



The effect of social, cultural, and economic factors on entrepreneurship[☆]



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ABSTRACT

Current economic downturn encourages extensive research into economic growth engines, with entrepreneurship as one of the key drivers of growth. Although crucial, determining which variables stimulate entrepreneurial activity constitutes a difficult task due to interrelated factors. This study analyzes three groups of factors affecting entrepreneurship and entrepreneurs' perceptions of opportunity: social, cultural, and economic variables. Therefore, this study employs the partial least squares method for two groups of countries: (1) European countries, and (2) Latin-American and Caribbean countries. This approach identifies how these factors' effects differ across different countries.

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1. Introduction

Current economic downturn encourages extensive research into economic growth drivers. This research gains insight on how to face recession's negative effects by reducing unemployment levels in certain countries. Apart from quantitative variables constant in traditional economic growth models (e.g., investment and public spending), recent studies consider other variables for which statistical data is gradually becoming more readily available. Recently, scholars focus on variable entrepreneurship. Entrepreneurship has a positive effect on economic growth because of generating economic activity. Schumpeter and several other authors assert at the beginning of the twentieth century that entrepreneurship is gradually becoming an engine of job creation and economic growth.

Specialist literature considers entrepreneurial activity of high relevance (Acs & Szerb, 2007; Acs et al., 2012; Audretsch & Keilbach, 2004, 2008; Audretsch et al., 2006, 2008; Noseleit, 2013). Therefore, determining the factors that may conduct to entrepreneurial activity is highly relevant to formulate policies that stimulate entrepreneurship. These factors may relate to entrepreneurs' environment, or their motivations to pursue such an activity rather than settle for a job in paid employment. Specialist literature considers general factors to do with the population, society, and institutions (Méndez-Picazo et al., 2012;

Shane & Venkataraman, 2000), as well as factors to do with potential opportunity (Campbell & Mitchell, 2012). Factors affecting entrepreneurship may have different origins. This study divides these factors into three categories: social, cultural, and economic factors.

Section 2 explains how these factors affect entrepreneurship. Section 3 presents empirical analysis, developing two partial least square estimations for two groups: European countries and Latin-American and Caribbean countries using data from 2012. Section 4 provides conclusions.

2. Social, cultural, and economic factors, and entrepreneurship

Many factors affect entrepreneurs' decisions to pursue a new business instead of accepting a job in paid employment. Leaving aside personal considerations, this study categorizes factors affecting entrepreneurship into three groups: Social, cultural, and economic. Although these factors interact among them, this section presents their effect entrepreneurship separately.

Socially, the structure and social development of a country is an important factor, as well as culture. Strictly focusing on social issues, literature often refers to Schumpeter's (1934) social climate. This concept involves the sociological, economic, and institutional climate of the society where entrepreneurs perform their activity. These factors include social values, training, economic freedom degree, and institutional quality. Therefore, a suitable social climate stimulates entrepreneurial activity, enhancing economic growth and job creation.

To foster such social climate a solid institutional foundation is essential. Scholars usually consider that creating institutions and improving their quality encourage market activity, avoiding economic shocks (Acemoglu et al., 2002; Nissan et al., 2012). These institutions usually comprise: (1) political environment (democracy): parliament, regulation

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and supervision institutions; (2) economic environment: central bank and fiscal institutions; and (3) entrepreneurial environment: property rights, supervision institutions for correcting market failures, social capital, and rule of law.

Regarding entrepreneurship, scholars consider institutions' role from different perspectives. Baumol (1990), Boettke and Coyne (2003), and Sobel (2008) claim institutions' structure in society determines the type of entrepreneurship. Other researchers consider that this structure restricts entrepreneurial activity (Baumol, 1990; Hall & Sobel, 2008; Johnson et al., 1997).

Research into institutions' effects on entrepreneurship distinguishes between formal and informal institutions. Both kinds affect entrepreneurship, albeit differently depending on the type of entrepreneurship (Williamson, 2013). North (1990) states that formal institutions have informal rules with a strong cultural component. Cultural norms encourage entrepreneurs to embark on an entrepreneurial undertaking (McCloskey, 2010). Consequently, entrepreneurs should know both formal and informal rules within the society where they perform their activity. Political, civil, and human rights, an efficient government, the rule of law, and corruption control strengthen institutions' role. These institutions determine the quality of a nation's government and establish the behavior rules for economy actors, including entrepreneurs (Nissan et al., 2012). Thus:

H1. A suitable social structure consisting of a solid rule of law and economic freedom positively affects entrepreneurship.

Culture can boost entrepreneurship and takes the role of education and training in skills and attitudes' development leading to entrepreneurship (Gavron et al., 1998; Reynolds et al., 1999). A high educational level provides individuals with the knowledge and tools necessary to create a business, while helping budding entrepreneurs identify market opportunities (Barreneche, 2014). However, education is not the only cultural factor capable of affecting entrepreneurship. For example, cultural legitimization of entrepreneurship and economic freedom affect early stage entrepreneurship (Powel & Rodet, 2012). Furthermore, the values of a society and the individuals within a country may also affect entrepreneurial activity (Herbig & Dunphy, 1998). Therefore, this study analyzes two factors: schooling, as a proxy for education, and corruption degree. Consequently:

H2. Societies with less corruption, and better training and education have higher levels of entrepreneurial activity.

Entrepreneurship scholars usually focus on economic factors. Specifically, this study will analyze economic policy, economic performance, innovation, and openness.

Firstly, two stances exist towards entrepreneurship within economic policy in the form of government spending policies. Secondly, some scholars such as Audretsch (2002) state that government support to entrepreneurship lies in correcting market failures due to external costs, external benefits, or public goods. Specifically, three market failures: network externalities, knowledge externalities, and learning externalities.

The government therefore has various ways of stimulating entrepreneurship through public spending measures (Gnyawali & Fogel, 1994; McMullen et al., 2008). These measures are the provision of capital risk funds, tax incentives, governmental purchasing programs, public contracts, protection of intellectual property rights, investment in education and R&D, and specific support for entrepreneurs from governmental agencies. Detractors also claim that spending measures may allow nonproductive entrepreneurs to continue operating in the market, which may negatively affect economic growth (Campbell & Mitchell, 2012).

Economic performance is also important, since greater economic activity creates positive economic expectation and improves opportunities perception, motivating individuals to engage in entrepreneurial activity. Therefore, any initiative boosting economic activity and helping to establish a stable macroeconomic environment stimulates entrepreneurship. A low-interest monetary policy and low tax rates may produce desirable outcomes such as an increase in economic activity and greater economic stability (Bourguignon & Verdier, 2000; Galor & Zeira, 1993).

Focusing on innovation, Drucker (1998) asserts that innovation is central for entrepreneurial activity and encourages many entrepreneurs to engage in entrepreneurial activity. Summarizing, entrepreneurs' innovations encourage other entrepreneurs to enter into entrepreneurial undertakings and innovation (Duguet, 2004). Conversely, a better economic activity creates new opportunities for entrepreneurs and stimulates innovation.

Finally, openness positively affects entrepreneurship. According to De Clercq et al. (2007), this study draws on knowledge spillover literature on how a country's level of foreign direct investment and international trade may affect entrepreneurs' export orientation (Görg & Greenaway, 2004; Greenaway et al., 2004). This export orientation may in turn affect the country's entrepreneurial activity level. Furthermore, entrepreneur's

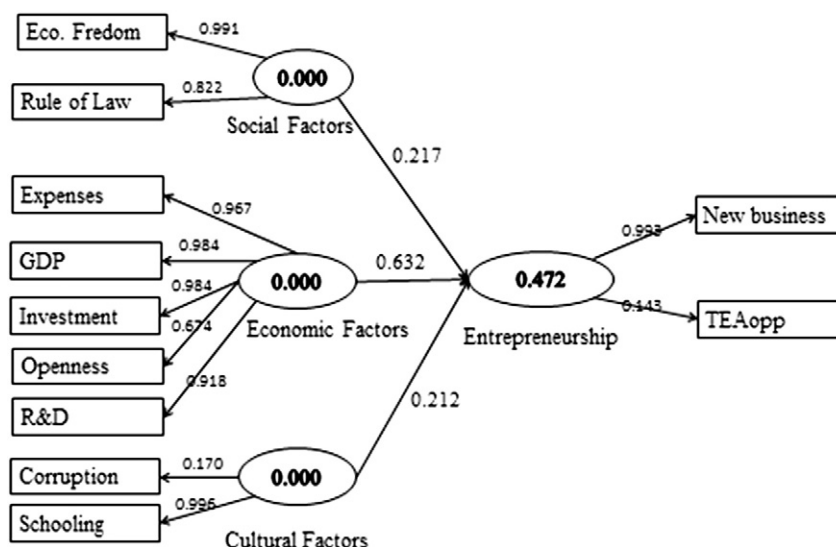


Fig. 1. Model 1 for European countries.

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