an “entrepreneurial development system” can be created by adding in a combination of elements and factors that have an impact, both positive and negative, on the process and, ultimately, on the efficient development of entrepreneurs and entrepreneurial firms. Kantis grouped these factors into a short list of categories, which he introduced and described as follows⁹:

- *Social and economic conditions* reflect the profile of the households from which potential entrepreneurs emerge and take into factors such as the degree of social fragmentation, access to education, flow of information relevant to entrepreneurial activity, income levels and overall macroeconomic conditions such as the behavior of demand or the degree of economic stability;
- *Societal culture*, which is discussed extensively in this publication, influences the formation of the “entrepreneurial spirit” and cultural values impact important factors such as the social value ascribed to the entrepreneur and attitudes toward the risk of failure;
- *Productive structure and dynamism* refers to the sector and regional profile and the size of the existing enterprises and institutions and is considered important because it

⁸ Id. at 19-21.

⁹ The summary description of each of the categories is based on H. Kantis, “A Systematic Approach to Enterprise Creation” in H. Kantis (Ed.), *Developing Entrepreneurship: Experience in Latin America and Worldwide* (Washington, DC: Inter-American Development Bank, 2005), 17-27, 20-22.

determines the type of work and professional experience, including opportunities for development of entrepreneurial skills and networks of relationships (see below), which individuals can obtain prior to becoming entrepreneurs;

- *Personal aspects*, which refers to socio-demographic profile of the entrepreneur—which are influenced by his or her family, educational and work environments—and his or her entrepreneurial skills (e.g., propensity to assume risk, tolerance for hard work, managerial capacities, and creativity);
- *Networks*, which include the assistance provided through his or her social networks (i.e., friends and family), institutional networks (i.e., business associations, institutions of higher learning and/or development agencies) and commercial networks (i.e., suppliers and customers);
- *Factor markets*, which provide entrepreneurs with access to financial resources (e.g., bank loans, venture capital and/or government financing), skilled labor and professional services (accountants, consultants, etc.) and suppliers of inputs and equipment; and
- *Regulations and policies* that have an impact on enterprise creation, such as taxes, procedural requirements for formally establishing a new firm and initiatives and programs to develop entrepreneurship.

In many ways, the list of factors developed by Kantis was similar to those discussed in the following sections. For example, the issues consumed in personal aspects and networks can also be found in the discussion of entrepreneurial motivations, cognitive factors and non-motivational individual differences. In addition, social and economic conditions and societal culture are part of the relevant environmental conditions and productive structure and dynamism determine entrepreneurial opportunities and competitive strategies. As noted above, Kantis himself deployed his model as a tool for cross-border comparison of entrepreneurial activities and policies.

§2 Entrepreneurial motivations

The “entrepreneurial motivations” that Shane et al. included in their model were similar to those that they had identified and analyzed in their survey of prior research discussed above and were separated into “general” and “task-specific”. Motivations classified as “general” included nAch, locus of control, “vision”, desire for independence, passion and drive. The motivations classified as “task-specific” included “goal-setting” and “self-efficacy” and were similar to those analyzed in the “situation-specific motivation” domain of the Baum et al. study.¹⁰ Once again, it is important to emphasize the Shane et al. believed that the influence of any of these motivations varied depending upon the stage of the entrepreneurial process: “In some cases, all of the motivations might matter. In other cases, only some of the motivations might matter. The relative magnitudes of how much each motivation matters will likely vary, depending on the part of the process under investigation. In fact, it is quite plausible that motivations that influence one part

¹⁰ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 274.

of the process have all of their effects at that stage in the process and have no effects on later stages in the process.”¹¹

Baum et al. tested for the influence of traits and motives of entrepreneurs on venture success.¹² They noted that several important personality theorists, such as McClelland, had argued that personality predispositions were important predictors of the success of entrepreneurial ventures¹³ and observed that venture capitalists, whose job it is to “pick winners” among all the proposals and opportunities presented to them by would-be entrepreneurs, had consistently emphasized how much weight they gave to “entrepreneur characteristics” as key indicators of profitable investments.¹⁴ The problem, from a research perspective, was that studies had shown a relatively weak relationship between the traits and motives of entrepreneurs and venture performance and that traits and motives were not nearly as important to venture success as organizational and industry variables.¹⁵ Baum et al. believed that the influence of individual-level traits and motives of entrepreneurs had not been properly recognized because they did not work in isolation from other factors and prior studies had not included the proper traits.¹⁶ In their study they supplemented the pool of entrepreneurial traits by adding tenacity, pro-activity and passion and tested not only for a direct relationship of traits and motives on venture growth but also for the relationship that traits and motives had on other influencers of venture growth (i.e., “indirect effects”). While they did not find support for the hypothesis that, with all other antecedents of venture growth controlled, the greater the tenacity, pro-activity and passion for work of a venture’s CEO, the greater the venture’s growth, they did find evidence that these individual-level traits and motives did have a strong influence on several other factors relevant to venture growth, including general competencies, situation-specific motivation and competitive strategies.¹⁷

As mentioned above, Baum et al. created and tested a separate dimension for several situational-specific motivations, including “vision”, growth goals and self-efficacy.¹⁸ These motivations were distinguished from the other entrepreneurial traits and motives because they had previously demonstrated “significant empirical relationships with

¹¹ Id. at 275.

¹² J. Baum, E. Locke and K. Smith, “A multi-dimensional model of venture growth”, *Academy of Management Journal*, 44(2) (2001), 292–303.

¹³ J. Hollenbeck and E. Whitener, “Reclaiming personality traits for personnel selection”, *Journal of Management*, 14 (1988), 81-91; and D. McClelland, “N-achievement and entrepreneurship: A longitudinal study”, *Journal of Personality and Social Psychology*, 1 (1965), 389-392.

¹⁴ I. MacMillan, R. Siegel and P. SubbaNarisimha, “Criteria used by venture capitalists to evaluate new venture proposals”, *Journal of Business Venturing*, 1 (1985), 119-128.

¹⁵ T. Begley and D. Boyd, “Psychological characteristics associated with performance in entrepreneurial firms and smaller businesses”, *Journal of Business Venturing*, 2 (1987), 79-93; M. Low and I. MacMillan, “Entrepreneurship: Past research and future challenges”, *Journal of Management*, 14 (1988), 139-151; W. Sandberg and C. Hofer, “Improving new venture performance: The role of strategy, industry structure and the entrepreneur”, *Entrepreneurship Theory and Practice*, 16 (1987), 73-90.

¹⁶ J. Baum, E. Locke and K. Smith, “A multi-dimensional model of venture growth”, *Academy of Management Journal*, 44(2) (2001), 292–303, 292.

¹⁷ Id. at 299-300.

¹⁸ Id. at 293.

business performance” and had been celebrated by researchers as important for planning and venture performance.¹⁹ Baum et al. did indeed find confirmation for the hypothesis that “[t]he greater the situationally specific motivation of a venture’s CEO with respect to vision, growth goals, and self-efficacy, the greater the venture’s growth”.²⁰ Apparently, these traits and motivations had a much greater direct effect on venture growth than the more “general” traits and motives tested by Baum et al.; however, those general traits and motives did have a significant influence on the strength of the situational-specific motivations.²¹ The general competencies of entrepreneurs also had a large influence on their situational-specific motivations. Situational-specific motivations also had a significant influence on elements of the competitive strategies selected by entrepreneurs which, in turn, ultimately influenced venture growth. Specifically, Baum et al. argued that organizations led by highly motivated entrepreneurs often reflected the character of these entrepreneurs as evidenced by the choices made regarding organizational structures and processes and the bias toward recruiting goal-oriented employees.²²

§3 Cognitive factors

According to Locke, all action is a result of the integration or combination of motivational and cognitive factors and thus it was necessary and appropriate for Shane et al. to include certain cognitive factors—knowledge, skills and abilities (“KSAs”)—in their analytical framework.²³ They explained that entrepreneurs must have “some knowledge”, particularly knowledge about the industry and markets in which they are involved and the technology that is relevant to the projected success of the entrepreneurial activities. In addition, entrepreneurs must have certain skills, the range of which depends on the circumstances, which can be called upon during the various stages of the entrepreneurial process. Shane et al. listed skills such as “selling and bargaining, leadership, planning, decision making, problem solving, team building, communication and conflict management”. Shane et al. mentioned that entrepreneurs can hire persons to fill in gaps in their own “skill set”; however, they believed that entrepreneurs cannot rely on others for the knowledge about the industry and technology that is crucial for setting the right course during the entrepreneurial process. Finally, entrepreneurs needed certain abilities, such as intelligence, in order to acquire and process the knowledge and develop and use the skills referred to above.

¹⁹ M. Low and I. MacMillan, “Entrepreneurship: Past research and future challenges”, *Journal of Management*, 14 (1988), 139-151; and B. Bird, *Entrepreneurial behavior* (Glenview, IL: Scott, Foresman, 1989). Also, one of the core elements of motivation in charismatic leadership theory is “vision”. See B. Bass, *Handbook of leadership* (New York: Free Press, 1990).

²⁰ J. Baum, E. Locke and K. Smith, “A multi-dimensional model of venture growth”, *Academy of Management Journal*, 44(2) (2001), 292–303, 293, 297, 301 (citing A. Bandura, *Self-efficacy: The exercise of control* (New York: W.H. Freeman, 1997); and E. Locke and G. Latham, *A theory of goal setting and task performance* (Englewood Cliffs, NJ: Prentice-Hall, 1990)).

²¹ *Id.* at 294, 299 (confirming hypothesis that “[t]he greater the tenacity, proactivity, and passion for work of a venture’s CEO, the greater his or her situationally specific motivation with respect to vision, goals, and self-efficacy”).

²² *Id.* at 301 (citing D. Hambrick and P. Mason, “Upper echelons: The organization as a reflection of its top managers”, *Academy of Management Review*, 9 (1984), 193-206).

²³ *Id.* at 275.

As with the “entrepreneurial motivations”, the KSAs are needed in order for entrepreneurs to navigate the entrepreneurship process and Shane et al. noted that not only did the KSAs come into play in making the best decisions at each stage of the process but also in the development of an overriding “vision” for entrepreneurial activities, including formulation of a viable strategy for the firm.²⁴ Inclusion of these cognitive factors in the model was consistent with the findings of other researchers that have highlighted the importance of certain types of knowledge and skills on various phases of the entrepreneurial process, particularly the start-up and resource assembly and organization stages.²⁵ Motivations are linked to cognitive factors in that motivations provide entrepreneurs with the incentive and drive to acquire the necessary KSAs and take the actions necessary to implement the vision and associated strategies.

KSAs were also part of the foundational principles for the “individual competencies” domain in the Baum et al. model.²⁶ Baum et al. actually broke out this domain into two categories: “general” competencies, which included an array of so-called “organizational competencies” such as oral presentation skills, decision-making ability, conceptualization ability, diagnostic use of concepts, use of power and “opportunity recognition”; and “specific competencies”, which included technical skills and industry skills.²⁷ They found that the general competencies of a venture’s CEO, particularly with respect to organizational skills and opportunity recognition, did not have a material positive relationship on venture growth; however, they did influence situation-specific motivations and the selection process for competitive strategies. On the other hand, specific competencies were found to have a direct positive relationship with, and effect on, venture growth.²⁸ In their own words, Baum et al. explained: “We speculate that an entrepreneur’s technical and industry competencies are an important form of expert power that facilitates the implementation of the entrepreneur’s vision and strategy. We can further hypothesize that these entrepreneurial skills may serve as sources of competitive advantage that rivals find difficult to identify and imitate.”²⁹

²⁴ Locke referred to “vision” as the “capacity of the human mind to discover, through creative thought, solutions that had not existed before” and noted that vision often stepped in when traditional financial methods of assessing and mapping an opportunity would not be helpful (e.g., when Jobs first developed the mass market for personal computers or Walton planted the seeds for discount retailing). *Id.* at 263 (citing E. Locke, *The prime movers: traits of the great wealth creators* (New York: AMACOM, 2000)).

²⁵ *Id.* at 275 (citing T. Bates, “Entrepreneur human capital inputs and small business longevity”, *Review of Economics and Statistics*, 72(4) (1990), 551-559; and C. Schoonhoven, K. Eisenhardt and K. Lyman, “Speeding products to market: waiting time to first product introduction in new firms”, *Administrative Science Quarterly*, 35 (1990), 177-207).

²⁶ *Id.* at 293.

²⁷ *Id.* (citing B. Bird, *Entrepreneurial behavior* (Glenview, IL: Scott, Foresman, 1989); R. Boyatzis, *The competent manager* (New York: Wiley, 1982); G. Chandler and E. Jansen, “The founders’ self-assessed competence and venture performance”, *Journal of Business Venturing*, 7 (1992), 223-236; and L. Herron and R. Robinson, “Entrepreneurship skills: An empirical study of the missing link connecting the entrepreneur with venture performance”, Paper presented at the annual meeting of the Academy of Management, San Francisco, 1990)).

²⁸ *Id.* at 299-301.

²⁹ *Id.* at 300-301.

Notice should be taken of the work of Nassif et al., who studied entrepreneurship from a dynamic perspective in order to gain a better understanding of the values, characteristics and actions over time as they launch and develop their businesses.³⁰ Based on their analysis of work by various researchers on the types and characteristics of Brazilian small business entrepreneurs, Nassif et al. developed an entrepreneurial process dynamics framework that included and distinguished “affective aspects”, which were most important during the earliest stages of the entrepreneurial process, and “cognitive aspects”, which became more important relative to the affective aspects as time went on and the business matured. Affective aspects included perseverance, courage, willpower, initiative, willingness to take risks, personal motivation, facing challenges, passion for the business, autonomy, self-confidence and independence. Cognitive aspects included assumption of calculated risks, ability to establish partnerships, defining goals and planning skills, knowing one’s limits and eloquent communication skills.

§4 Entrepreneurial opportunities

Shane et al. argue that the nature of entrepreneurship, including the decisions made with regard to entrepreneurial actions and even deciding whether or not entrepreneurship is an appropriate and desired path, depends upon the specific “opportunity” confronting the would-be entrepreneur.³¹ They defined “entrepreneurial opportunities” as “situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than the cost of their production”.³² The problem, of course, is coming up with a reasonable estimate of the “expected value” of an opportunity since, by definition, an opportunity is all about potential rather than guarantees. One issue, of course, is that there is wide range of activities that would fit within this definition of opportunity: grand and bold initiatives that seek to establish whole new industries (e.g., the early biotechnology firms) as well as more modest undertakings such as starting a new business in an established industry to exploit a small, yet potential profitable, market niche.³³ In addition, the value of opportunities not only varies across industries but one also finds variations in opportunity values within industries. Still another factor that must be considered is how the entrepreneur “interprets” the opportunity. The Internet, for example, has generated a wide array of new business models from e-tailing targeting millions of potential customers to sole proprietors looking to make their mark through web site design or consulting on online advertising. Finally, “solutions” clearly matter—if an entrepreneur develops a product, service or method that is creates more sales and/or lower production costs than he or she can rightly assign a high value to that opportunity.

³⁰ V. Nassif, A. Ghobril and N. Siqueira da Silva, “Understanding the Entrepreneurial Process: A Dynamic Approach”, *Brazilian Administrative Review*, 7(2) (April/June 2010).

³¹ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 269.

³² Id. at 260-261 (citing S. Shane and S. Venkataraman, “The promise of entrepreneurship as a field of research”, *Academy of Management Review*, 25(1) (2000), 217-226, 220).

³³ Established industries may also be reenergized and transformed by entrepreneurs testing new business models, such as Sam Walton’s disruptive activities in the retail sector and the new organizing models in that same sector deployed by a wide array of “e-tailors”. Id. 261-262.

It is assumed that an individual will generally not pursue opportunities unless they have value to the individual and a “valuable opportunity for an individual is one that generates a level of profit that exceeds the entrepreneur’s opportunity cost, a premium for the illiquidity of money, time and effort expended, and a premium for bearing risk and uncertainty”.³⁴ Obviously, this formulation allows that some opportunities will have more value than others for a particular entrepreneur and that the same opportunity may be valued differently by different entrepreneurs due.³⁵ It does not necessarily mean that entrepreneurs will always choose the opportunity that has the highest “value” since that decision will be influenced by the motivations that are most important in the entrepreneur’s decision making process at the particular time; however, studies have shown that entrepreneurs are more likely to pursue an opportunity based on a condition or asset that is likely to generate extraordinary returns (e.g., patented technology, large market opportunity and/or high margins).³⁶

Ultimately, the value of entrepreneurial opportunities only becomes clear in hindsight once the entrepreneurial process has played out and each of the stages in that process have been navigated and completed. At each point along the way information is gathered, and decisions are made, that influence the assessment of the value of the opportunity and there may come a point where an opportunity ceases to be “valuable” for the entrepreneur because, for example, the anticipated level of profits no longer exceeds the entrepreneur’s estimate of the opportunity costs that will need to be borne over the remaining stages of the entrepreneurial process. All of this does not necessarily dissuade the boldest of innovators from moving forward in situations where it is impossible to quantify the value of an opportunity simply because what is being attempted has never been done before. Shane et al. reminded that Jobs in the PC industry and Walton in retailing were able to take advantage of opportunities through entrepreneurial actions that turning nothing more than a potential market for a product or service that had not been created into tangible industries in which values could eventually be assigned to the anticipated outputs of their actions. For Jobs, he not only had to develop the technical solution (i.e., a computer with a reasonable design cost) he also had to create a new “mass market” through a combination of design features, easy-to-use software, pricing and marketing. Walton had to test and prove the viability of his “discounting” strategy

³⁴ Id. (citing S. Venkataraman, “The distinctive domain of entrepreneurship research: an editor’s perspective”, in J. Katz and R. Brockhaus (Eds.), *Advances in entrepreneurship, firm emergence and growth*, Vol. 3 (Greenwich, CT: JAI Press, 1997), 119-138).

³⁵ Shane et al. observed that variations in the opportunities that various entrepreneurs might pursue were not being taken into account by researchers studying the effects of motivation on entrepreneurial decisions. They suggested, among other things, that “researchers could explore settings in which potential entrepreneurs pursue reasonably identical opportunities”, such as comparing the motivations of persons interested in purchasing a McDonald’s franchise against those of persons preferring to tap to manage a company-owned McDonald’s outlet. Id. at 270.

³⁶ S. Shane, “Technology opportunities and new firm creation”, *Management Science*, 47(9) (2001), 1173-1181. For further discussion of the “characteristics of entrepreneurial opportunities”, see C. Christiansen, *The innovators dilemma* (Cambridge, MA: Harvard Business School Press, 1997).

and fend off the responses of his existing competitors as well as new competitors that entered the market after Walton took the first steps.³⁷

§5 Environmental conditions

There has been a large amount of research on the impact of environmental conditions on entrepreneurship and many of these studies have found indications that the success of an entrepreneurial activity, as measured by the firm growth, is influenced by things such “(1) political factors (e.g., legal restrictions, quality of law enforcement, political stability and currency stability); (2) market forces (e.g., structure of the industry, technology regime, potential barriers to entry, market size and population demographics); and (3) resources (e.g., availability of investment capital, labor market including skill availability, transportation infrastructure and complimentary technology)”.³⁸ Shane et al. argued that it would be interesting and useful to study whether the motivations of entrepreneurs led to different types of entrepreneurial actions and decisions under different environmental conditions.³⁹ They also noted that in order to gain a clearer understanding of the influence on motivations on the entrepreneurial process the impact of environmental conditions would need to be controlled, perhaps by limiting sampling to firms in the same industry pursuing comparable market and technological opportunities.

Baum et al. also analyzed environmental conditions and focused on three dimensions relating to the environment: dynamism, which is the level of environmental predictability, including the rate of market and industry change and the level of uncertainty that firms must endure due to forces that are out of their control; munificence, which refers to the support provided by the environment for organizational growth; and complexity, which is measured by the concentration or dispersion of organizations in the environment.⁴⁰ Somewhat surprisingly, Baum et al. did not find sufficient evidence to support their hypothesis that a firm’s environment is related to venture growth. Specifically, operating in a stable, munificent and simple environment did not guarantee that a firm would achieve the highest growth.⁴¹ Environmental factors did have a significant, positive influence on competitive strategies but not as much as the traits, general competencies and situation-specific motivations of the entrepreneurs leading the

³⁷ S. Shane, E. Locke and C. Collins, “Entrepreneurial motivation”, *Human Resource Management Review*, 13 (2003), 257-279, 261-262.

³⁸ *Id.* at 260, 275-276. Other environmental factors mentioned by Shane et al. included the age of the industry, the condition of capital markets and the overall health of the economy. See also, e.g., H. Aldrich and G. Wiedenmayer, “From traits to rates: An ecological perspective on organizational foundings”, in J. Katz and R. Brockhaus, Sr. (eds.), *Advances in entrepreneurship, firm emergence, and growth*, Volume 1 (Greenwich, CT: JAI Press, 1993), 145-195; and H. Aldrich, *Organizations evolving* (Beverly Hills, CA: Sage, 2000).

³⁹ *Id.*

⁴⁰ *Id.* at 293-294 (citing G. Dess and P. Davis, “Porter’s (1980) generic strategies as determinants of strategic group membership and organizational performance”, *Academy of Management Journal*, 27 (1984), 467-488 and H. Aldrich and G. Wiedenmayer, “From traits to rates: An ecological perspective on organizational foundings”, in J. Katz and R. Brockhaus, Sr. (eds.), *Advances in entrepreneurship, firm emergence, and growth*, Volume 1 (Greenwich, CT: JAI Press, 1993), 145-195).

⁴¹ *Id.* at 301.

firms.⁴² Baum et al., noting the somewhat surprising “relatively low impact of the environmental domain on venture growth”, suggested that perhaps CEOs of smaller firms have more control over the growth and performance of their firms than had previously been suggested by several “macro theories” such as those posited by Hannan and Freeman and Pfeffer and Salancik.⁴³

§6 Competitive strategies

Shane et al. argued that it was important for researchers to study and analyze the role that individual motivations played in the specific decisions that entrepreneurs made at certain points during the entrepreneurial process—in other words: how do the motivations of the entrepreneurs influence the choices that they make regarding “business strategies”.⁴⁴ Shane et al. offered several scenarios. First, they suggested that an inventor with a high level of self-efficacy might be more likely to take an aggressive approach regarding exploitation of his or invention, such as going to the trouble of forming their own firm, while an inventor with an invention of equal “value” but lower self-efficacy might prefer to pursue profits indirectly through the efforts of others by selecting a strategy of licensing the invention to others who take on the additional tasks found along the path of the entrepreneurial process. Another example would be the influence of the entrepreneur’s “need for independence” on financing strategies: entrepreneurs scoring high on the measure might be more motivated to self-finance their firms to avoid having to put up with the “interruptions” from outside investors while entrepreneurs scoring lower on that measure would not be uncomfortable with giving up some control over their businesses in exchange for capital (e.g., venture capital investment).

Baum et al. studied the relationship of a firm’s competitive strategy to its performance. Baum et al. conceived of “competitive strategy” in terms of three broad business-level choices suggested by Porter as alternative viable approaches for dealing with environmental forces: “focus” strategies, which target a particular set of customers, segment of a product line or geographic market; “low-cost” strategies, which involve construction of efficient-scale facilities and aggressive pursuit of cost reductions; and “differentiation” strategies, which are based on attempting to create and market innovative, high-quality products and/or services industry-wide.⁴⁵ According to Porter, in order for firms to have a chance at being successful they need to pick and follow one of these strategies and failure to do leaves them “stuck in the middle” and doomed to failure.⁴⁶ Baum et al. found evidence supporting Porter’s proposition (i.e., that a firm’s competitive strategy will be related to performance and that the firms with the highest

⁴² Id. at 299.

⁴³ Id. at 301 (citing M. Hannan and J. Freeman, “The population ecology of organizations”, *American Journal of Sociology*, 82 (1977), 929-964; and J. Pfeffer and G. Salancik, *The external control of organizations* (New York: Harper & Row, 1978)).

⁴⁴ Id. at 272.

⁴⁵ Id. at 293 (citing M. Porter, *Competitive strategy* (New York: Free Press, 1980); and G. Dess and P. Davis, “Porter’s (1980) generic strategies as determinants of strategic group membership and organizational performance”, *Academy of Management Journal*, 27 (1984), 467-488).

⁴⁶ Id. at 293 (citing M. Porter, *Competitive strategy* (New York: Free Press, 1980), 42).

growth were those that emphasized either a focus, low-cost or differentiation strategy).⁴⁷ Interestingly, they also found that choices regarding competitive strategy were heavily influenced by the traits, general competencies and situation-specific motivations of the entrepreneurs responsible for making the decisions about firm strategy.⁴⁸ This finding was consistent with theories holding that personal characteristics of entrepreneurs are determinants of their personal strategies and that these personal strategies are, in turn, determinants of the strategies of the organizations that they found and lead.⁴⁹

§7 Non-motivational individual differences

While Shane et al. focused on motivational differences among prospective entrepreneurs, they acknowledged that non-motivational individual differences have been shown to play an important role in the willingness of people to pursue entrepreneurial activities. For example, researchers have found evidence that a person's decision to become an "entrepreneur" may depend on things such as the person's opportunity cost⁵⁰, which is actually built into the definition of "entrepreneurial opportunity" used by Shane et al.; his or her stocks of financial capital⁵¹; the social ties that he or she may have with investors⁵²; and the person's career experience⁵³. There does not, however, appear to be much research on how these non-motivational factors specifically influence particular stages of the entrepreneurial process. Presumably a large stock of personal financial capital and/or close social ties with investors would be helpful in collecting capital for the firm but these "advantages" may be of value during other stages of the process.

§8 Societal culture and entrepreneurship

While a good deal of the research regarding entrepreneurship has focused on questions such as identifying individual traits and values that are positively associated with entrepreneurial activities, it is generally conceded that societal culture also plays an important role in entrepreneurship.⁵⁴ In fact, as Mueller and Thomas put it, "culture, as

⁴⁷ Id. at 297, 301.

⁴⁸ Id. at 301.

⁴⁹ Id. (citing A. Bandura, *Self-efficacy: The exercise of control* (New York: W.H. Freeman, 1997); and E. Locke and G. Latham, *A theory of goal setting and task performance* (Englewood Cliffs, NJ: Prentice-Hall, 1990)).

⁵⁰ R. Amit, E. Meuller and I. Cockburn, *Journal of Business Venturing*, 10 (1995), 95-106.

⁵¹ D. Evans and L. Leighton, "Some empirical aspects of entrepreneurship", *American Economic Review*, 79 (1989), 519-535.

⁵² H. Aldrich and C. Zimmer, "Entrepreneurship through social networks", in D. Sexton and R. Smilor (Eds.), *The art and science of entrepreneurship* (Cambridge, MA: Ballinger, 1986), 3-23.

⁵³ A. Cooper, C. Woo and W. Dunkleberg, "Entrepreneurship and the initial size of firms", *Journal of Business Venturing*, 3 (1989), 97-108.

⁵⁴ See, e.g., D. Holt, "A comparative study of values among Chinese and USA entrepreneurs: Pragmatic convergence between contrasting cultures", *Journal of Business Venturing*, 12(6) (1997), 483-505; R. McGrath, I. MacMillan and S. Scheinberg, "Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs", *Journal of Business Venturing*, 7(2) (1992), 115-135; R. Peterson, "Understanding and encouraging entrepreneurship internationally", *Journal of Small Business Management*, 26(2) (1988), 1-7; and D. Huisman,

the underlying system of values peculiar to a specific group or society, shapes the development of certain personality traits and motivates individuals in a society to engage in behaviors that may not be as prevalent in other societies . . . [e]ntrepreneurial activity (i.e., new venture creation) may be one of these behaviors which varies across countries due to differences in cultural values and beliefs”.⁵⁵ Mueller and Thomas also noted that while there are many factors underlying entrepreneurial behavior that are common across all cultures, such as economic incentives that serve as motivators for entrepreneurship, differences in societal cultures influence other relevant factors by reinforcing certain characteristics related to entrepreneurship and penalizing other characteristics, thus leading to variations among societies with respect to how closely they are aligned with an entrepreneurial orientation.⁵⁶

§9 --Representative studies of influence of societal culture on entrepreneurship

While there has been a relative dearth of research on the relationship between culture and entrepreneurship, particularly cross-border comparisons, studies have provided strong evidence that some cultures produce more innovation and entrepreneurship than others⁵⁷. R. Bouncken et al. provided a short summary of some of the research that has been done on cultural aspects of entrepreneurial intentions.⁵⁸ They noted, for example, that dissimilarities of entrepreneurship across cultures had been identified by researchers such as Erez and Early⁵⁹ and that other researchers had analyzed issues such as the impact of values and culture on entrepreneurial motivations and the generation and success of new ventures. In addition, they cited a number of studies that appeared to confirm that entrepreneurship and the associated new venture generation are influenced by culture. For example, McGrath et al. found that high scores of power distance, individualism and masculinity, and low scores of uncertainty avoidance, appeared to increase entrepreneurship.⁶⁰ However, they also noted that other researchers had found contrary indications with regard to some of the cultural dimensions and concluded that the

“Entrepreneurship: Economic and cultural influences on the entrepreneurial climate”, *European Research*, 13(4) (1985), 10–17.

⁵⁵ S. Mueller and A. Thomas, “Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness”, *Journal of Business Venturing*, 16 (2000), 51-75, 58.

⁵⁶ *Id.* at 59.

⁵⁷ W. Baumol, “Entrepreneurship: productive, unproductive, and destructive”, *Journal of Political Economy*, 98(5) (1990), 893–921; S. Shane, “Uncertainty avoidance and the preference for innovation championing roles”, *Journal of International Business Studies*, 26(1) (1995), 47–68; A. Shapero and L. Sokol, “The social dimensions of entrepreneurship”, in K. Vesper, (Ed.): *Encyclopedia of Entrepreneurship* (Englewood Cliffs, NJ: Prentice Hall, 1982), 72–90.

⁵⁸ R. Bouncken, J. Zagvozdina and A. Golze, “A comparative study of cultural influences on intentions to found a new venture in Germany and Poland”, *International Journal of Business and Globalisation*, 3(1) (2009), 47-65, 51-52.

⁵⁹ M. Erez and P. Earley, *Culture, Self-Identity, and Work* (New York: Oxford University Press, 1993).

⁶⁰ R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115–135.

direction of the influence of culture uncovered in the research community has often been somewhat unclear and conflicting.⁶¹

As noted above, McGrath et al. found that a high score on power distance appeared to increase entrepreneurship⁶²; however, several other researchers have found that a high score on that cultural dimension actually decreased entrepreneurship.⁶³ The hypothesis that low power distance is more conducive to entrepreneurship appears to be supported by other studies relating to some of the organizational characteristics associated with increased levels of innovativeness, often mentioned as a core element of entrepreneurship. For example, it is well accepted that innovation is more likely to occur in organic organizational structures, which feature lower power distance, than in higher power distance mechanistic structures.⁶⁴ In addition, greater equality of prestige, rewards and social power has been found to increase innovation.⁶⁵ Finally, it has been observed that decentralization, which is associated with low power distance, promotes innovation because upper and lower level staff members are able to communicate more easily.⁶⁶ On balance, it appears that cross-cultural research should identify differences between low and high power distance countries with respect to entrepreneurial motivations, with high power distance having a negative impact on such motivations.⁶⁷

⁶¹ See, e.g., R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115–135; L. Busenitz and C. Lau, “A cross-cultural cognitive model of venture creation”, *Entrepreneurship: Theory and Practice*, 20(4) (1996), 25–39; R. Mitchell, B. Smith, K. Seawright and E. Morse, “Cross-cultural cognitions and the venture creation decision”, *Academy of Management Journal*, 43(5) (2000), 974–993; M. Morris, D. Davis and J. Allen, “Fostering corporate entrepreneurship – cross-cultural comparisons of the importance of individualism versus collectivism”, *Journal of International Business Studies*, 25(1) (1994), 65–89; and S. Takyi-Asiedu, “Some socio-cultural factors retarding entrepreneurial activity in sub-Saharan Africa”, *Journal of Business Venturing*, 8(2) (1993) 91–98. The discussion of the various cultural dimensions herein assumes familiarity with the topic, which is introduced and discussed in “Globalization: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

⁶² R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115–135.

⁶³ See, e.g., M. Aiken and J. Hage, “The organic organization and innovation”, *Sociology*, 5(1) (1971), 63–82; T. Burns and G. Stalker, *The Management of Innovation* (London: Tavistock, 1961); J. Thompson, *Organizations in Action* (New York: McGraw-Hill, 1967); and G. Zaltman, R. Duncan and J. Holbek, *Innovations and Organizations* (New York: A Wiley-Interscience Publication, 1973).

⁶⁴ T. Burns and G. Stalker, *The Management of Innovation* (London: Tavistock, 1961).

⁶⁵ Id. The relative “equality” associated with a low power distant environment also increase opportunities for the formation of coalitions that are useful in combining the resources required for innovation. See, e.g., J. Thompson, *Organizations in Action* (New York: McGraw-Hill, 1967).

⁶⁶ H. Aldrich, *Organizations and Environments* (Englewood Cliffs, NJ.: Prentice Hall, 1979); and M. Aiken and J. Hage, “The organic organization and innovation”, *Sociology*, 5(1) (1971), 63–82. Other researchers have also found that the more innovative organizations in surveys conducted in the US and Japan were those that created mechanisms for freer communications throughout the organization. See, e.g., S. Shane, “Cultural influences on national rates of innovation”, *Journal of Business Venturing*, 1993, 59–73; and J. Thompson, *Organizations in Action* (New York: McGraw-Hill, 1967).

⁶⁷ R. Bouncken, J. Zagvozdina and A. Golze, “A comparative study of cultural influences on intentions to found a new venture in Germany and Poland”, *International Journal of Business and Globalisation*, 3(1) (2009), 47–65, 51.

There are a number of indicators that individualism should be positively associated with entrepreneurial activities and, in fact, researchers have uncovered evidence that higher levels of individualism in an entrepreneur increase the chances of his or her success.⁶⁸ McGrath et al. found that a high societal culture score on individualism appeared to increase entrepreneurship in that society.⁶⁹ Individualistic societies tend to be nurturing environments for several of the individual personality traits thought to be positively associated with a bent for entrepreneurship. For example, Shane found that autonomy and independence are more common in individualistic societies⁷⁰ and studies have confirmed that these traits are found more frequently among entrepreneurs than non-entrepreneurs.⁷¹ In addition, Mueller and Thomas speculated, based on several research studies, that: “. . . [s]ince individualistic cultures are more supportive of individual action and more tolerant of independent action than are collectivist cultures, we would expect that an internal locus of control orientation would be less prevalent in collectivist cultures than in individualistic cultures”.⁷² However, researchers have suggested that the traditional approach of a single dimension with individualism and collectivism at opposite ends of the pole should be modified to take into account that both individualism and collectivism are necessary for successful entrepreneurship⁷³ and, in fact, studies have shown that collectivism increases motivation to form new ventures and also facilitates the team-based entrepreneurship that often eases the path to innovation.⁷⁴

McGrath et al. found that low scores of uncertainty avoidance appeared to increase entrepreneurship.⁷⁵ In turn, Dwyer et al. found that a person’s intent to engage in new venture creation will be negatively influenced by things such as uncertainty avoidance

⁶⁸ R. Peterson, “Entrepreneurship and organization”, in P. Nystrom and W. Starbuck (Eds.), *Handbook of Organizational Design* (Oxford, UK: Oxford University Press, 1980).

⁶⁹ R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115–135.

⁷⁰ S. Shane, “Why do some societies invent more than others?”, *Journal of Business Venturing*, 7(1) (1992), 29–46.

⁷¹ For extensive discussion of the various “trait” theories of entrepreneurship, see “Motivational Traits of Prospective Entrepreneurs” in “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

⁷² S. Mueller and A. Thomas, “Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness”, *Journal of Business Venturing*, 16 (2000), 51-75, 60 (including citations). Research has generally confirmed that firm founders are more “internal” than the general public with regard to locus of control.

⁷³ R. Bouncken, J. Zagvozdina and A. Golze, “A comparative study of cultural influences on intentions to found a new venture in Germany and Poland”, *International Journal of Business and Globalisation*, 3(1) (2009), 47-65, 52 (citing J. Tiessen, “Individualism, collectivism and entrepreneurship: a framework for international comparative research”, *Journal of Business Venturing*, 12(5) (1997), 367–384).

⁷⁴ Id. (citing S. Shane, “Why do some societies invent more than others?”, *Journal of Business Venturing*, 7(1) (1992), 29–46; and S. Shane, “Cultural influences on national rates of innovation”, *Journal of Business Venturing*, (1993), 59–73).

⁷⁵ R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists – an exploratory analysis of cultural-differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115–135.

and the fear of overcoming new and unfamiliar barriers (e.g., technological bureaucracy).⁷⁶ Mueller and Thomas speculated that “[s]ince low uncertainty avoidance cultures are more accepting of non-traditional behaviors, it follows that entrepreneurs in those contexts enjoy greater freedom and legitimacy than their counterparts in high uncertainty avoidance cultures where the ‘deviance’ of entrepreneurs would be viewed with suspicion”.⁷⁷ Tuunanen et al. found that preferences for innovation among entrepreneurs were higher among entrepreneurs in the US, a relatively low uncertainty avoidance country, than among entrepreneurs in Finland, a relatively high uncertainty avoidance country.⁷⁸ Shane tested the “per capita rate of innovation” among 33 countries and concluded that the rate declined as uncertainty avoidance increased.⁷⁹

Mueller and Thomas conducted a multi-cultural survey of third- and fourth-year university students in nine countries to analyze the relationship between two common cultural dimensions, individualism-collectivism and uncertainty avoidance, and internal locus of control and innovativeness, two traits that are often associated with entrepreneurial potential.⁸⁰ As they had expected, the results confirmed that “some cultures are more conducive for entrepreneurship than others”.⁸¹ Specifically, they found that an increased likelihood on internal locus of control orientation in individualistic cultures and also found that what they referred to as “entrepreneurial orientation”, defined as a combination of internal locus of control and innovativeness, was more likely to be found in individualistic, low uncertainty avoidance cultures than in collectivistic, high uncertainty avoidance cultures. Mueller and Thomas argued that their results provided support for the notion that creating a “supportive” societal culture may have positive benefits for increasing entrepreneurial potential and suggested that business training efforts include not only technical areas but also lessons that assist prospective entrepreneurs in realizing and cultivating psychological characteristics such as self-reliance, independent action, creativity and flexible thinking. Mueller and Thomas conceded that other traits associated with entrepreneurial behavior and not included in their study could also have an important impact and that other contextual factors (e.g., other dimensions of societal culture, educational systems, political economy and stage of economic development) should also be integrated into expanded investigations.

⁷⁶ S. Dwyer, H. Mesak and H. Maxwell, “An exploratory examination of the influence of national culture on cross-national product diffusion”, *Journal of International Marketing*, 13(2) (2005), 1–28.

⁷⁷ S. Mueller and A. Thomas, “Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness”, *Journal of Business Venturing*, 16 (2000), 51-75, 61.

⁷⁸ M. Tuunanen and K. Hyrsky, “Innovation preferences among Finnish and U.S. entrepreneurs”, *Academy of Entrepreneurship Journal*, 3(1) (1997), 1–11.

⁷⁹ S. Shane, “Cultural influences on national rates of innovation”, *Journal of Business Venturing*, 8 (1993), 59–73 (innovation rates determined by reference to number of trademarks granted to nationals of the 33 countries included in the survey). See also S. Shane, “Uncertainty avoidance and the preference for innovation championing roles”, *Journal of International Business Studies*, 26(1) (1995), 47–68.

⁸⁰ S. Mueller and A. Thomas, “Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness”, *Journal of Business Venturing*, 16 (2000), 51-75. While students in 15 countries were surveyed the cultural analysis was limited to those nine countries within that group that were in 1980 survey conducted by Hofstede: the United States, Croatia and Slovenia (former Yugoslavia), Canada, Ireland, Belgium, Germany, Singapore and China (PRC).

⁸¹ *Id.* at 52.

Bouncken et al. set out to “investigate the cultural antecedents of new venture generation” by focusing on several cultural dimensions, power distance, individualism and collectivism, and searching for differences in cultural influences on entrepreneurship between Germany and Poland.⁸² They concluded that their hypothesis that influences on entrepreneurship across cultures was supported by Germany and Poland. For example, Bouncken et al. surveyed a sample of 450 MBA students in the two countries and found that among German students power distance, which is lower in Germany than in Poland, had a negative impact on entrepreneurial motivation while the same cultural dimension had a positive impact among Poles. Bouncken et al. speculated that the results for the Germans, which were consistent with prior research on the relationship of power distance to entrepreneurship, was due to individuals in that country being more comfortable with being subordinates in organizations with less power distance across organizational levels. On the other hand, people in Poland, weary of hierarchical constraints created by long-standing political conditions, might have a strong desire to break these old ties and increase their social status and freedom through entrepreneurship. Bouncken et al. also found differences between Germany and Poland with respect to the influence of individualism and collectivism, which they believed were best treated as two separate dimensions rather than points on a continuum of a single dimension for purposes of entrepreneurship, on both motivation to form a new venture and actual intention to form a new venture.⁸³ Finally, Bouncken et al. noted that although motivation to engage in entrepreneurship influenced intent to form a new venture in each country, the likelihood of new venture formation was influenced by non-cultural factors such as the economic environment and that this led to a finding that the likelihood of new venture formation was higher in Germany than in Poland.

Hyrsky et al. compared entrepreneurial behavior between entrepreneurs and small business owners in the US and Finland, with a specific focus on two personality traits generally associated with potential for entrepreneurship: “innovativeness” and “risk taking”.⁸⁴ Their results showed that the respondents from the US scored higher on both “risk taking” propensity and on innovation than their counterparts in Finland. Another

⁸² R. Bouncken, J. Zagvozdina and A. Golze, “A comparative study of cultural influences on intentions to found a new venture in Germany and Poland”, *International Journal of Business and Globalisation*, 3(1) (2009), 47-65. The authors noted that the cultural profiles of the two countries based on Hofstede’s four cultural dimensions were as follows: power distance—Germany “low” and Poland “high”; uncertainty avoidance—both “high”; individualism-collectivism—Germany “individualist” and Poland “collectivist”; and masculine-feminine: both “masculine”. *Id.* at 50.

⁸³ Bouncken et al. commented that collectivism is important to certain aspects of successful entrepreneurship such as leveraging resources internally, establishing external ties and effective teamwork among members of a group involved in launching a new venture. They noted that their results for Poland, a “collectivist” society as opposed to the “individualism” associated with Germany, explicitly identified the positive impact of collectivism as a motivator for entrepreneurship and thus suggested that it was best for “research to move from the single dimensional measures of individualism to two dimensional measures of individualism and collectivism”. *Id.* at 60-61.

⁸⁴ K. Hyrsky, M. Tuunanen and M. Koiranen, “Innovativeness and Risk-taking Propensity: A Cross-Cultural Study of Finnish and U.S. Entrepreneurs and Small Business Owners”, lta.hse.fi/1999/3/lta_1999_03_s2.pdf [accessed March 22, 2012]

interesting finding was that while US founders of their own businesses scored higher on risk taking than those US respondents who had purchased or inherited their businesses (referred to as “non-founders” by Hyrsky et al.) the situation in Finland was reversed with non-founders scoring higher on risk taking than Finns who founded their own businesses. The countries scored the same with respect to several other issues. For example, in the combined sample of US and Finnish respondents the females had higher levels of innovation preference than the males but males scored significantly higher than females with respect to risk taking. In addition, in both the US and Finland the respondents who scored highest on innovativeness and risk taking were more likely to take the time to create formal, written plans for developing and growing their businesses. Finally, in both countries there was a correlation between innovativeness and risk taking on the one hand and an orientation toward pursuing profits and growth as opposed to simply earning family income.

Another study by Abbey focused on identifying differences between entrepreneurs in the US, generally recognized as a highly individualistic societal culture, and the relatively collectivist society of Ghana.⁸⁵ The survey results uncovered statistically significant differences were found between the entrepreneurs in the two countries on entrepreneurial motivations such as the desire for independence, need for economic security, social standing and opportunity to contribute; however, no difference between entrepreneurs in the US and Ghana were found on other entrepreneurial motivational factors such as the desire for recognition, innovativeness and challenge. Abbey cited his results as confirmation that certain motivational factors may be common to entrepreneurs from different cultural backgrounds (i.e., “universal”) and that there are also differences between countries caused by differences in the cultural frame of reference of the entrepreneurs in those countries. Abbey observed that recognition of cultural differences is important for policymaking creating economic development policies for collectivist societies such as Ghana since those policies are not likely to be effective if they are based on a Western model that solely or heavily encourages individualist values such as individual initiative and need for individual achievement. Abbey urged policymakers to “focus on how to use the cultural orientation of the people to foster entrepreneurship”.⁸⁶

§10 --Universality and cultural specificity of entrepreneurial cognitions

⁸⁵ A. Abbey, “Cross-Cultural Comparison of the Motivation for Entrepreneurship”, *Journal of Business and Entrepreneurship*, 14(1) (2002), 69-82. The researcher noted that Ghana’s place as a more collectivist society on the Hofstede individualism-collectivism scale was consistent with other countries in West Africa where there is a strong emphasis on extended familial relationships and traditional values that persist even in the face of the influences of modernization. See, e.g., R. Sadowsky, *The Things We Lose* (Columbia, MO: University of Missouri Press, 1989); and J. McFadden and K. Gbekobou, “Counseling African children in the United States”, *Elementary School Guidance and Counseling*, 18 (1984), 223-230. The researcher conducted his own assessment among the respondents in his survey to confirm the differences between the two groups of entrepreneurs on various indicators used to measure placement on the individualist-collectivist pole.

⁸⁶ A. Abbey, “Cross-Cultural Comparison of the Motivation for Entrepreneurship”, *Journal of Business and Entrepreneurship*, 14(1) (2002), 69-82.

As noted above, there appears to be little opposition to the notion that societal culture plays an important role in entrepreneurial activity.⁸⁷ However, as in other areas of leadership and management studies, “universality” has long been debated among scholars and researchers involved in international studies of entrepreneurship and the evidence has been inconclusive as to whether or not there are universal reasons for entrepreneurship. Mitchell et al., for example, suggested that some part of entrepreneurial thinking may be “universal” due, in part to the increasing similarity of the global environment for business and the need for entrepreneurs everywhere to confront and overcome many of the same challenges along the road to new venture creation.⁸⁸ Other researchers, however, have cautioned that any “universal” values and norms attributed to entrepreneurs must be tempered by culture-specific values and norms that heavily influence behaviors in particular countries.⁸⁹ Accordingly, while there seems to be a growing consensus that entrepreneurship is an important driving force for new infrastructure, technology and job creation around the world⁹⁰, the development of a new global system based on entrepreneurship will be impacted by both cultural homogenization and cultural clashes.⁹¹

Researchers have conducted studies in multiple countries in an effort to identify reasons for new business formation and have found indications that entrepreneurs in many countries act out of needs for approval, personal wealth, personal development, independence, social status and escape.⁹² A study conducted by McGrath et al. provided support for the idea that entrepreneurs share a common set of values despite differences in cultural background.⁹³ Shane et al. identified the "desire for job freedom" as a

⁸⁷ See, e.g., D. Huisman, “Entrepreneurship: Economic and cultural influences on the entrepreneurial climate”, *European Research*, 13(4) (1985), 10-17; and D. Wittman, “Why democracies produce efficient results”, *Journal of Political Economy*, 97(6) (1989), 1395-1424.

⁸⁸ R. Mitchell, B. Smith, K. Seawright and E. Morse, “Cross-cultural cognitions and the venture creation decision”, *Academy of Management Journal*, 43(5) (2000), 974-993. Other researchers have found similarities across countries with respect to certain predictors of success of small firms including staffing, level of education and use of professional advice and planning. R. Lussier and S. Pfeifer, “A Cross-National Prediction Model for Business Success”, *Journal of Small Business Management*, July 1, 2001 (comparing small firms in the US and in Central Eastern Europe).

⁸⁹ L. Busenitz, C. Gomez and J. Spencer, “Country institutional profiles: Unlocking entrepreneurial phenomena”, *Academy of Management Journal*, 43(5) (2000), 994-1003.

⁹⁰ S. Arzeni, “Entrepreneurship and job creation”, *The OECD Observer*, Dec 1997/Jan 1998, 18-20; T. Bates and C. Dunham, “Asian-American success in self-employment”, *Economic Development Quarterly*, 7(2) (1993), 199-214; and P. McDougall and B. Oviatt, “International entrepreneurship literature in the 1990s and directions for future research” in D. Sexton and R. Smilor (Eds.), *Entrepreneurship 2000* (Chicago: Upstart Publishing, 1997), 291-320.

⁹¹ R. King and T. Craig, “Asia and global popular culture: The view from He Yong's garbage dump” in R. King and T. Craig (Eds.), *Global goes local: Popular culture in Asia* (Vancouver: UBC Press, 2002), 1-11.

⁹² D. Ray and D. Turpin, “Factors influencing entrepreneurial events in Japanese high tech venture business” in N. Churchill et al. (Eds.), *Frontiers of Entrepreneurship Research* (Wellesley, MA: Babson College, 1987); and S. Scheinberg and I. MacMillan, “An eleven-country study of the motivation to start a business”, in B. Kirchoff, W. Long, W. McMullan, K. Vesper and W. Wetzel (Eds.), *Frontiers of Entrepreneurship Research* (Wellesley, MA: Babson College, 1988).

⁹³ R. McGrath, I. MacMillan and S. Scheinberg, “Elitists, risk-takers, and rugged individualists? An exploratory analysis of cultural differences between entrepreneurs and non-entrepreneurs”, *Journal of Business Venturing*, 7(2) (1992), 115-135.

universal reason for new business formation.⁹⁴ A study of entrepreneurs in the US and Ghana led Abbey to conclude that it was likely that “desire for independence” was a universal reason for new business formation.⁹⁵ However, other results from the same study caused Abbey to conclude that there are also differences between countries caused by differences in the cultural frame of reference of the entrepreneurs in those countries. Shapero and Sokol also observed that entrepreneurial activity varies from society to society because of cultural beliefs about entrepreneurship.⁹⁶

One interesting exploration of universality versus culture-specificity was grounded in entrepreneurial cognition research, which focuses on identifying and analyzing entrepreneurs’ distinctive ways of thinking as a way of addressing issues related to the entrepreneurship phenomena.⁹⁷ Entrepreneurial cognitions have been shown to be useful in explaining a number of aspects of entrepreneurial activity including, for example, differentiation between entrepreneurs and non-entrepreneurs⁹⁸; opportunity identification⁹⁹; success in the start-up process¹⁰⁰; and making the venture-creation decision.¹⁰¹ Specifically, Mitchell et al. conducted a comprehensive study of 990 entrepreneurs and business managers in eleven countries, including the members of what was then known as the “G7” (i.e., the US, Canada, the United Kingdom, Germany, France, Italy and Japan) and four Pacific Rim countries—Australia, Chile, Mexico and China.¹⁰² The researchers explained that they had identified two cognitive scripts of entrepreneurs, which were generally referred to as “entry” and “doing”.¹⁰³ The “entry” phase required attention to making “arrangements” for embarking on the entrepreneurial

⁹⁴ S. Shane, L. Kolvereid and P. Westhead, “An exploratory examination of the reasons leading to new firm formation across country and gender (Part 1)”, *Journal of Business Venturing*, 6(6) (1991), 431-446.

⁹⁵ A. Abbey, “Cross-Cultural Comparison of the Motivation for Entrepreneurship”, *Journal of Business and Entrepreneurship*, 14(1) (2002), 69-82.

⁹⁶ A. Shapero and L. Sokol, “The social dimensions of entrepreneurship”, in C. Kent, D. Sexton and K. Vesper (Eds.), *Encyclopedia of Entrepreneurship* (Englewood Cliffs, NJ: Prentice Hall, 1982), 72-88.

⁹⁷ M. Ho and M. Wilson, “Cognitive Mapping Methodologies for Entrepreneurial Cognition Research”, <http://www.swinburne.edu.au/lib/ir/onlineconferences/agse2008/000022.pdf> [Accessed March 31, 2012] For further discussion of the “cognitive view” of entrepreneurship, see D. Meyer, W. Gartner and S. Venkataraman, “The research domain of entrepreneurship”, *Entrepreneurship Division Newsletter*, 15 (2000), 6; H. Stevenson and J. Jarillo, “A paradigm of entrepreneurship: Entrepreneurial management”, *Strategic Management Journal*, 11 (1990), 17-27; and S. Venkataraman, “The distinctive domain of entrepreneurship research” in J. Katz (Ed.), *Advances in entrepreneurship, firm emergence and growth* (Vol. 3) (Greenwich, CT: JAI Press, 1997), 119-138.

⁹⁸ R. Baron, “Cognitive mechanisms in entrepreneurship: Why and when entrepreneurs think differently than other people”, *Journal of Business Venturing*, 13 (1998), 275-294.

⁹⁹ N. Krueger, “The cognitive infrastructure of opportunity emergence”, *Entrepreneurship Theory and Practice*, 24(3) (2000), 5-23.

¹⁰⁰ E. Gatewood, K. Shaver and W. Gartner, “A longitudinal study of cognitive factors influencing start-up behaviors and success at venture creation”, *Journal of Business Venturing*, 10(5) (1995), 371-391.

¹⁰¹ R. Mitchell, B. Smith, K. Seawright and E. Morse, “Cross-cultural cognitions and the venture creation decision”, *Academy of Management Journal*, 43(5) (2000), 974-993.

¹⁰² R. Mitchell, J. Smith, E. Morse, A. Peredo and B. McKenzie. “Are entrepreneurial cognitions universal? Assessing entrepreneurial cognitions across cultures”, *Entrepreneurship Theory and Practice*, 26.4 (2002), 9-32.

¹⁰³ J. Leddo and R. Abelson, “The nature of explanations” in J. Galambos, R. Abelson and J. Black (Eds.), *Knowledge structures* (Hillsdale, NJ: Lawrence Erlbaum Associates, 1986), 103-122.

activities. Once those arrangements have been completed, the entrepreneur then moves to the “doing” phase which requires that the entrepreneur have the “willingness” and the “ability” to take the actions necessary to achieve the goal of successfully engaging in the entrepreneurial activities. Mitchell et al. briefly described the three conditions, mindsets and skills that must be present in order for entrepreneurship to be successful as follows:

- **Arrangements:** Arrangements include seeking and finding a supportive environment in relation to an opportunity and organizing the resources available from that environment (e.g., capital, social networks (i.e., contacts and relationships), plant and equipment, labor, etc.) that would allow the entrepreneur to capitalize on the opportunity.¹⁰⁴
- **Willingness:** Willingness includes a commitment to venturing and receptivity to the idea of starting a new venture¹⁰⁵, readiness to commit¹⁰⁶, motivation to seek an opportunity¹⁰⁷ and eagerness to act versus missing an opportunity.¹⁰⁸
- **Ability:** Ability refers to the knowledge structures or scripts¹⁰⁹ that individuals have to support the capabilities, skills, knowledge, norms, and attitudes required to create a venture¹¹⁰ and recognize, capture and protect an opportunity.¹¹¹

Mitchell et al. assumed that high arrangements cognitions were threshold conditions for entrepreneurship and then went on to suggest the following four entrepreneurial archetypes based on the levels of the other two cognitive categories—willingness and ability:

- **Dangerous:** This archetype included individuals who had high levels of arrangement and willingness but low levels of ability which ultimately created a high risk that the new venture would fail.
- **Professionals:** This archetype included individuals with high levels of arrangements, willingness and ability cognitions, which made them to be more likely than any of the

¹⁰⁴ K. Vesper, *New venture experience* (Seattle, WA: Vector Books, 1996); and R. Mitchell, B. Smith, K. Seawright and E. Morse, “Cross-cultural cognitions and the venture creation decision”, *Academy of Management Journal*, 43(5) (2000), 974-993.

¹⁰⁵ Id.

¹⁰⁶ P. Ghemawat, *Commitment: The dynamics of strategy* (New York: The Free Press, 1991); and R. Hisrich and A. Jankowicz, “Intuition in venture capital decisions: An exploratory study using a new technique”, *Journal of Business Venturing*, 5(1) (1990), 49-62.

¹⁰⁷ I. Kirzner, “The theory of entrepreneurship in economic growth” in C. Kent, D. Sexton and K. Vesper (Eds.), *Encyclopedia of entrepreneurship* (Englewood Cliffs, NJ: Prentice Hall, 1982), 272-276; and N. Krueger and D. Brazeal, “Entrepreneurial potential and potential entrepreneurs”, *Entrepreneurship Theory and Practice*, 19 (Spring, 1994), 91-104.

¹⁰⁸ D. Sexton and N. Bowman-Upton, “The entrepreneur: A capable executive and more”, *Journal of Business Venturing*, 1(1) (1985), 129-140.

¹⁰⁹ R. Glaser, “Education and thinking”, *American Psychologist*, 39 (1984), 93-104.

¹¹⁰ R. Mitchell, B. Smith, K. Seawright and E. Morse, “Cross-cultural cognitions and the venture creation decision”, *Academy of Management Journal*, 43(5) (2000), 974-993.

¹¹¹ H. Stevenson, M. Roberts and H. Grousbeck, *New business ventures and the entrepreneur* (Homewood, IL: Irwin, 1994).

other archetypes to be successful in their new venture activities due to their higher relative levels of expertise and experience.

- Arrangers: This archetype included individuals with low levels of both of the "doing" cognitions—willingness and ability—which meant that while they are likely to possess a protectable niche they would not be actively seeking other opportunities.
- Conservatives: This archetype included individuals have relatively higher levels of arrangements and ability cognitions, but lower willingness cognitions. Individuals in this category tended to be extremely careful about pursuing opportunities even though they had access to the necessary resources and the skills that are necessary to form a new venture to exploit an opportunity.

Using the framework discussed above, Mitchell et al. used their survey group to test several hypotheses. They found, for example, that it was universally true (i.e., true across all of the countries in the survey) that “entry” and “doing” differed between “professional” entrepreneurs and non-entrepreneurs. There was only mixed support for differences between the other entrepreneurial archetypes and non-entrepreneurs. In addition, they found that entrepreneurs could be differentiated into archetypes described in all of the countries in the survey, which they argued was evidence that entrepreneurs share a number of common cognitive constructs—an “entrepreneurial way of thinking”—regardless of the country in which they are operating.¹¹² However, evidence of cultural influence on entrepreneurial cognitions was also found in the form of country-based differences in the script content of the arrangements, willingness and ability cognitions of entrepreneurs and differences among countries with respect to the proportion of individuals populating a given entrepreneurial archetype. For example, entrepreneurs in the United States were observed to have higher Seeking Focus and Commitment Tolerance cognitions than entrepreneurs in Mexico, the United Kingdom, Germany, or France, and greater Resource Access cognitions than entrepreneurs in Mexico, Italy, Germany, and France. However, there were also some similarities such as Situational Knowledge, Venture Diagnostic Ability, and Opportunity Recognition, which indicates an important similarity in entrepreneurial cognitions.

The general conclusion seems to be that the search for universality is of limited utility and attempts to develop universal theories of business formation should be abandoned in favor of focusing on more robust models that acknowledge and accept culture-based differences among entrepreneurs, their organizations and the processes they follow to create new businesses.¹¹³ If this is true, researchers have a wide array of questions that need to be addressed including identifying and measuring just how cultural values influence entrepreneurial activity and the institutions that support entrepreneurship, a

¹¹² D. Meyer, W. Gartner and S. Venkataraman, “The research domain of entrepreneurship”, *Entrepreneurship Division Newsletter*, 15 (2000), 6; H. Stevenson and J. Jarillo, “A paradigm of entrepreneurship: Entrepreneurial management”, *Strategic Management Journal*, 11 (1990), 17-27; and S. Venkataraman, “The distinctive domain of entrepreneurship research” in J. Katz (Ed.), *Advances in entrepreneurship, firm emergence and growth* (Vol. 3) (Greenwich, CT: JAI Press, 1997), 119-138.

¹¹³ W. Gartner, “A conceptual framework for describing the phenomenon of new venture creation”, *Academy of Management Review*, 10(4) (1985), 696-706; and A. Gibb and J. Richie, “Understanding the process of starting small business”, *European Small Business Journal*, 1(1) (1982), 26-45.

topic discussed in more detail below. Another challenge is isolating and understanding the influence of cultural factors in the face of evidence that the level of entrepreneurship is also significantly related to other factors such as economic development and growth, the quality of the legal and regulatory environment, access to financing and other resources and the prevalence of informality.¹¹⁴

§11 Institutional environment and entrepreneurship

Several scholars have argued that the rate of new venture formation and growth is directly influenced by the institutional environment, both formal and informal, in which the venture is operating.¹¹⁵ New ventures, being both new and small, must struggle to gain legitimacy and survive in their external environment and one way to do that is to conform to the norms and practices that have been prescribed and sanctioned by the institutional environment. In many ways, the institutional environment limits the range of strategic options that are available to new ventures in a society¹¹⁶ and thus plays an important role in both the creation and destruction of entrepreneurial activities in that society.¹¹⁷ It is, therefore, not surprising that one area of comparative research with respect to international entrepreneurship is comparing the institutional environment of different societies as to their favorability for entrepreneurship. The need for this type of research is particularly compelling for emerging economies as they struggle to identify and implement policies that can promote economic development including policies to encourage entrepreneurs to form new ventures that hopefully create new jobs and contribute to an increase in overall economic welfare.¹¹⁸ In fact, several researchers have asserted that the rate and trajectory of entrepreneurial activities in emerging countries is significantly influenced by the institutional environment in those countries.¹¹⁹

¹¹⁴ L. Klapper, R. Amit and M. Guillén, *Entrepreneurship and Firm Formation across Countries* (Washington, DC: The World Bank Group, February 2008).

¹¹⁵ R. Eunni, "Institutional Environments for Entrepreneurship in Emerging Economies: Brazil vs. Mexico", *World Journal of Management*, 2(1) (March 2010), 1-18 (citing H. Hwang and W. Powell, "Institutions and Entrepreneurship" in Z. Acs and D. Audretsch (Eds.), *Handbook of entrepreneurship research*. (Norwell, MA: Kluwer, 2005), 179-210; D. Gnyawali and D. Fogel, "Environments for entrepreneurship development: Key dimensions and research implications", *Entrepreneurship Theory and Practice*, 18(4) (1994), 43-62; and H. Aldrich, "Using an ecological perspective to study organizational founding rates", *Entrepreneurship Theory and Practice*, 14(3) (1990), 7-24).

¹¹⁶ D. Ahlstrom and G. Bruton, "An institutional perspective on the role of culture in shaping strategic actions by technology-focused entrepreneurial firms in China", *Entrepreneurship Theory and Practice*, 26(4) (2002), 53-70; and W. Roy, *Socializing capital: The rise of the large industrial corporation in America* (Princeton, NJ: Princeton University Press, 1997).

¹¹⁷ H. Aldrich and G. Wiedenmayer, "From traits to rates: An ecological perspective on organizational foundings" in J. Katz and A. and Brockhaus (Eds.), *Advances in Entrepreneurship, Firm Emergence, and Growth* (Greenwich, CT: JAI Press, 1993), 145-195.

¹¹⁸ A. Wennekers and A. Thurik, "Linking entrepreneurship and economic growth", *Small Business Economics*, 13(1) (1999), 27-55; and W. Baumol, *The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism* (Princeton, NJ: Princeton University Press, 2002) (both observing that new venture creation leads to the creation of new jobs and economic welfare).

¹¹⁹ M. Peng and P. Heath, "The growth of the firm in planned economies in transformation: Institutions, organizations and strategic choice", *Academy of Management Review*, 21 (1996), 492-528; D. Ahlstrom and G. Bruton, "An institutional perspective on the role of culture in shaping strategic actions by

While North defined the “institutional framework” of a society as “the fundamental political, social and legal ground rules, which establish the basis for production and distribution”¹²⁰, Scott laid the foundation for meaningful comparison by suggesting that the formal and informal institutions that influence business can be categorized as follows: regulatory institutions, which include the formal system of laws and regulations which have been adopted and enforced in a given community, society or country; normative institutions, which include the commercial standards and conventions that have been established and recognized through professional and trade associations in a given community, society or country; and cognitive institutions, which encompass the culture-specific beliefs regarding socially appropriate behavior which are acquired by persons as they undergo the socialization process in the community, society or country.¹²¹ These categories served as the basis for the creation of a survey instrument by Busenitz et al. that has often been used as a means for measuring a country’s institutional profile.¹²² The survey items for the various categories, sometimes referred to as “dimensions”, included the following:

- **Regulatory:** The level of government assistance and special support to individuals looking to start their own business; the degree to which the government sets aside contracts for new and small businesses; the level of government sponsorship of organizations that assist in the development of new businesses; and the degree to which the government assist entrepreneurs who have failed in earlier business to start new businesses.
- **Cognitive:** The knowledge and skills possess by people in the country pertaining to establishing and operating a new business as indicated by the degree to which

technology-focused entrepreneurial firms in China”, *Entrepreneurship Theory and Practice*, 26(4) (2002), 53-70; D. Smallbone and F. Welter, “The distinctiveness of entrepreneurship in transition economies”, *Small Business Economics*, 16 (2001), 249-262; and D. Smallbone and F. Welter, “Conceptualizing entrepreneurship in a transition context”, *International Journal of Entrepreneurship and Small Business*, 3(2) (2006), 190-206.

¹²⁰ D. North, *Institutions, institutional change, and economic performance* (New York: Norton, 1990). In a later work, North commented that institutions “form the incentive structure of a society, and the political and economic institutions, in consequence, are the underlying determinants of economic performance” and then defined institutions as “the humanly devised constraints that structure human interaction . . . [t]hey are made up of formal constraints (such as rules, laws, constitutions), informal constraints (such as norms of behavior, conventions, self-imposed codes of conduct), and their enforcement characteristics”. D. North, *Economic Performance through Time*, *American Economic Review*, 84(3) (1994), 359–68, 360.

¹²¹ W. Scott, *Institutions and organizations* (Thousand Oaks, CA: Sage, 1995). Scott’s classification model has been adopted by a number of other researchers. See, e.g., D. Ahlstrom and G. Bruton, “An institutional perspective on the role of culture in shaping strategic actions by technology-focused entrepreneurial firms in China”, *Entrepreneurship Theory and Practice*, 26(4) (2002), 53-70; T. Kostova, “Country institutional profiles: Concept and measurement”, *Academy of Management Best Paper Proceedings*, 1997, 180-189; A. Parkhe, “Institutional environments, institutional change and international alliances”, *Journal of International Management*, 9 (2003), 305-316; and G. Bruton, V. Fried and S. Manigart, “Institutional influences on the worldwide expansion of venture capital”, *Entrepreneurship Theory and Practice*, 29 (2005), 737-760.

¹²² L. Busenitz, C. Gomez and J. Spencer, “Country institutional profiles: Unlocking entrepreneurial phenomena”, *Academy of Management Journal*, 43 (2000), 994-1003.

individuals know how to legally protect a new business; the degree to which entrepreneurs know how to cope with high levels of risk and manage those risks; and the availability of information regarding markets for products and services to be offered by new businesses.

- Normative: The degree to which entrepreneurship is an admired career path within the society; the degree to which innovative and creative thinking is valued and viewed as a route to success within the society; and the degree to which entrepreneurs are admired in the society.¹²³

Eunni used the survey instrument to study and compare the institutional environment for entrepreneurship in two emerging economies: Mexico and Brazil.¹²⁴ Eunni first concluded that the Busenitz et al. survey methodology, which was originally designed for industrialized economies, would also be valid for emerging economies in Latin America. Eunni went on to observe that the results of the surveys in the two countries included evidence of significant differences between them with respect to both the regulatory and cognitive dimensions, with Mexico performing much better on both of those dimensions than Brazil. When discussing the regulatory dimension, Eunni noted the importance of measuring the time and difficulty associated with starting a business, employing workers and registering property. With regard to the cognitive dimension, relevant factors might include religious beliefs and the influence of parents and other family members. Mexico also scored higher than Brazil with respect to its overall institutional profile; however, it was quite telling to see that while there were differences between the two countries neither of them were especially favorable to new venture creation.¹²⁵ Eunni recommended that the number of countries sampled be increased in the future to test and validate the survey instrument and cautioned that, of course, institutional environments can be expected to evolve as time goes by and that it is therefore necessary to conduct follow up surveys as policy initiatives are implemented.

The Global Entrepreneurship Monitor (“GEM”) is a partnership between the London Business School and Babson College that administers a comprehensive research program

¹²³ It should be noted, however, that when discussing the normative dimension a comparison of the institutional environment for entrepreneurship in Mexico and Brazil, Eunni included the role of industry and trade associations, formalization of recordkeeping and accounting requirements, the sophistication of local banking and insurance industries, support for new business incubation and the availability of funding for the promotion of innovation. R. Eunni, “Institutional Environments for Entrepreneurship in Emerging Economies: Brazil vs. Mexico”, *World Journal of Management*, 2(1) (March 2010), 1-18.

¹²⁴ Id. (citing H. Hwang and W. Powell, “Institutions and Entrepreneurship” in Z. Acs and D. Audretsch (Eds.), *Handbook of entrepreneurship research*. (Norwell, MA: Kluwer, 2005), 179-210; D. Gnyawali and D. Fogel, “Environments for entrepreneurship development: Key dimensions and research implications”, *Entrepreneurship Theory and Practice*, 18(4) (1994), 43-62; and H. Aldrich, “Using an ecological perspective to study organizational founding rates”, *Entrepreneurship Theory and Practice*, 14(3) (1990), 7-24).

¹²⁵ Eunni reported that for both countries the means of their scores were below “4” on the 7-point Likert scale and observed that the findings were consistent with how the countries fared in other studies such as the World Economic Forum’s Global Competitiveness Report (in 2008 Mexico ranked 60th and Brazil 64th among 134 surveyed countries on indicators of economic competitiveness) and the World Bank’s “Ease of Doing Business” rankings (in 2008 Mexico ranked 56th and Brazil ranked 125th among 181 surveyed countries). Id.

to produce annual assessments of national levels of entrepreneurial activity. The project was first launched in 1999, when it covered just ten countries, and has since grown to cover as many as 85 countries in subsequent years and is recognized as the largest ongoing study of entrepreneurial dynamics in the world. The main objectives of the GEM program are measurement of differences in the level of entrepreneurial activity between countries, uncovering the factors that lead to appropriate levels of entrepreneurship and making suggestions for policies that may lead to enhancement of national levels of entrepreneurial activity.¹²⁶

The GEM is based on a conceptual model of the institutional environment and its effect on entrepreneurship. The model recognizes the importance of the social, cultural and political context in which entrepreneurial activities occur and assumes that these contextual factors influence three sets of conditions: basic requirements, which include institutions, infrastructure, macroeconomic stability, health and primary education; “efficiency enhancers”, which include higher education, goods and labor market efficiency, financial market sophistication, technological readiness and market size; and the following “entrepreneurial framework conditions” (“EFCs”), which represent elements of the institutional environment for entrepreneurship in a particular country:

- Finance: The availability of financial resources—equity and debt—for small and medium enterprises (“SMEs”) (including grants and subsidies);
- Government policies: The extent to which taxes or regulations are either size-neutral or encourage SMEs;
- Government programs: The presence and quality of direct programs to assist new and growing firms at all levels of government (national, regional, municipal);
- Entrepreneurial education and training: The extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels (primary, secondary and post-school);
- R&D transfer: The extent to which national research and development will lead to new commercial opportunities and is available to SMEs;
- Commercial and professional infrastructure: The presence of property rights and commercial, accounting, and other legal services and institutions that support or promote SMEs;
- Entry regulation: Contains two components including “Market Dynamics”, which is the level of change in markets from year to year, and “Market Openness”, which is the extent to which new firms are free to enter existing markets;
- Physical infrastructure and services: Ease of access to physical resources—communication, utilities, transportation, land or space—at a price that does not discriminate against SMEs; and
- Cultural and social norms: The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income.

¹²⁶ For further discussion of the GEM, see “Research in Entrepreneurship” in “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

The study of the relationship of the institutional environment, regardless of how it is defined and measured, and entrepreneurship is part of the larger field of “new institutional economics” (“NIE”), which was pioneered by scholars, such as Coase, North and Williamson¹²⁷, who were interested in making sure that there was a recognition that “institutions matter” and that the structure and performance of institutions has a substantial influence on economic behavior. Work in NIE has included property rights analysis, transaction cost economics, public choice theory and comparative economic systems.¹²⁸ While there appears to be growing acceptance that institutions must be considered when developing and testing economic theories, particularly with respect to growth and development, the processes remain fairly new¹²⁹ and it has been observed that “the causality of the various links and channels of influence between the institutional set-up and development outcome is still not well or fully understood”.¹³⁰ It has also been acknowledged that the effectiveness of formal institutions and institutional change depends on other factors. For example, Milo noted that “[f]ormal rules must be securely nested in hospitable informal norms for them to function well, since it is the latter that legitimizes the former”.¹³¹ In addition, several scholars have cautioned that economic institutions must have the support of the appropriate political institutions in order to be effective.¹³² In fact, enlightened political leadership can make even ineffective economic institutions workable and Milo advised that “[t]here are times when it is preferable to work within the context of imperfect existing institutions, rather than use up political capital on long-term institutional reforms”.¹³³

While much time, effort and capital has been invested in institutional reform in both developed and developing countries the results have not always been what had been expected.¹³⁴ It seems clear that creating institutions is not sufficient and that growth and

¹²⁷ See, e.g., R. Coase, *The Nature of the Firm*, *Economica*, 4(4) (1937), 386–405; O. Williamson, *The Institutions of Governance*, *American Economic Review*, 88(2) (1998), 75–79; D. North, *Economic Performance through Time*, *American Economic Review*, 84(3) (1994), 359–68.

¹²⁸ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 18.

¹²⁹ J. Aron, “Growth and Institutions: A Review of the Evidence”, *The World Bank Research Observer*, 15(1) (2000), 99–135.

¹³⁰ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 19 (citing J. Jütting, *Institutions and Development: A Critical Review* (Paris: OECD Development Centre, Work Paper No. 210, 2003).

¹³¹ *Id.*

¹³² See, e.g., K. Chu, “Collective Values, Behavioural Norms and Rules: Building Institutions for Economic Growth and Poverty Reduction” in R. van der Hoeven and A. Shorrocks (Eds.), *Perspectives on Growth and Poverty* (Tokyo: United Nations University Press, 2003); F. Fukuyama, “Development and the Limits of Institutional Design”, Paper presented at the Seventh Annual Global Development Network Conference, St. Petersburg, 19–21 January 2006; and D. North, *Economic Performance through Time*, *American Economic Review*, 84(3) (1994), 359–68.

¹³³ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 19.

¹³⁴ For discussion of the role of institutions in establishing a platform for entrepreneurship that can lead to economic growth and development, see “Entrepreneurship in Developing Countries” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

economic development only follows when the institutions are “efficient” and “encourage individuals to engage in productive activities by providing appropriate incentives and establish a stable structure of human interactions, which reduce uncertainty”. Scholars have identified and defined two types of “efficiency” with respect to institutions. The first is “substantive efficiency”, which includes rules that promote allocative efficiency, and the second is “procedural efficiency”, which include rules designed to either reduce the cost or increase the accuracy of participating in and using the system of rules that form the institutions.¹³⁵ Milo has suggested that to achieve the institutional efficiency necessary for achieving development countries must have institutions “that promote exchange by lowering transaction costs and promoting trust . . . and [institutions] that induce the state to protect rather than expropriate private property”.¹³⁶ Institutions that are likely to have the desired effect of improving the efficiency and integrity of economic transactions include “contracts and contract enforcement mechanisms, commercial norms and rules, and habits and beliefs favoring shared values and the accumulation of human capital” and institutions that can be expected to contribute to the creation and protection of private property rights include “[c]onstitutions, electoral rules, laws governing speech and education, and legal and civic norms”.¹³⁷

§12 Innovation clusters and entrepreneurial ecosystems

Many believe that the first serious reference to geographic concentrations of interconnected companies—“clusters”—appeared in the work of Cambridge economist Alfred Marshall, who described “industrial districts” that arose from an observed tendency of specialized companies to cluster together to form geographic concentrations of expertise and economic activity.¹³⁸ Marshall viewed these tendencies positively and, in fact, wrote in 1890 about how “. . . great are the advantages which people following the same skilled trade get from near neighboring to one another. . .”.¹³⁹ Other economists built on Marshall’s initial theory by suggesting and adding other “necessary elements” for the creation and maintenance of “innovation clusters” including the importance of a “self-interested economic agents”, or “entrepreneurs”, willing to take on and attempt to overcome the risks associated with unproven technologies to seek substantial profits. According to Schumpeter, these entrepreneurs drove the process of transferring and transforming emergent technologies into new products, services and product models and creating new methods for organizing economic activities to establish new industries and

¹³⁵ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 19 (citing R. Posner, “Creating a Legal Framework for Economic Development”, *The World Bank Research Observer*, The World Bank, Washington DC, 1998.).

¹³⁶ *Id.*

¹³⁷ *Id.* at 20 (citing M. Shirley, “Institutions and Development” in C. Menard and M. Shirley, *Handbook of New Institutional Economics* (Dordrecht, Netherlands: Kluwer Academic Publishers, 2005)).

¹³⁸ L. Lazzeretti, S. Sedita and A. Caloffi, “Founders and Disseminators of Cluster Research”, *Journal of Economic Geography*, 14(1) (2014), 21.

¹³⁹ D. Dearlove, “The Cluster Effect: Can Europe Clone Silicon Valley?”, *Strategy+Business*, July 1, 2001 (citing A. Marshall, *Principles of Economics* (1890)).

markets.¹⁴⁰ Romer suggested that technological progress is driven by researchers searching for new ideas for innovations which can eventually provide them with monopoly profits.¹⁴¹

A century after Marshall's work Porter undertook an extension examination and analysis of business clusters and uncovered evidence of a strong positive relationship between the proximity of specialized companies and extraordinary competitive success.¹⁴² Dearlove provided the following description of how Porter painted the boundaries of clusters: "Professor Porter suggests that clusters encompass an array of linked industries and other entities important to competition, including suppliers of specialized inputs and providers of specialized infrastructure. Clusters also extend downstream to channels and customers and laterally to manufacturers of complementary products, and to companies in industries with common skills, technologies, or inputs. Clusters often include governmental and other institutions, such as universities, standard-setting agencies, and think tanks, as well as providers of specialized training, education, information, research, and technical support."¹⁴³ Porter famously observed that the importance of clustering contrasts dramatically with the idea that the emerging global economy is breaking down barriers and making location less important as a condition for becoming a "global player" and referred to what he called the "paradox of location": "Paradoxically, the enduring competitive advantages in a global economy lie increasingly in local things—knowledge, relationships, and motivation that distant rivals cannot match."¹⁴⁴

In recent years it has become increasingly popular to refer to innovation clusters as "entrepreneurial ecosystems", a concept that Mason and Brown discussed in 2013 as part of the broader question of what types of policy initiatives should be taken to promote the creation and maturation of high growth firms ("HGFs").¹⁴⁵ Mason and Brown cited the works of several researchers that supported the premise that HGFs have a significant impact on economic development. For example, the OECD and Brown et al. have reported that HGFs drive productivity growth, create new employment, increase innovation and promote business internationalization¹⁴⁶, and Henrekson and Johansson,

¹⁴⁰ For extensive discussion of Schumpeter's theories relating to "entrepreneurship", see J. Schumpeter, *Theory of Economic Development* (1949).

¹⁴¹ See D. Romer, *Endogenous Growth*, in *Advanced Macroeconomics* (4th Ed.) (2011), 101.

¹⁴² Porter explained his research and theories in a number of articles including M. Porter, "Clusters and the New Economics of Competition", *Harvard Business Review*, 76(6) (1998), 77; and M. Porter, "Location, Competition, and Economic Development: Local Clusters in a Global Economy", *Economic Development Quarterly*, 14(1) (2000), 16.

¹⁴³ D. Dearlove, "The Cluster Effect: Can Europe Clone Silicon Valley?", *Strategy+Business*, July 1, 2001.

¹⁴⁴ Id. (citing M. Porter, "Location, Competition, and Economic Development: Local Clusters in a Global Economy", *Economic Development Quarterly*, 14(1) (2000), 16).

¹⁴⁵ C. Mason and R. Brown, "Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship" November 7, 2013, International Workshop on Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship Organized by OECD LEED Programme and Dutch Ministry of Economic Affairs Workshop; Background Paper (Final Version: January 2014).

¹⁴⁶ Organisation for Economic Co-operation and Development, *An international benchmarking analysis of public programmes for high-growth firms* (OECD LEED programme, Paris, 2013); and R. Brown, C. Mason and S. Mawson, *Increasing the Vital 6%: Designing Effective Public Policy to Support High Growth Firms* (National Endowment for Science Technology & Arts (NESTA), London, 2014).

after conducting a meta-analysis of prior empirical studies, concluded that “a few rapidly growing firms generate a disproportionately large share of all net new jobs compared with non-high growth firms. This is a clear-cut result... [T]his is particularly pronounced in recessions when Gazelles continue to grow”.¹⁴⁷ Others have suggested that HGFs have important spill-over effects that are beneficial to the growth of other firms in the same locality and industrial cluster.¹⁴⁸

Mason and Brown noted that recognition of the disproportionate value of HGFs to economic development has led policymakers to consider adopting support programs for high growth entrepreneurship that are more “systems-based” and which rely mainly on “relational” forms of support including building connections and networks among entrepreneurs, prioritizing development of “blockbuster entrepreneurs” with significant economic potential and institutional alignment of priorities. A number of researchers have referred to the overall framework for providing this type of support as an “entrepreneurial ecosystem”¹⁴⁹, which Mason and Brown defined, based on their own synthesis of definitions throughout the relevant literature, as: “a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment.”¹⁵⁰ While Mason and Brown added that entrepreneurial ecosystems were geographically bounded, they noted that cities did not have to be a particular size to qualify and pointed to Austin, Texas and Boulder, Colorado in the US and Cambridge in England as examples of smaller cities that had been successful at developing what they referred to as “thriving entrepreneurial

¹⁴⁷ M. Henrekson and D. Johansson, “Gazelles as job creators: a survey and interpretation of the evidence”, *Small Business Economics*, 35 (2010), 227, 240.

¹⁴⁸ G. Mason, K. Bishop and C. Robinson *Business Growth and Innovation; The Wider Impact of Rapidly Growing Firms in UK City-Regions* (London: NESTA, 2009). [http://www.niesr.ac.uk/pdf/190509_94959.pdf]; J. Du, Y. Gong and Y. Temouri, *High Growth Firms and Productivity: Evidence from the UK* (London, NESTA, 2013). [http://www.nesta.org.uk/publications/working_papers/assets/features/high_growth_firms_and_productivity]; M. Feldman, J. Francis and J. Bercovitz, “Creating a Cluster While Building a Firm: Entrepreneurs and the Formation of Industrial Clusters”, *Regional Studies*, 39 (2005), 129-141; and R. Brown, “The determinants of high growth entrepreneurship in the Scottish food and drink cluster”, in G. Alsos, S. Carter, E. Ljunggren, & F. Welter (Eds.), *The handbook of research on entrepreneurship in agriculture and rural development* (Cheltenham: Edward Elgar, 2011).

¹⁴⁹ A. Zacharakis, D. Shepard and J. Coombs, “The development of venture-capital-backed internet companies: An ecosystem perspective”, *Journal of Business Venturing*, 18 (2003), 217; G. Napier and C. Hansen, *Ecosystems for Young Scaleable Firms* (FORA Group, 2011); and B. Feld, *Startup Communities: building an entrepreneurial ecosystem in your city* (Hoboken, NJ: Wiley, 2012).

¹⁵⁰ C. Mason and R. Brown, “Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship” November 7, 2013, International Workshop on Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship Organized by OECD LEED Programme and Dutch Ministry of Economic Affairs Workshop; Background Paper (Final Version: January 2014), 5.

ecosystems”. Mason and Brown also explained that a system could emerge around one industry or evolve and expand to cover several industries.¹⁵¹

For researchers like Isenberg, an entrepreneurial ecosystem is a “strategy for economic development” that depends on several key factors or domains: a conducive culture, enabling policies and leadership, availability of appropriate finance, quality human capital, venture friendly markets for products, and a range of institutional supports.¹⁵² For their part, Mason and Brown argued that the distinguishing features of entrepreneurial ecosystems include “a core of large established businesses, including some that have been entrepreneur-led (entrepreneurial blockbusters); entrepreneurial recycling—whereby successful cashed out entrepreneurs reinvest their time, money and expertise in supporting new entrepreneurial activity; and an information-rich environment in which this information is both accessible and shared”.¹⁵³ Mason and Brown also believed that in order for entrepreneurial ecosystems to thrive there must be a group of “dealmakers” who are involved in a fiduciary capacity in several entrepreneurial ventures, ready availability of start-up and growth capital, and a supportive community of large firms, universities and service providers.¹⁵⁴ Others have suggested that an effective entrepreneurial ecosystem needs accessible domestic markets, including access to small and large companies and governments as customers; human capital, including managerial and technical talent and experience in launching and building knowledge-intensive firms; funding and finance; support systems, including mentors/advisors, professional services, incubators/accelerators and a network of entrepreneurial peers; regulatory framework and infrastructure; education and training; major universities as catalysts; and cultural support.¹⁵⁵

On a practical level, entrepreneurial ecosystems should be able to provide entrepreneurs with the resources and tools they need to launch their emerging companies, including networks that can be used to tap into the human resources necessary to build a founding team and recruit knowledge workers who can create and develop new products and services; professional investors (e.g., venture capitalists) and/or corporate partners with the capital necessary to support the product development activities of the founders and the expansion of the company to the point required for effective promotion and distribution of the product or service; professional and business advisors, including attorneys, accountants, bankers, insurance brokers and consultants; regulatory framework that facilitates creation of business entities and establishment of governance systems and allows entrepreneurs to create and protect an intellectual property rights portfolio; and

¹⁵¹ Id. at 5-6.

¹⁵² D. Isenberg, *The entrepreneurship ecosystem strategy as a new paradigm for economy policy: principles for cultivating entrepreneurship* (Babson Park, MA: Babson Entrepreneurship Ecosystem Project, Babson College, 2011), 4.

¹⁵³ C. Mason and R. Brown, “Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship” November 7, 2013, International Workshop on Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship Organized by OECD LEED Programme and Dutch Ministry of Economic Affairs Workshop; Background Paper (Final Version: January 2014), 1.

¹⁵⁴ Id.

¹⁵⁵ *Entrepreneurial Ecosystems around the Globe and Company Growth Dynamics: Report Summary for the Annual Meeting of the New Champions 2013* (World Economic Forum, September 2013).

strategic partners that can collaborate with the new firm as suppliers, customers, manufacturers, distributors and research and development partners.¹⁵⁶

As for the specific steps that should be taken to launch and stimulate entrepreneurial ecosystems, Mason and Brown argued that policymakers would need to focus on several dimensions including direct support of entrepreneurial actors through accelerators and incubators; development of entrepreneurial organizations and resource providers such as business angels, venture capital, banks, service providers, universities; creation of connectors within the ecosystem through public-private partnerships and alliances and peer-to-peer learning; and development and nurturing of an entrepreneurial environment or culture within the ecosystem through entrepreneurship education, role models, peer-to-peer networking and entrepreneurial recycling.¹⁵⁷ Mason and Brown noted while there was a role for governments to play in developing entrepreneurial ecosystems, they should limit their involvement to facilitation and leave the details to the private sector, experienced local entrepreneurs and/or leading local companies. Key to success would be the ability to create a local culture that was favorable to startup activity and which promoted and accepted entrepreneurial risk-taking. Experienced entrepreneurs could do their part by training, coaching and mentoring their prospective peers and local companies could contribute by allowing and encouraging spinoff of promising ideas into new firms. In many cases it will be necessary to provide training to both local entrepreneurs and investors on the financing process until such time as the ecosystem has a community of experienced angel and venture capital investors.

§13 Institutional environment and entrepreneurship in developing countries

There has been growing interest among researchers focusing on economic and social development in developing countries in the relationship between the institutional framework that exists in a country and the level and type of entrepreneurship practiced in that country. For example, when discussing the important and fundamental role that institutions play with respect to economic development, Acemoglu began by referring to the evidence from economic analysis that has confirmed that differences between countries with respect to prosperity and per capita income are strongly related to differences in the traditional factors of production: human capital, physical capital and technology.¹⁵⁸ He went on to argue that these findings raised a fundamental question for researchers: why is it that some countries have less human capital, physical capital and technology than other countries and/or make worse use of these factors than other

¹⁵⁶ For further discussion of the specific issues and challenges associated with launching an emerging company, as well as a description of the characteristics of such a firm, see the Part on “Launching a New Business” in “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

¹⁵⁷ C. Mason and R. Brown, “Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship” November 7, 2013, International Workshop on Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship Organized by OECD LEED Programme and Dutch Ministry of Economic Affairs Workshop; Summary Report.

¹⁵⁸ D. Acemoglu, Challenges for social sciences: institutions and economic development, http://www.aeaweb.org/econwhitepapers/white_papers/Daron_Acemoglu.pdf

countries (i.e., failure to identify and/or exploit entrepreneurial opportunities effectively)? Certainly some of the differences can be attributed to geographical differences or cultural factors; however, Acemoglu observed that “[i]nstitutions have emerged as a potential fundamental cause”.¹⁵⁹ In the same vein, Chu argued that countries that have achieved relative affluence in relation to others have done so in large part because they were able to establish and maintain “efficient” institutions while countries that have remained undeveloped have suffered from the lack of efficient institutions.¹⁶⁰ Milo described and analyzed several different institutional indicators and concluded that there was a positive relationship between economic performance and institutional quality among member countries of the ASEAN and noted, in particular, that the strong relative economic performance of countries such as Malaysia, Singapore and Thailand was consistent with their high scores on measures of institutional quality.¹⁶¹

Other scholars, while often using different definitions of “institutions”, have reached similar conclusions: “institutions explain economically and statistically significant differences in per capita incomes across countries”.¹⁶² Olson tackled the question of why there continued to be widely differing standards of living around the world if, in fact, markets everywhere were working efficiently.¹⁶³ He first investigated whether the variations among countries might be attributable to different resource endowments (i.e., poorer countries have problems with economic growth and social development because “they lack land and natural resources, physical and human capital, or access to the latest technology”¹⁶⁴). He systematically dismissed this proposition noting, for example, that there was evidence showing that knowledge was and is equally available to all countries at a reasonable cost, population density does not explain economic performance, capital flows are driven by the quality of institutions and there was no basis for assuming that citizens of richer countries were innately “smarter” than citizens of poorer countries. Olson thus concluded that “the large differences in per capita income across countries cannot be explained by differences in access to the world’s stock of productive knowledge or to its capital markets, by differences in the quality of marketable human capital or personal culture”.¹⁶⁵ Assuming this to be true, “[t]he only plausible explanation left is that differing performances are caused by differences in the quality of

¹⁵⁹ Id.

¹⁶⁰ K. Chu, “Collective Values, Behavioural Norms and Rules: Building Institutions for Economic Growth and Poverty Reduction” in R. van der Hoeven and A. Shorrocks (Eds.), *Perspectives on Growth and Poverty* (Tokyo: United Nations University Press, 2003).

¹⁶¹ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 23-29.

¹⁶² Id. at 20 (citing T. Eicher and A. Leukert, “Institutions and Economic Performance: Endogeneity and Parameter Heterogeneity”, Paper presented at the European Economic Association and Econometric Society Parallel Meetings, Vienna, 24–28 August 2006, 2).

¹⁶³ M. Olson, “Big Bills Left on the Sidewalk: Why Some Nations Are Rich, and Others Poor” in B. Powell (Ed.), *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford, CA: Stanford Economics and Finance, 2008), 25-53.

¹⁶⁴ B. Powell, “Introduction” in B. Powell (Ed.), *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford, CA: Stanford Economics and Finance, 2008), 1-22, 3.

¹⁶⁵ M. Olson, “Big Bills Left on the Sidewalk: Why Some Nations Are Rich, and Others Poor” in B. Powell (Ed.), *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford, CA: Stanford Economics and Finance, 2008), 25-53, 44.

countries' institutions and policies".¹⁶⁶ Olson predicted that poorer countries that elect to adopt better economic policies and institutions would enjoy higher rates of growth in per capita incomes in relation to richer countries because they were so far short of their potential prior to the adoption of the new policies and there was such a huge gap to close between actual and potential income in those countries.¹⁶⁷

Holcombe took a different approach by arguing that differences in economic performance of countries could be explained by the "entrepreneurial opportunities" that are available in those countries and that decentralized free economies are the ones that do the best job of generating more opportunities that can be seized for their profitability and which also continuously generate new opportunities that ultimately will create an "endogenous engine of economic growth".¹⁶⁸ He placed so much importance on the availability of entrepreneurial opportunities that he argued that often-used techniques for launching economic development such as encouraging investment in industrial activities and research and development, calling for increased savings and funding education would not, in and of themselves, be successful unless and until fundamental market reforms, including the creation and support of appropriate institutions, were made to facilitate creation of entrepreneurial opportunities. As an example, Holcombe pointed out that when developing countries have educated their citizens they often migrate to other countries due to lack of entrepreneurial opportunities in their homelands and pointed out that this sort of "brain drain" will continue until governments in those countries create and support institutions that are conducive to entrepreneurship.¹⁶⁹

It should be noted that there are some who have questioned the relationship between institutional development and entrepreneurship in developing countries. Lingelbach et al., whose studies of "what makes entrepreneurs in developing countries different" are described elsewhere in this chapter, argued that the data collected from studies of new- and growth-oriented firms in developing countries suggested "several important, but counterintuitive findings: freer, more competitive, poor countries are not correlated in a statistically significant way with higher levels of opportunity entrepreneurs; recent economic growth in a poor country is not correlated in a statistically significant way with higher levels of opportunity entrepreneurship; and protection of property rights and levels of corruption don't seem to matter either".¹⁷⁰ In spite of these assessments of the data,

¹⁶⁶ Id. Olson's article also includes citations to other studies that he and other conducted that provide "direct evidence of the linkage between better economic policies and institutions and better economic performance". Id. at 47.

¹⁶⁷ Id. at 45-46. Olson noted during the 1970s the fastest growing countries in the world (apart from the oil-exporting countries) were poorer countries that grew at rates that far exceeded the growth achieved by the US economy during that period. Id. A similar spree of spectacular growth rates, relative to industrialized countries, has been achieved in countries such as China and India in recent years.

¹⁶⁸ R. Holcombe, "Entrepreneurship and Economic Growth" in B. Powell (Ed.), *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford, CA: Stanford Economics and Finance, 2008), 54-78.

¹⁶⁹ Id. at 71.

¹⁷⁰ D. Lingelbach, L. De La Vina and P. Asel, *What's Distinctive about Growth-Oriented Entrepreneurship in Developing Countries?* (San Antonio, TX: UTSA College of Business Center for Global Entrepreneurship Working Paper No. 1, March 2005), 3.

the general consensus appears to be that institutions do matter; however, as they await institutional improvements small but growing numbers of entrepreneurs in developing countries are developing and implementing strategies to create successful businesses in spite of higher risks and uncertainties, difficulties in accessing financial and human capital and the absence of mentors and role models.

Setting the appropriate policies for promoting entrepreneurship in developing countries is not an easy task and policymakers have often failed mightily in their efforts and seen huge amounts of resources effectively wasted. Accepting the importance of institutions, notice should be taken of the advice of Milo, who suggested that to achieve the institutional efficiency necessary for achieving development countries must have institutions “that promote exchange by lowering transaction costs and promoting trust . . . and [institutions] that induce the state to protect rather than expropriate private property”.¹⁷¹ Institutions that are likely to have the desired effect of improving the efficiency and integrity of economic transactions include “contracts and contract enforcement mechanisms, commercial norms and rules, and habits and beliefs favoring shared values and the accumulation of human capital” and institutions that can be expected to contribute to the creation and protection of private property rights include “[c]onstitutions, electoral rules, laws governing speech and education, and legal and civic norms”.¹⁷²

¹⁷¹ M. Milo, *Integrated Financial Supervision: An Institutional Perspective for the Philippines* (Tokyo: Asian Development Bank Institute, ADBI Discussion Paper 81, 2007), 19.

¹⁷² *Id.* at 20 (citing M. Shirley, “Institutions and Development” in C. Menard and M. Shirley, *Handbook of New Institutional Economics* (Dordrecht, Netherlands: Kluwer Academic Publishers, 2005)).

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project (www.seproject.org). In addition, Alan's prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 40 books on sustainable entrepreneurship, management, business law and transactions, international law business and technology management for a number of publishers including Thomson Reuters, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, CCH and BNA. Alan has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Boalt Hall, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on a diverse range of topics including corporate finance, venture capital, corporate law, Japanese business law and law and economic development. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan, his publications or the Sustainable Entrepreneurship Project, please contact him directly at alanguutterman@gmail.com, and follow him on LinkedIn (<https://www.linkedin.com/in/alanguutterman/>).

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

Copyright Matters and Permitted Uses of Work

Copyright © 2018 by Alan S. Gutterman. Last Updated: May 2018. All the rights of a copyright owner in this Work are reserved and retained by Alan S. Gutterman; however, the copyright owner grants the public the non-exclusive right to copy, distribute, or display the Work under a Creative Commons Attribution-NonCommercial-ShareAlike (CC BY-NC-SA) 4.0 License, as more fully described at <http://creativecommons.org/licenses/by-nc-sa/4.0/legalcode>.