Journal of Business Research 73 (2017) 30–37

Contents lists available at ScienceDirect

Journal of Business Research

How economic freedom affects opportunity and necessity entrepreneurship in the OECD countries

María J. Angulo-Guerrero [a], Salvador Pérez-Moreno [b,*], Isabel M. Abad-Guerrero [a]

[a] Department of Business Management, University of Malaga, Campus El Ejido, E-29071 Malaga, Spain
[b] Department of Applied Economics (Economic Policy), University of Malaga, Campus El Ejido, E-29071 Malaga, Spain

ARTICLE INFO

Article history:
Received 22 March 2016
Received in revised form 12 September 2016
Accepted 30 November 2016
Available online xxxx

JEL classification:
E02
L26
M13
O50

Keywords:
Economic freedom
Opportunity entrepreneurship
Necessity entrepreneurship
OECD countries

ABSTRACT

This research addresses the extent to which economic freedom, understood as market economy-oriented institutions and policies, matters for opportunity entrepreneurship and necessity entrepreneurship. To this end, we carry out a panel data dynamic analysis in the OECD countries during the period 2001–2012 by using the system Generalized Method of Moments estimator. We examine the relationship between the Fraser Institute's economic freedom index and its five areas, and both indicators from the Global Entrepreneurship Monitor on opportunity entrepreneurship and necessity entrepreneurship. We find that economic liberalization tends to encourage opportunity entrepreneurship and to discourage necessity entrepreneurship. In particular, opportunity entrepreneurship seems to benefit from improvements in legal structure and security of property rights and in regulation of credit, labor, and business, while both aspects and more freedom to trade internationally seem to damage necessity entrepreneurship.

1. Introduction

Entrepreneurship is a driver of economic development. Numerous studies highlight that business activity is a powerful source of economic growth and job creation and that productive entrepreneurship is crucial in terms of economic welfare (Zacharakis, Bygrave, & Shepherd, 2000; van Stel, Carree, & Thurik, 2005; Acs, Audretsch, Braunerhjelm, & Carlsson, 2012; Naudé, 2013). Thus, it is not surprising that many policy makers explicitly pursue policies that are aimed at increasing the amount of entrepreneurship, although there is no consensus on policy interventions that are more likely to affect entrepreneurship in a positive way, not only in terms of amount but also as regards characteristics of entrepreneurship (see Acs, Åstebro, Audretsch, & Robinson, 2016).

Nowadays entrepreneurship is predominantly considered as a comprehensive concept. From this perspective, the Global Entrepreneurship Monitor (GEM) approach is widely used by academics and practitioners. GEM defines entrepreneurship as any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business (Reynolds, Hay, & Camp, 1999). In this context, GEM analyzes the motivation to become an entrepreneur, differentiating between two different types of entrepreneurship, namely opportunity and necessity entrepreneurship (Reynolds, Bygrave, Autio, Cox, & Hay, 2002). On the one hand, opportunity entrepreneurs are those who start a business in order to pursue an opportunity, not being a forced choice. They usually start the business because they want either to earn more money or to be more independent. On the other hand, in entrepreneurship by necessity individuals feel obliged to start their own businesses because of involuntary job loss and the scarcity of vacancies. Consequently, the decision to become involved in an entrepreneurial activity is a forced choice, given that all other employment options are either absent or unsatisfactory. Thereby, whereas opportunity entrepreneurship tends to involve innovative attempts to exploit new market niches, necessity entrepreneurship is more consistent with imitative ventures. In recent years numerous authors have argued that the two types of entrepreneurship usually differ in human capital endowment, venture success, survival rates, job satisfaction, or impact on economic development, stressing the desirability of prioritizing opportunity entrepreneurship (see, for instance, Acs & Varga, 2005; Bergmann & Sternberg, 2007; Kautonen & Palmroos, 2010; Block, Kohn, Miller, & Ullrich, 2015).

The literature on entrepreneurship has primarily focused on individual-level characteristics of entrepreneurs and has tended to underestimate the institutional and policy environment. Nevertheless, in the

* Corresponding author.
E-mail addresses: mjanguloguerrero@uma.es (M.J. Angulo-Guerrero), sperezmoreno@uma.es (S. Pérez-Moreno), isabel@uma.es (I.M. Abad-Guerrero).

http://dx.doi.org/10.1016/j.jbusres.2016.11.017
0148-2963/© 2016 Published by Elsevier Inc.

last few decades some authors have underlined the role of institutions and policies for entrepreneurship. The pioneering works of North and Baumol provide important theoretical insights into entrepreneurial development in differing institutional environments. North (1990) refers to institutions as the norms and rules that guide society, conditioning and leading the framework of relations that occur within it, and which can be classified as informal institutions (ideas, beliefs, attitudes and values of the people) and formal institutions (political and legal rules, economic norms and contracts). He underlines that entrepreneurs are the main agents of change and that organizations, such as firms set up by entrepreneurs, adapt their activities and strategies to fit the opportunities and limitations provided through formal and informal institutional frameworks. Baumol (1990) hypothesizes that entrepreneurial individuals channel their efforts in different directions depending on the quality of prevailing economic, political, and legal institutions. He states that entrepreneurship can manifest itself in productive, unproductive, and destructive form. His contribution is significant because it suggests that the policy focus should be on how to improve the quality of institutions to encourage entrepreneurs to redirect their activities towards productive activities that create economic welfare for society. In this line, Sobel (2008) confirms Baumol's theory and asserts that better institutions have both more productive entrepreneurship and also less unproductive entrepreneurship. He stresses that the best path to foster entrepreneurship is through institutional reforms that constrain or minimize the role of government.

In this context, economic freedom, understood as market economy-oriented institutions and policies, may be seen as a significant aspect for entrepreneurial activity. In fact, the different dimensions of economic freedom, such as size of government, legal structure and security of property rights, sound money, freedom to trade internationally, or regulation of credit, labor, and business may constitute key context conditions determining the characteristics of entrepreneurship. Thus, some dimensions of economic freedom may particularly affect opportunity and necessity entrepreneurship (see Bjørnskov & Foss, 2008; McMullen, Bagby, & Palich, 2008; Díaz-Casero, Díaz-Aunión, Sánchez-Escobedo, Coduras, & Hernández-Mogollón, 2012; Fuentelsaz, González, Maícas, & Montero, 2015). Opportunity entrepreneurship is related to the identification of an attractive business opportunity, while necessity entrepreneurship usually builds on a more difficult environment with limited opportunities. From a rational point of view, it can be argued that greater economic freedom gives greater flexibility and higher rewards and new business may be created in response to economic opportunities, whereas if there is little economic freedom one might be forced to be self-employed and to create a sole proprietorship. Increases in economic freedom may become conceptually equivalent to reductions in entrepreneurial action-inhibiting transaction costs, fostering a dynamic economy in which a large amount of business trial and error can take place. Thus, market economy-oriented institutions and policies that provide an appropriate legal and regulatory framework may facilitate predictable and rational decision-making and favor the recognition and exploitation of entrepreneurial opportunities (Johansson, 2001; Berggren, 2003; Powell & Weber, 2013).

In this paper, we address the extent to which economic freedom matters for both types of entrepreneurship under the hypothesis that economic liberalization boosts opportunity entrepreneurship at the expense of necessity entrepreneurship. We carry out a dynamic panel data analysis during the period 2001–2012 in the OECD countries by using the system GMM estimator developed by Arellano and Bover (1995) and Blundell and Bond (1998). To this end, we use both indicators provided by GEM (2015) on opportunity entrepreneurship and necessity entrepreneurship. As indicators of economic freedom, we consider the economic freedom index (EFI) provided by the Fraser Institute, as well as its five areas or dimensions (Fraser Institute, 2015). Our contribution in this paper is twofold. First, we add some empirical evidence on the discussion of how economic liberalization affects opportunity entrepreneurship and necessity entrepreneurship through a dynamic panel data analysis. We conclude that institutional and policy environment plays a remarkable role in determining both types of entrepreneurship motivation. Second, we examine the effects of the specific areas of economic freedom (size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation of credit, labor, and business) on both types of entrepreneurship in order to provide policy recommendations to encourage a favorable policy and institutional framework for high-quality entrepreneurship in the OECD countries.

The remainder of the paper is as follows: Section 2 reviews the literature on the relationship between economic freedom and both types of entrepreneurship. The next section describes data and methodology. Section 4 presents the results. Lastly, some summarizing and concluding remarks are offered.

2. Literature review

In recent years the effects of economic freedom on entrepreneurship has been researched in a number of studies with diverse conclusions. First, focusing on international studies using entrepreneurship indicators provided by GEM, Sobel, Clark, and Lee (2007) conduct a cross-sectional study for 22 OECD countries in 2002 by using the EFI provided by the Fraser Institute. They find that there is a positive and statistically significant relationship between the level of economic freedom and total entrepreneurial activity. Furthermore, they point out that the size of government and regulation are the most important areas of economic freedom for determining rates of entrepreneurship. In the same way, Powell and Rodet (2012) examine the impact that economic freedom (EFI) and societal approval of entrepreneurs have on rates of total entrepreneurial activity. They find that both cultural legitimation of entrepreneurs and economic freedom, specifically the area of economic freedom related to size of government, are associated with increased rates of entrepreneurship in a cross section of 21 quite diverse countries from different continents. They highlight the existence of some empirical evidence in support of Baumol's argument that both quality of institutions and social approval of entrepreneurs affect the prevalence of productive entrepreneurship.

Beyond total entrepreneurial activity, some authors tackle the relationship between economic freedom and entrepreneurship motivation, taking into account the classification that categorizes the types of entrepreneurship, distinguishing between opportunity and necessity entrepreneurship in accordance with the GEM framework.

Bjørnskov and Foss (2008) consider the five dimensions of economic freedom suggested by the Fraser Institute to carry out a cross-sectional study for a small sample of 29 countries worldwide for the year 2001. They find that size of government is negatively associated with total entrepreneurial activity, opportunity entrepreneurship and necessity entrepreneurship, whereas access to sound money is positively related. Considering the economic freedom index from the Heritage Foundation, McMullen et al. (2008), in a cross-sectional analysis examining 37 worldwide countries for the year 2002, argue that the relationship between economic freedom and entrepreneurial activity differs depending on whether the entrepreneurial activity is motivated by necessity or opportunity. They find that entrepreneurial activity by opportunity is positively related to the areas of labor freedom and property rights, while necessity entrepreneurial activity is positively related to labor freedom, fiscal freedom and monetary freedom. These conclusions differ considerably from Díaz-Casero et al. (2012), who carry out a cross-sectional analysis (from 2002 to 2009) and a pooled data analysis (2004–2009) for a sample of 29 countries worldwide grouped by development level. Their results suggest that overall total entrepreneurial activity, opportunity entrepreneurship and necessity entrepreneurship decrease as economic freedom increases, and just smaller government size and fiscal freedom appear to foster the emergence of new entrepreneurs, irrespective of their motivation. They also find that total entrepreneurial activity and entrepreneurship by opportunity increase as