Towards An Institutional Theory Based Model of Entrepreneurship

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Abstract

Van Arkadie (1989:153) suggests that a future area of research is the possible impact of government moulding of the rules of the game on entrepreneurial initiatives. While not all would share the Schumpeterian view that entrepreneurship is central to capitalist development, entrepreneurial capacity is clearly important, and particular development successes seem to be associated with a concentration on entrepreneurial flair.

It is important to note that traditional views of entrepreneurship have emphasised psychological and economic models. Personality-based theories posit that people’s special personality traits make them prone to behaving and succeeding as entrepreneurs. Economic models, on the other hand, assume that with clear goals and all the required information, a person makes a decision to engage in self-employment. The motivated person scans the market and chooses a niche that will maximise his or her returns on assets invested in the business. These economic theories try to explain entrepreneurship on the basis of economic rationality and profit maximisation assumptions (Veciana, 1999:9). Although both views explain entrepreneurship activity, neither can explain it holistically. It is important to also view entrepreneurship activity in the context of the socio-cultural environment—the norms, values, and structures in society, taking into account regional and cultural differences (Co, 1999).

It is important to view entrepreneurship from a broader perspective, and not just limit it to the formal institutional framework. Cultural attitudes affect the way individuals perceive and act on opportunities that are created by the institutional environment. Firm creation is a response of the individual to certain institutional conditions that provide incentives to become entrepreneurs. According to Lee and Peterson (2000:403), “There is a need for an entrepreneurship model that acknowledges the individual person without discounting the external environment that is beyond the
individual or the firm’s control.” This paper’s contribution is the advancement of both the institutional theory and entrepreneurship literature by proposing that the impact of institutional factors on the individual’s perceptions is important in understanding entrepreneurial behaviour. This model suggests that the entrepreneurial environment is created by the combination of formal and informal institutional factors as well as enforcement actions which affect how entrepreneurs perceive opportunities for enterprising behaviour.

This article will begin by rationalising why institutional theory is used as the theoretical framework. It will then present an overview of institutional theory, including an in-depth discussion of formal, informal institutional factors and enforcement. The model developed in this paper will then be discussed together with associated propositions arising from it. Lastly, there will be a discussion of the model’s implications for future research.

**RATIONALE FOR CHOICE OF THEORETICAL FRAMEWORK**

Two factors were considered in developing a theoretical framework for this study. The first factor is the multidimensional nature of the phenomenon of entrepreneurship. To study the relationship between the environment and entrepreneurship in any national context requires multiple and diverse conceptual tools of analysis. The second factor is the fact that entrepreneurship as a new discipline of study and research has as yet, no developed paradigm. As such, it has no theories of its own similar to that of the mainstream social sciences (Bygrave & Hofer, 1991:13-22; MacMillan & Katz, 1992). Researchers “may have to adapt and combine theories” (Davidsson, 1991:3) in explaining the entrepreneurial phenomenon. Lately, however, some attempts have been made to give it a more structured framework (Ripsas,1998).

This paper is not designed to develop new formal theory. It merely intends to employ the tools of existing theories as deemed fit in analysing how the institutional environment affects entrepreneurship.

According to Veciana (1999), the institutional theory is “without doubt the theory that currently supplies the most consistent and appropriate conceptual framework to probe the influence
of environmental factors on entrepreneurship.” Institutional theory (North, 1989) is the only framework that integrates institutional analysis into economics and economic history. Changes in institutions shape the way organisations evolve through time and hence are the key to understanding the development of entrepreneurship.

Institutional theory is different from other economic theories because: (Hodgson, 1998: 173)

- “There is a degree of emphasis on institutional and cultural factors that is not found in mainstream economic theory.
- The analysis is openly interdisciplinary, in recognising insights from politics, sociology, psychology and other sciences.
- There is no recourse to the model of the rational, utility-maximising agent. It emphasises both the prevalence of habit and the possibility of capricious novelty.
- Mathematical and statistical techniques are recognised as the servants of, rather than the essence of, economic theory.
- The analysis does not start by building mathematical models: it starts from stylised facts and theoretical conjectures concerning causal mechanisms.
- Extensive use is made of historical and comparative empirical material concerning socio-economic institutions.”

Unlike traditional theories, institutional theory highlights cultural influences on decision-making and formal structures. It holds that organisations, and the individuals who populate them, are suspended in a web of values, norms, rules, beliefs, and taken for granted assumptions, that are at least partially of their own making (Barley and Tolbert, 1997:93).

Institutional analysis is an important tool not only for acquiring a better understanding of how incentive structures are formulated and changed, but also for appreciating the immense difficulties of institution-building. It provides a specific framework for discussion of human interaction either in the context of market transactions, or more broadly, the context of social exchange. The framework of institutional analysis presumes that: the basis for the performance of markets and economies is formed by individual actions; individual actions are guided by rules and norms called institutions;
institutions are devised by people to help them handle uncertainty and existing market
imperfections; and rules can change, but only when people find it in their interest to change them.

It is assumed that entrepreneurial activities are influenced by prevailing institutions such as
government policies, laws, structures and socio-cultural norms of any national context. Both
institutions and entrepreneurial activities influence each other. Thus the institutional perspective is
capable of providing understanding on how and in which ways the environment affects
entrepreneurship in any national context.

Overview of Institutional Theory

Scott (2001:48) defines institutions as “multifaceted, durable social structures, made up of
symbolic elements, social activities, and material resources.” They exhibit the following properties:
relatively resistant to change, tend to be transmitted across generations, to be maintained and
reproduced.

Institutions, according to North (1989:238), which arise because of the uncertainty associated
with human interaction, provide structure and order, the rules of the game to human exchange,
whether political, social or economic. According to Sjostrand (1992:19), institutions are a kind of
infrastructure that facilitates—or hinders—human coordination and the allocation of resources.

It is costly for people to make exchanges because it takes resources to define and enforce
exchange relationships and agreements. Even if everyone had the same objective function,
transacting would take substantial resources. But if we assume a context of individual utility functions
and the fact that people have different amounts of information and can stand to gain by withholding
some of that information from the other party, then exchange can be vastly more. Institutions provide
the framework, the structure, to facilitate certain kinds of exchange. They provide a framework within
which people have some confidence as to how outcomes will be determined. Institutions simplify
action choices; they are not separate from, but are part of, the individual (inter)actions
(Sjostrand,1992:19). Thus, institutions not only define and delimit the set of actions available to
individuals; they are simultaneously shaped by individuals and make individual interaction possible.
They restrict by defining legal, moral, and cultural boundaries setting off legitimate from illegitimate activities by specifying prohibitions and constraints on action. They also support and empower activities and actors by providing guidelines and resources for acting (Scott, 2001:50). Consequently, institutions are public goods, relevant to and shared by many, and they are in principle characterised by non-excludability.

Institutions reduce uncertainty by establishing a stable structure to human interaction. Institutions create the incentive structure in an economy, and organisations will be created to capitalise on the opportunities resulting from the existing set of constraints and, in attempting to accomplish their objectives, become agents of institutional change. Institutions can be regarded as both restrictions and opportunities, in both cases facilitating action by decreasing uncertainty.

Institutional theory has frequently been interpreted as deterministic and hostile to the core tenet of entrepreneurship. The actions of the entrepreneur/manager are a determinant of firm performance and survival. According to this interpretation, an organization operating within an institutional context is powerless and compelled to conform to the pressures exerted upon it by the institutional environment (Donaldson, 1995; Oliver 1991). Recently, several authors (Suchman, 1995; Oliver, 1991; Aldrich & Fiol, 1994; Scott, 1995) have suggested that there is room within institutional theory for strategic choice in response to institutional pressures. Recent empirical research has suggested that the strategies organizations pursue in response to institutional pressures and the level of organizational responsiveness to institutional pressures vary across technical environments (Goodstein, 1994).

When faced with institutional pressures organizations can choose among a wide variety of responses. These choices include compromise, avoidance, defiance, decoupling, dissembling, reinterpretation, manipulation, challenge, identification or choosing to operate in a different environment (Dowling & Pfeffer, 1975; Oliver, 1991; Scott 1991; Scott, 1995; Suchman, 1995). Given the wide variety of responses, firms are likely to achieve different levels of legitimacy based upon the choices made by the entrepreneur/manager. The outcome of this process is that within the same industry or sector, some firms will have higher levels of legitimacy than others. Given the desirability
and benefits, obtaining legitimacy is an attractive strategic goal which entrepreneurs are likely to pursue. The recognition of these circumstances has led to the development of the concept of ‘strategic legitimacy’.

Strategic legitimacy "adopts a managerial perspective and emphasizes the ways in which organizations instrumentally manipulate and deploy evocative symbols to garner societal support" (Suchman, 1995:572). Organizations still operate within a social context, but this context provides both constraints and opportunities for an organization. The managers/entrepreneurs within the organization can attempt to improve its circumstances by strategic action within the environment (Aldrich & Fiol, 1994; Andrews, 1996; Oliver, 1991; Scott, 1991; Suchman, 1995). Therefore, if legitimacy can be actively pursued by entrepreneurial managers and provides access to resources, particularly the always scarce resource of capital, then institutional theory may well have a major contribution to make to the study of new ventures.

A primary assumption of institutional theory is that legitimacy is conferred upon firms that conform to the demands of institutional context. This has led to a focus on the pressures created by the institutional environment on the organization to conform and the spread of organizational structures and forms through mimetic isomorphism. Firms that conform by mimicking legitimate firms are granted legitimacy, which enhances the resource flows to the firm and, in turn, the firm's chances of survival (Meyer & Rowan, 1977). Omission of some of the prevailing practices and procedures institutionalized by society makes the firm vulnerable to claims that it is negligent, irrational or unnecessary and therefore denied legitimacy. (Meyer & Rowan, 1977). Prior research has confirmed that increased legitimacy provides access to survival-enhancing resources for non-profit organizations (Singh, Tucker & Meinhard, 1991) and that winning certification tests enhanced the survival of firms in the early years of the auto industry (Rao, 1994). However, the question of what actions an entrepreneur can take to increase the legitimacy of his particular firm has yet to be addressed in an empirical study.

North (1991) contends that there are two types of constraints that help individuals in making their choices: formal and informal.
**Formal Institutional Factors**

Formal constraints include political (and judicial) rules, economic rules, and contracts (North, 1991:47). The hierarchy of such rules, from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts defines constraints, from general rules to particular specifications. The function of these rules is to facilitate political or economic exchange. The structure of rights and the character of their enforcement define the existing opportunities of the entrepreneurs that are realised when they perform exchanges. The extent of economic and political diversity of interests will, given relative bargaining strength, influence the rules’ structure. Rules are generally devised with compliance costs in mind, which means that methods must be devised to ascertain that a rule has been violated, to measure the extent of violation (and consequent damages to the party to exchange), and to apprehend the violator (North, 1991:48).

Contracts provide not only an explicit framework within which to derive empirical evidence about the forms of organisations (and hence are the basic empirical source for testing hypotheses about organisation), but also clues with respect to the way by which the parties to an exchange will structure more complex forms of organisation (North, 1991:53).

There have been a number of studies that have analysed the influence of environmental factors on the creation of enterprises. These factors condition the activity in a region and affect the predisposition and ability of people to undertake entrepreneurial activities.

Bruno and Tyebjee (1992) commented on the distinct environmental factors that exert an influence in the creation of enterprises. They include: venture capital, incubators, public policy, universities, transportation, availability of assistance to entrepreneurs and a receptive area.

Van de Ven (1993) adapted a macroeconomic perspective in analysing the issues and events involved in constructing an industrial infrastructure that facilitates and constrains entrepreneurship. This infrastructure includes: institutional arrangements to legitimise, regulate, and standardise a new technology; public resource endowments of basic scientific knowledge, financing mechanisms, and a pool of competent labour; and proprietary research and development, manufacturing, marketing and distribution functions by private entrepreneurial firms to commercialise the innovation for profit. The
paper made three contributions to understanding entrepreneurship. First, the study of entrepreneurship is deficient if it focuses exclusively on the characteristics and behaviour of individual entrepreneurs, on the one hand, and if it treats the social, economic and political factors influencing entrepreneurship as external demographic statistics, on the other hand. Second, the paper also examines how and why this infrastructure for entrepreneurship emerges. While infrastructure facilitates and constrains individual entrepreneurs, it is the latter who construct and change the industrial infrastructure. Lastly, the paper emphasised that the process of entrepreneurship is not limited to the for-profit sector; numerous entrepreneurial actors in the public and not-for-profit sectors play crucial roles. It motivates one to examine the different roles played by these actors and how their joint contributions interact to develop and commercialise new technology. This, in turn, makes it possible to understand how the risk, time and cost to an individual entrepreneur are significantly influenced by developments in the overall infrastructure for entrepreneurship. It also explains why entrepreneurs that run in packs are more successful than those that do it alone to develop their innovations.

• In identifying key institutional determinants of firm emergence and growth, Davidsson and Henrekson (2000) looked into a number of institutions and policy measures that are likely to have contributed to an environment that discourages firm activity and growth. The aspects dealt with include: missing arenas for entrepreneurship in the health care sector and for household related services, taxation of entrepreneurial income, incentives for wealth accumulation, wage-setting institutions and labour market regulations. The investigation provides evidence of a low prevalence of nascent entrepreneurs and a small net employment contribution by high growth firms.

Entrepreneurs may be discouraged from starting a business if they have to adhere to an excessive number of rules and procedures. The level of procedural requirements for registration and licensing, taxes, and financial reporting may either facilitate or hinder entrepreneurial activities. Research shows that most small businesses consider paperwork very time consuming and cumbersome (Dana, 1987, 1990; Young and Welsch, 1993; Fogel, 1994). Countries that keep procedural requirements to a minimum generally have a viable and dynamic entrepreneurial sector.
Research also shows that tax and other start-up incentives have a positive impact on small business establishments and growth (Davidsson, 1991).

**Informal Institutional Factors**

Informal constraints are from socially transmitted information and are a part of the heritage we call culture. The way the mind processes information depends “upon the brain’s ability to learn by being programmed with one or more elaborately structured natural languages that can code for perceptual, attitudinal and moral (behavioural) as well as factual information” (Johansson, 1988:176). Culture can be defined as the “transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behavior” (Boyd and Richerson, 1985:2). Culture provides a language-based conceptual framework for encoding and interpreting the information that the senses are presenting to the brain (North, 1991:37). In the short run, culture defines the way individuals process and utilise information and hence may affect the way informal constraints get specified. Conventions are culture specific, as indeed are norms. Although the formal institutional constraints are not directly observable, the contracts that are written, and sometimes the actual costs of transacting, provide us with indirect evidence of changes in informal constraints.

The importance of self-imposed behaviour in constraining maximising behaviour in many contexts also is evident. Our understanding of the source of such behaviour is deficient, but we can frequently measure its significance in choices by empirically examining marginal changes in the cost of expressing convictions (North, 1991:43).

The long-run implication of the cultural processing of information that underlies informal constraints is that it plays an important role in the incremental way by which institutions evolve and hence is a source of path dependence. We know that cultural traits have tenacious survival ability and that most cultural changes are incremental (North, 1991:44).

Equally important is the fact that the informal constraints that are culturally derived will not change immediately in reaction to changes in the formal rules. As a result, the tension between
altered formal rules and the persisting informal constraints produces outcomes that have important implications for the way economies change (North, 1991:45).

Informal constraints include norms, codes of behaviour, subjective perceptions and traits. North (1991:40) mentions that informal constraints arise to coordinate repeated human interaction and these constraints are extensions, elaborations, and modifications of formal rules; socially sanctioned norms of behaviour; and internally enforced standards of conduct. These informal constraints persist because they were consciously designed and are in everyone’s interest to keep.

It is evident that a lot of research effort is being poured into explaining entrepreneurial behaviour and activity using socio-cultural variables. Several researches focus on the relationship between culture and entrepreneurial activity (Busenitz and Lau, 1996; Davidsson, 1995; Spilling, 1991; Begley et al, 1997; Chell and Adam, 1995; Davidsson and Wiklund, 1995; Muzyka et al., 1991; Tiessen, 1997; Shane et al., 1991; Seltsikas and Lybereas, 1996; McGrath et al, 1990; Davidsson and Delmar, 1992) or the lack of it (Takyi-Asiedu, 1993).

It is noticeable that the researches made on entrepreneurship in the 1980’s concentrated more on the individual (micro) level. Based on the literature inspected by this writer (Tsang, 1996; Malecki, 1990; Malecki, 1990;; Watson et al., 1996, Lerner, 1994; Reynolds et al., 1991; Yang et al, 1991; Shane et al, 1992; Lee, 1995; Dana, 1995; Takyi-Asiedu, 1993), it is evident that more research is being done on a macro level (level of analysis - country, ethnicity, region, or race).

This does not mean that studies on the individual are not being done. Chandler (1996) studied the relationship between task environment, skills and abilities, similarities of the entrepreneur and its effect on the venture performance. Dennis and Dial (1996) studied the relationship between owner’s employment status and business formation. To some degree, the studies of Dennis and Dial and Chandler are linked to the role theory in explaining entrepreneurial activity.

Society and communities have also been studied in relation to entrepreneurial activity. Kristensen (1995) suggested that spectator communities are important in encouraging entrepreneurial activity since individuals will have role models they can imitate. Location, community
conditions and their relation to business births and deaths were also investigated by Bull and Winter (1991).

The level of innovation in a society and its relationship to culture is also one of the recent trends found in the literature survey (Shane, 1993; Shane 1992). He suggests social interventions that are designed to encourage entrepreneurship.

Several authors have stressed the potential importance of culture for explaining variations in entrepreneurship and economic development. According to Carsrud and Johnson (1989:26), the study of social norms, mores and values is an effective avenue of research investigation with respect to the initiation and growth of new ventures. The social and cultural factors that enter into the formation of entrepreneurial events are most felt through the formation of individual value systems. In social systems that place high value on the formation of new ventures, more individuals will choose that path in times of transition (Shapero and Sokol, 1982:83). Etzioni (1987:175, 183), stated that legitimation is a major factor in determining the level of entrepreneurship that is found in a society. The extent to which entrepreneurship is legitimate, the higher the demand for it; the higher the supply of entrepreneurship, the more resources are allocated to the entrepreneurial function. The immediate sources of legitimation are the values of the society and the relevant sub-societies.

Gnyawali and Fogel (1994:53) believe that socioeconomic conditions and governmental policies play an important role in the "propensity to enterprise". They suggest that factors such as public acceptance and support from family, community, and governmental agencies "create an 'enterprise culture' that enables firms to take reasonable risks and seek profits".

Van Arkadie (1989:164-165) mentioned that one interesting historical insight relates to the entrepreneurial role played by cultural, ethnic, or religious minorities, whose entry into certain entrepreneurial areas may be restricted but who, by the same token, in being politically excluded from easier avenues of advancement are sometimes stimulated into a risk-taking innovative role. The view that entrepreneurship is likely to appear when other avenues of advancement are blocked relates to two other observations. The first is that entrepreneurship often seems not to be highly correlated with formal educational achievement, in part because the able but uneducated are
excluded from more secure avenues of social advance. Second, crises that erode bureaucratic incomes and frustrate the expectations of the educated elite may call forth considerable entrepreneurial response.

**Enforcement**

Enforcement, on the other hand, is whether the formal rules and informal constraints are enforced (and how rigidly they are enforced) or not enforced. Rules and norms, if they are to be effective, must be backed up with sanctioning power (Scott, 2001:50). Methods of enforcement may vary from coercive to normative to mimetic (Scott, 2001).

Much institutional research recognises the regulatory (coercive) aspects of institutions (North, 1985, 1990). North related the regulative aspects of institutions to the written rules of a sport. There are written rules enforced by outside agents (referees, league officials) and well-understood rules enforced by the players themselves. Coercive methods may be through the use of threat or sanctions, providing inducements to secure compliance, or the use of authority, in which coercive power is legitimated by a normative framework that both supports and constrains the exercise of power.

Selznick (1949) discussed the normative aspect of institutions in the original formulations of institutional theory. Since then, March (1981) and Scott (1995) have continued to stress the normative nature of institutions and conceptualised it as what is expected of individuals. They confer rights as well as responsibilities, privileges as well as duties, licences as well as mandates. The normative aspect of institutions provides conscious choices concerning individual roles, is more concerned with common beliefs, and is more political in nature (DiMaggio and Powell, 1991; Scott, 1995). Thus normative institutions are treated as purposely constructed, and include authority systems and roles that occur in response to what is consciously perceived as necessary and proper (Scott, 1995).

Unlike regulatory structures, which are negotiated arrangements or rational solutions to exchange problems and can change readily, cognitive (mimetic) components of institutions are quite resilient. They are often socially constructed over time (Berger and Luckman, 1967), and come to be
“perceived as objective and external to the actors: not as man-made but a natural and factual order” (Scott, 1995:xvii). Cognitive structures also emphasize how actors are constrained by schema, frames and scripts, often without realising it (Scott, 1995). Similarly, recent work in anthropology has discussed culture in terms of socially established structures of meaning (Geertz, 1973), that control people’s worldviews and what action is possible, and what are unlikely to be considered (Scott, 1995). This includes informal constraints embodied in traditions, taken for granted rules and conventions, preconscious widely accepted customs (DiMaggio and Powell, 1991).

Compliance can also occur in some instances because other types of behaviour are inconceivable; routines are followed because they are taken for granted as “the way we do things” (Scott, 2001).

Institutions also confer legitimacy on organisations. As Scott (2001:59) defines it, from an institutional perspective, legitimacy is a condition that reflects perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks. Legitimacy is not an input to be combined or transformed to produce some new and different output, but a symbolic value to be displayed in a manner such that it is visible to outsiders. There can be various sources of legitimacy: political authorities who can confer legitimacy by certification or accreditation, moral authorities who stress a deeper, moral base for conformity, and cultural authorities who legitimise by providing a culturally constituted mode of organising to achieve specified ends. In some cases these different sources of legitimacy may conflict with each other.

Enforcement, according to North, has principally three main sources: the self (internally enforced codes of conduct), the other person (second party retaliation), and a third party (‘societal sanctions’). The State, then, represents a monopolistic coercive force (i.e. institution) socially constructed to monitor property rights and to enforce contracts effectively (Sjostrand 1992,:33).

**MODEL DEVELOPMENT**

Figure 1 shows the conceptual framework developed using the institutional theory framework.

(INSERT Figure 1 HERE!)
There are several elements in this framework: the institutional environment (comprising the formal and institutional factors and enforcement), the objectives and constraints of SME assisting institutions, the entrepreneurs’ perception of desirability and feasibility, the entrepreneurs’ perception of legitimacy, and the incentive structure.

A clear idea about the market and institutional environment under which the entrepreneurs operate is a logical first step in the institutional analysis. The pertinent characteristics of the environment directly affect the objectives and constraints of both SME assisting agencies and entrepreneurs. These attributes include (1) the formal factors which consist of the political, judicial, economic and contractual rules, (2) the informal factors which include culture, norms, codes of behaviour, subjective perception and traits and (3) the types of enforcement of formal and informal factors.

The environment will determine what would motivate and limit the creation of SME assisting agencies as well as the specific programmes and services they will offer. The environment will also affect the actions these SME assisting agencies can take with regards to the implementation of the policies, rules, programmes and services. The entrepreneurs’ motivations (i.e. economic/financial gain, independence) and constraints (i.e. access to finance) will also be affected by the existing environmental structure. The actions of the entrepreneurs will also be guided by the sanction (both positive and negative) methods used by the government, SME assisting agencies and society in general.

The objectives and constraints of the SME assisting institutions on the other hand, affect the incentive structure. This incentive structure provides various opportunities resulting from the existing constraints/limitations generated by the combination of the 3 institutional factors and the objective and constraints of the SME institutions. The non-homogeneity of SME assisting organisations and entrepreneurs (in both objectives and constraints) account for the variety of incentive structures. Private institutions tend to have more profit optimisation objectives while public organisations tend to have more altruistic motivations. The heterogeneity of SME assisting institutions also arise out of differences in the information and resources. Depending on what
specific motivations and constraints are being emphasised different incentive structures are created. The constraints or opportunities made available by the incentive structure also reinforce the “institutionalisation” of the factors. It helps in the perpetuation of the culture, rules, policies, norms, etc. This mixture of institutional factors can either make the incentive structure conducive or non-conducive towards entrepreneurship.

The objectives and constraints of the entrepreneurs on the other hand directly affect their individual choices. This is taken in combination with the available opportunities presented by the incentive structure. An individual’s choice of an action in a particular situation depends on how he or she perceives the benefits and costs of various options and their likely outcomes. The individuals (entrepreneurs) will then react to this incentive structure by having to decide on whether to create an organisation (a firm) that will capitalise on these opportunities (in case of a positive incentive structure towards entrepreneurship) or not (in case of negative incentive structure). This phenomenon is viewed from the perspective of the entrepreneur as he/she decides on whether to pursue entrepreneurship or not.

Perceptions of desirability and feasibility are products of the cultural and social environment—the informal institutional environment. The attitude towards entrepreneurship depends on the degree to which a person has a favourable or unfavourable evaluation or appraisal of it. Social norms, on the other hand, refer to the perceived social pressure to perform or not to perform the behaviour. These are tied to the perceptions of what important people in a person’s life would think about launching a new venture (Veciana, Aponte and Urbano, 2000). This affects the overall perceived venture desirability. The perceived venture feasibility, on the other hand, depends on the resources and opportunities available to a person to start the business. The perception of the individual on whether it is difficult or easy to start the business venture may depend on the person’s previous experience but can also be influenced by second hand information from family and friends.

Entrepreneurship prospers if society views it with a favourable attitude. Societies and cultures that value entrepreneurship tend to develop societal systems to encourage it (Vesper, 1983). It has been noted that, among the Chinese, entrepreneurial role models encourage people to go into
business, and entrepreneurs are often supported by close networks of family members and relatives (Kao, 1993; Siu and Martin, 1992). Programmes that develop societal awareness of entrepreneurship have a positive effect on small business development and growth.

Much previous entrepreneurial research has focused upon how others perceive entrepreneurs, or on comparisons between entrepreneurs and others in their society who are not entrepreneurs (Brockhaus, 1991; Sexton and Bowman, 1985; Schere, 1982). These studies demonstrate that there are higher rates of firm formation in countries that have positive perceptions of entrepreneurship and that perceive entrepreneurship as a desirable occupation.

**RESEARCH IMPLICATIONS**

The scope of the study could be made broader if respondents from the different parts of the country were included in the sample. Entrepreneurs from industry sectors other than the four that were included in the study can also enhance the generalisability of the findings. Micro and cottage firms can also be part of an investigation. It would be interesting to see if their perceptions are similar to those of their small and medium-sized counterparts. Adding rural entrepreneurs as respondents could also provide a different insight in terms of possible differences in perceptions of institutional obstacles as well as cultural variables. This will also necessitate the inclusion of programmes and policies that are geared towards rural entrepreneurs. This will make the study more holistic. New regulations, programmes and policies also have to be added on to the enquiry.

Comparison could also be made with developed or transition economies to contrast the disparity in the contextual aspects and the similarities or differences in perceptions of various institutional variables. Countries with differing political systems could also make an interesting study, specially with regards to the formal institutional factors.

Formal institutional factors such as the institutional provision of microfinance and venture capital, education, training and development, business incubators, as well as networks, could also be included in future research. Several recent studies (Davidsson and Henreksson, 2000; Fogel, 2001; Moha-Asri, 1999; Moini, 1998) have shown that these factors do influence the performance and survival of SMEs. Informal institutional factors such as entrepreneurial intentions, perceptions of
business opportunity, feasibility, and intrapreneurship would make interesting additions to future research. The entrepreneurial decision-making process is linked to the individual’s perceptions of the environment and hence is an important area to investigate.

A deeper and broader understanding of entrepreneurship will be made if more studies on entrepreneurship are conducted in LDCs. At present, most of the research on entrepreneurship comes from developed countries (mainly, US and Europe). The results of these studies are not always applicable to the LDCs because of differences in the contextual environment.

In terms of methodology, the research could be approached qualitatively. This is specially relevant in the examination of the informal institutional factors such as culture, values, norms and traits. Case studies may be used to single out specific factors that have a higher impact on entrepreneurship.

As much as possible, respondents from international agencies should also be included. The inclusion of their perspectives will enhance the depth of the study as they may provide a perspective that is quite different from those of local government and private SME-assisting agencies. They might be able to identify problems local institutions do not see and help find possible solutions for them.

As this study has looked at a relatively large number of formal and informal institutional variables, future investigations should narrow them down and focus on those found to be relevant. Longitudinal studies could also present a different perspective. Comparing the perceptions of the entrepreneurs on the various institutional variables before and after the creation of the firm could yield interesting results and provide better insight into the minds of the entrepreneurs. It would also be interesting to examine differences in perceptions of institutional environments between nascent, one-time and serial entrepreneurs.

**CONCLUSION**

By examining how the external environment creates the incentive structure for entrepreneurs to enact on, this model lays the groundwork for further theory development and empirical research. This model suggests the importance of institutional factors to the stimulation of entrepreneurship in
societies. This model however does not claim that it is a comprehensive explanation of entrepreneurship. It is rather an attempt to examine and identify the relationships between the entrepreneur’s perception of the environment and the resulting incentives from it. Further, the model makes no assumptions that its predictions will lead to successful ventures. Rather, the focus of this model is on the exploitation of opportunities which is the core of entrepreneurship.
Figure 1. Conceptual Framework
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