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Bribes as entrepreneurial actions: Why underdog entrepreneurs feel compelled to use them☆

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ABSTRACT

Entrepreneurs often need external resources to found their new ventures. These can be obtained from many sources, but government sponsored programs are an important and often desirable one because they do not require repayment of the funds provided. Resources from such programs should, in principle, be equally available to all entrepreneurs, but in fact, some entrepreneurs—ones often described as underdogs – have restricted access to them. This disadvantage stems, in part, from personal factors they cannot readily change (e.g., gender, age, race, ethnicity, current occupation, family background, experience). The negative effects of being an underdog are especially harmful to entrepreneurs in the context of poor economic conditions, when competition for available resources is intense. In order to overcome such adversity, underdog entrepreneurs offer bribes to persons who control these resources. We hypothesized that there would be a positive relationship between the perception by entrepreneurs that local economic conditions are poor and their use of bribes, and that this relationship would be stronger for "underdog" entrepreneurs than for other entrepreneurs. We also hypothesized that the use of bribes by entrepreneurs and their perception that these bribes will be effective would interact to influence entrepreneurs' decisions to close their new venture. Specifically, bribes would influence such decisions only when they were viewed as effective. Results offered support for these hypotheses, thus providing new insights into why underdog entrepreneurs use bribes to overcome the adversity they face.

1. Executive summary

All entrepreneurs face high levels of adversity, but ones described as "underdogs" confront especially strong difficulties. Because of personal characteristics they cannot readily change (e.g., their race, ethnicity, family background, education), they are often perceived negatively by members of their societies and are viewed as low in social status. This, in turn, makes it more difficult for them to obtain the funding they need to found their new ventures: traditional sources of such financial support – venture capitalists, angel investors—view them as less qualified to start and operate new ventures and as less likely to attain success.

Government programs designed to encourage entrepreneurship are another potential source of financial support. These are often

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very attractive to entrepreneurs because they do not require repayment of funds they provide. Because these programs are based on public funds, they should, in principle, be totally fair, choosing recipients of support on the basis of such characteristics as the quality and potential value of the opportunities entrepreneurs wish to develop. However, even in this context underdog entrepreneurs may face disadvantages. These difficulties are especially strong in the context of poor economic conditions, when resources are scarce, and competition for them is intense. Under these conditions, persons who control access to funding may be even more likely to favor entrepreneurs higher in status than underdog entrepreneurs who are lower in such status.

Faced with these difficulties, underdog entrepreneurs may conclude that there is only one feasible way for them to overcome these problems – offering bribes to these persons. They hope that bribes will help lower barriers they face but they also recognize that there is no guarantee that bribes will be effective. If they conclude that even bribes will not help, they may choose another course of action: closing their new ventures and so avoiding further costs. If, in contrast, they believe that bribes will be effective, they are less likely to adopt this strategy and will, instead persist in efforts to launch their new companies. Although several factors influence entrepreneurs' views of the possible efficacy of bribes, being underdogs may tip the balance toward "giving up"—toward concluding that even bribes will not succeed, and so choose to close their companies. The result may be the dashing of the entrepreneurs' hopes and dreams, and may also deprive their societies of new products or services that would be beneficial to large numbers of persons.

2. Introduction

In order to launch new ventures, entrepreneurs need several kinds of resources – financial, human, informational. The scope and magnitude of these resources vary greatly; in some instances, entrepreneurs can supply such resources themselves, or with the help of friends and family and other per in their social networks. In instances where they cannot obtain resources in this way, they seek them from venture capitalists, angel investors, and other sources. An additional, and often highly desirable source of resources, is provided by government programs specifically designed to facilitate entrepreneurship. For example, in the U.S., the Small Business Innovation Research (SBIR) provides funds to entrepreneurs, supplying grants to a large number of new ventures every year (sbir.gov). These funds take the form of direct grants and carry no obligation for repayment regardless of the success of the new ventures and as such, are highly desirable.

In many countries, especially developing ones where other sources of funding are limited, government programs may be an especially important source of financial resources for entrepreneurs. In these settings, competition for these financial resources can be intense, and may be especially true when funds for these programs are limited. These factors raise two questions of importance to entrepreneurs: How are decisions concerning distribution of such government- funds made? How can entrepreneurs increase the odds that these decisions will be made in their favor? Under ideal conditions, such decisions would be totally "fair"—based on such factors as the potential value (economic or social) of the opportunity entrepreneurs seek to develop, their perceived ability to develop these opportunities, and the need for the products they plan to provide (e.g., Baron and Tang, 2009; Gans and Stern, 2003).

Discouragingly, however, this is not always true. In many instances, entrepreneurs' access to these government-provided resources is influenced by many seemingly irrelevant factors – race, ethnic origins, gender, age, family backgrounds, reputations of the schools from which they graduated, and even their physical appearance (Baron et al., 2006). To the extent these factors are viewed negatively by the government officials who control the resources entrepreneurs seek, entrepreneurs may find themselves competing in a situation where the odds are stacked heavily against them—ones in which they experience high levels of adversity (e.g., Branzei and Abdelnour, 2010; Williams and Shepherd, 2016). Consider, for instance, the plight of entrepreneurs who are members of racial or ethnic groups that are the target of prejudice in their society. Miller and Le Breton-Miller (2017) describe entrepreneurs facing such disadvantages as "underdogs." They begin with disadvantages that hamper their chances of success.

The concept of underdog is, in several respects, closely related to that of social status—underdog entrepreneurs are low in social status because they are low on dimensions that, together, determine such status—factors such as those listed above. Throughout this paper, the term "underdog entrepreneurs" will be used to refer to entrepreneurs who are low in social status because of personal characteristics they cannot readily change. Such entrepreneurs have been found to be lower in social capital than entrepreneurs higher in social status, and so face a disadvantage in this respect, too (e.g., Anderson and Miller, 2003). That these factors play an important role even in societies where fairness is highly valued and supported by law, is suggested by the fact that in the U.S., the SBIR has been criticized for assigning too much weight to the entrepreneurs' prior experience. By doing so, the SBIR makes it more difficult for first-time entrepreneurs to receive funding, even if their new ventures are highly deserving of support (e.g., Audretsch et al., 2002).

It is important to note that often, underdog entrepreneurs become entrepreneurs because the same factors that limit their access to resources provided by government agencies also limit their access to other opportunities, for instance, to jobs and education. In one sense, then, they become entrepreneurs to escape such adversity, only to encounter it again in another environment. Evidence that personal factors are indeed important in determining the degree to which potential entrepreneurs become actual ones is indicated by several studies. For example, Parker and Van Praag (2010) found that entry into entrepreneurship was negatively related to such factors as race, marital status, and educational background. As Parker and Van Praag (2010) suggest, together, these factors reflect, and generate, low levels of human and social capital.

Additional support for the suggestion that some entrepreneurs face especially strong barriers to obtaining needed resources (i.e., underdogs) derives from the emerging view of entrepreneurship as a career path (Burton et al., 2016). This perspective takes note of the fact that individuals often become entrepreneurs out of necessity rather than choice (e.g., their companies close) and sometimes because of changes in their motives to obtain specific outcomes (e.g., to attain wealth, autonomy, personal growth; e.g., Burton et al., 2016). The career perspective also calls attention to the fact that some entrepreneurs return to their original careers. Viewing