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Engagement in entrepreneurship in emerging economies: Interactive effects of individual-level factors and institutional conditions

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ABSTRACT

This paper examines individuals' engagement in entrepreneurship in emerging economies. We conceive of such engagement as encompassing opportunity discovery, evaluation, and exploitation. We investigate the influence of individuals' household income and level of education on their engagement in entrepreneurship, as well as the interaction effects between these individual-level factors and country-level regulatory, cognitive, and normative institutions. We test our hypotheses on a multi-source dataset from 22 emerging economies using a multilevel analysis technique. Our results indicate that the direct effect of individuals' household income on their engagement in entrepreneurship is persistent, regardless of institutional conditions; but the influence of education level varies contingent upon various institutional conditions.

1. Introduction

The emergence of new businesses involves the discovery, evaluation, and exploitation of opportunities by individuals (Sarason, Dean, & Dillard, 2006; Shane & Venkataraman, 2000). Opportunity recognition and evaluation are critical mechanisms that precede the emergence of new businesses (Eckhardt & Shane, 2003; Haynie, Shepherd, & McMullen, 2009). However, comparative entrepreneurship research tends to concentrate on explaining differences in actual new business creation (Bowen & De Clercq, 2008; McMullen, Bagby, & Palich, 2008), without acknowledging cross-country variations in the complete set of activities that encompass new business creation. Moreover, prior research tends to use either a micro- or macro-oriented approach to studying these phenomena, rarely integrating the two, which may explain the inconsistent findings across some studies (Dimov, 2007; Shepherd, 2010). Individuals' engagement in opportunity recognition, evaluation, and exploitation is a joint function of both individual and environmental factors (Shane & Venkataraman, 2000), as well as cross-level interactions between the two (Autio & Acs, 2010). A multilevel approach is thus needed to understand how contextual factors may encourage or impede individual characteristics to be leveraged into entrepreneurship (Hitt, Beamish, Jackson, & Mathieu, 2007; Kiss, Danis, & Cavusgil, 2012; Shepherd, 2010).

To address these important gaps, we examine how various macro-level institutional conditions may help direct individual-level financial and human capital toward entrepreneurship. On one hand, one of the key research issues of development economics is how individual and institutional factors simultaneously explain entrepreneurship, specifically, how various institutions can encourage a country's resourceful and educated individuals toward entrepreneurial activities (e.g., Baumol, 1990; De Clercq, Meuleman, & Wright, 2012; Dias & McDermott, 2006; King & Levine, 1993; Murphy, Shleifer, & Vishny, 1991). On the other hand, the social stratification perspective (De Clercq & Dakhli, 2009; Weber, 1978) views entrepreneurship as a tool for social mobility—that is, a social ladder that less financially endowed or less educated individuals can utilize to move up to the upper stratum. In this view, institutional arrangements that favor entrepreneurial activities of a country's elites can be problematic, as they may increase social inequality.

We believe that emerging economies provide a particularly meaningful setting for investigating such interplay. Emerging

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economies present a unique context for studying the interactions between micro- and macro-level factors, considering the resource constraints (Hoskisson, Eden, Lau, & Wright, 2000; Lau & Bruton, 2011) and institutional hurdles (Lau & Busenitz, 2001; Tan, 2002) that many individuals in these countries need to overcome, as well as the stark variation in their institutions (Ahlstrom & Bruton, 2006; Bruton, Ahlstrom, & Obloj, 2008; Kiss et al., 2012). Thus, it is of paramount importance to study the implications of these potential impediments, given that entrepreneurship is crucial for the economic development and growth of emerging economies (Beck, Demirguc-Kunt, & Levine, 2005; Bruton et al., 2008).

In all, we aim to make the following contributions. First, our study investigates the influence of the interplay between individual-level factors and institutional conditions on entrepreneurship in emerging economies, addressing recent calls for multilevel research in entrepreneurship (Shepherd, 2010), particularly in the emerging economies context (Kiss et al., 2012; Lau & Bruton, 2011). Our study also extends research on entrepreneurship in emerging economies by investigating a wider set of countries than is typically the case, which provides a basis for more generalizable cross-country analyses and comparisons (cf. Bruton et al., 2008; Kiss et al., 2012). In so doing, our study examines whether institutional theory-based arguments also hold in the emerging economies context, thereby testing the boundary conditions of these arguments.

2. Theory and hypotheses

Actual new business creation encompasses individuals' engagement in opportunity discovery, evaluation, and exploitation (Haynie et al., 2009; Shane & Venkataraman, 2000). First, opportunity discovery refers to the phase when individuals perceive the existence of entrepreneurial opportunities. The primary activities at this stage are recognition and interpretation (Sarason et al., 2006). The second phase, opportunity evaluation, is a future-focused process through which entrepreneurs evaluate the attractiveness of an opportunity in terms of its potential benefits to them; at this stage, the specific opportunity tends to take a first-person perspective (i.e., an opportunity "for me") instead of a more general third-person view (Haynie et al., 2009). Extant research has tended to focus on what occurs *after* opportunities are discovered or evaluated (Shane, 2000), even though such ex-post examinations may be prone to biases because they over-emphasize opportunities that have been successfully exploited (Davidsson & Honig, 2003). This study takes a more comprehensive view by acknowledging that entrepreneurship encompasses a combination of the activities of opportunity discovery, evaluation, and exploitation (Sarason et al., 2006; Shane & Venkataraman, 2000).

Any country's level of entrepreneurship is crucial for its economic development and growth (Baumol, 1990; Baumol & Strom, 2007; Schmitz, 1989), but this is particularly the case in less developed economies (Bruton et al., 2008). On the one hand, one of the key research questions in development economics is how to direct a country's resources into new or entrepreneurial activities that improve the current constellation of economic activities and contribute to a country's prosperity (King & Levine, 1993; Murphy et al., 1991). The literature that relates entrepreneurship to economic development typically adopts a macro-level approach, highlighting the importance of macro-level institutions, such as government policy, in encouraging entrepreneurship (e.g., Baumol, 1990; Dias & McDermott, 2006; King & Levine, 1993). However, many of the key resources needed for entrepreneurial activities, such as financial and human capital, reside with individuals (Arenius & De Clercq, 2005; Autio & Acs, 2010; Shane & Venkataraman, 2000); therefore, an important issue is the extent to which individuals' financial and human capital can be channeled toward entrepreneurship. This issue is particularly salient in emerging economies, where individual resource exploitation is often hampered by institutional constraints (Lau & Busenitz, 2001; Tan, 2002). In this study, we focus on financial capital (household income) and human capital (level of education) (cf. Autio & Acs, 2010) as two key individual resources. This focus aligns with a central concern of development economics in terms of how the financial and human resource bases of a country's constituents can be channeled into value-creating entrepreneurial activities (Dias & McDermott, 2006; Iyigun & Owen, 1998; King & Levine, 1993; Murphy et al., 1991). In particular, understanding how the broader institutional context can steer individuals with high levels of financial or human capital toward entrepreneurial activities can be beneficial to a country's economic development, particularly in emerging economies.

On the other hand, income and education levels represent two key levers of social stratification, or the segmentation of society according to people's financial wealth and educational credentials (De Clercq & Dakhli, 2009; Weber, 1978). Entrepreneurial activities can help people move from low to high status positions in society (Alvord, Brown, & Letts, 2004), and thus be a tool for social mobility. However, people with low income or limited education tend to encounter significant obstacles to identifying and seizing entrepreneurial opportunities (Shelton, 2010). The extent to which a country's institutions favor individuals with high levels of income or education in terms of their engagement in entrepreneurship, may present a significant hurdle for social mobility via entrepreneurship for people who have *lower* levels of such individual resources, resulting in greater levels of inequality. As such, our investigation of the influence of household income and education on entrepreneurship, and the cross-level moderating effects of the country's institutional context, can shed much-needed light on the tension between economic development and social mobility, in terms of the usefulness of individual resources for entrepreneurship in emerging countries. In particular, while the economic development approach suggests that favorable institutional conditions are beneficial for exploiting individuals' existing resource endowments, the social stratification approach is concerned with how such resource exploitation can widen the gap between 'successful' entrepreneurs and those who cannot benefit from favorable institutional conditions because of their initial resource deficiencies.

Finally, our consideration of the interplay between household income and education level on the one hand and institutional conditions on the other, acknowledges some inconsistencies of the findings in previous research. For example, with respect to the effect of household income, some studies have found no significant association between household income or wealth and the likelihood of becoming an entrepreneur (Hurst & Lusardi, 2004; Kim, Aldrich, & Keister, 2006) whereas others suggest a strong positive effect of individual wealth on entrepreneurship (De Clercq, Lim, & Oh, 2013). Similarly, with respect to the effect of education, empirical work undertaken in transitional economies in Central and Eastern Europe has revealed that individuals' formal education may not necessarily predict success in entrepreneurial activities (Manev, Gyoshev, & Manolova, 2005). Thus, the relationships between individuals' household income and education levels and their engagement in entrepreneurship may depend on other variables, including characteristics of the broader institutional environment (Autio & Acs, 2010). Our multilevel conceptual model is depicted in Fig. 1.

2.1. Individual-level financial and human capital and engagement in entrepreneurship

Information pertaining to entrepreneurial opportunities is not uniformly available (Hayek, 1945), so individually idiosyncratic