Entrepreneurship And Types Of Environmental Institutions

Study on entrepreneurship has drawn attention towards the institutional environment to explain how individuals start their own business and achieve long term success. (Bruton et al. 2010). In a society, entrepreneurial activity's rate and shape is strongly influenced by institutional environment (Chiles et al., 2007). These institutions are described as "rule of the game" in a particular society. (Peng, 2002; Williamson, 1998). In a country, institutional environment consists of rules, behaviours, social norms, structure and guidelines that help to develop an economic activity. (Scott, 2003). Increased research in this area demonstrates that a country's institutional environment develops over a period of time and helps to shape, determine that whether new ventures would be feasible and also influence entrepreneurship. (Griffiths et al., 2013),

Environmental institutions play a strong influential role especially when it comes to developmental economies, so the state makes sure that they facilitate them by providing them proper infrastructure and environment in order to prosper. (Dahles, 2008). Studies depict that institutional environment is unique because of the subsistence markets where institutions like normative and cognitive play a role in economies affecting entrepreneurial activities. (e.g. Warren et al., 2016) Moreover, it has been documented that business ecosystems along with subsistence markets consists of regulatory gaps as well as lack in structural holes. (Kolk, 2014). However

The purpose of this study is to replicate and synthesize research that focuses upon the role played by institutional environment on entrepreneurs. According to precious studies, there are three dimensions of institutional environment including normative, cognitive and regulatory that seeks to differentiate between opportunity driven entrepreneurship and necessity driven entrepreneurship.

Normative institutional environment:

Social structure of a society gives birth to the normative mechanisms that play a vital role in shaping the entrepreneurial behaviour. (Seelos et al., 2011). Social values and norms fall under the normative pillar which reflects the behaviour that is acceptable and the individuals is able to adhere in the society in its accordance. (Valdez and Richardson, 2013)). Most of the individuals in the society adhere to the social norms and try to uphold the values which are acceptable in the society. (Bygrave and Minniti, 2000).

Normative institutional environment comprises of behavioural norms that are given value in the society. (Bruton et al. 2010). It basically refers to the extent of residents in a country that take interest and percieve innovative activities playing an important role in an economy. (Busenitz et al., 2000).

Sine and David (2010) critically analyse that intent of becoming an entrepreneur is a result of the pressure due to the norms prevailing in the society. Entrepreneurial outcomes are shaped and build by the critical role played by the normative actors. Seelos et al. (2011) has mentioned that context of entrepreneur ventures are shaped by the mechanisms of the instuttional

environment through the emergence of norms that conduct meaningful systems.

Nguyen et al. (2009) mentions whether the normative institutional environment is able to support and admire the entrepreneurial activities. Studies in the past demonstrate that the norms that created within societies can promote as well as discourage the business activities. (Jones 2007; Minniti 2008). In several case studies of Baumol et. Al. 1996 explains how the institutional environment affects the resource allocation of entrepreneurs making it productive and unproductive that further affects the growth of the economy. On the other hand De Clercq et al. (2010) states that entrepreneurship is not viewed as a positive phenomena and results as a negative influence in business dealings.

One of the normative view regarding entrepreneurship is how private businesses create value in the society. For developing countries, entrepreneurship is widely discouraged and pushed towards an informal sector while in the underdeveloped counties the monopolies that are state owned tend to drive the entrepreneurs out of the market, similarly entrepreneurs are less open to the forces existing in the market that results to disrupt their status quo. Additionally, economies which have high government intervention encourage entrepreneurship Sambharya, R. & Musteen, M. J Int Entrep (2014). The attitude towards entrepreneurship is noticeable in economies that are still transitioning and most of the property that has value is under state ownership. As eveident from Hunag (2009) research, when government intervenes it dampens the affect on entrepreneurs thus distorting economic development. The significance of norms can only be applied to opportunity driven entrepreneurs as it encourage market openness, these entrepreneurs are only driven by the opportunities that they desire and prefer to be independent.

Normative environment supports the freedom in market, helps to make investments in market freely and also be of great value to opportunity driven entrepreneurs who demand large amount of capital. While on the other hand institutional environment that is regulated by the government would promote entrepreneurship as a necessity which helps to create ventures that don’t require a large amount of capital.

Normative institution helps in shaping the organizational activities which are consistent with the societal norms and influential groups. These societal values and norms can influence entrepreneurship among people positively as the normative environment helps with strategic models and increases entrepreneurial stance. Consequently, normative institutions help to create an environment for entrepreneur’s that stimulate their profiles by the strong impact of society’s culture and values. (Ahlstrom and Bruton, 2002, 2010; Kshetri, 2009; Nguyen et al., 2009). To make improvement in promoting entrepreneurship, it has been suggested that people’s mindsets could only be influenced if there is a normative change in the environment. (Karanda and Toledano, 2012).

Regulatory institutional environment

Regulatory institutional environment consists of formal rules and regulations that can aid as well as deter entrepreneurship. (Klapper et al. 2006; Stenholm et al. 2013; Van Stel et al. 2007). It is the responsibly of the government to set the rules and establish benefits and punishments to regularize the institutional environment. (Valdez and Richardson, 2013). In the emerging market, entrepreneurs face economic changes, changes in the level of government, change in

the patterns of ownership, different business laws which effects their performance. (Peng et al., 2009). Similarly, these regulatory constraints make it cumbersome for entrpreneurs to fill in the institutional voids in the market. (Khanna and Palepu, 2011).

As these regulatory factors exert control over entrepreneurship outcomes and processes, (Seelos et al., 2011). Estrin et al. (2013) researched that these new ventures are only successful where the institutional context have a strong regulatory pressure. Favourable reports have been collected by (Urban, 2013] who states that self efficacy has positive relationship with the institutional environment and promotes social entrepreneurship especially in developing countries. Many research suggest that encouraging a conductive regulatory environment along with a supportive development framework helps to promote social entrepreneurship (Bernardino et al., 2015)

Also the regulatory processes developed by government helps in shaping the the level of risk involved in starting up a venture, business dealings are greatly affected by the rules that need to be adopted and enforced. (Baumol and Strom, 2007). Countries have various requirement for entrepreneurs to start up a business, these would include; licenses, capital, consumer safety, health and safety rules and regulations. For instance in 2010, there was a study conducted by World Bank in which it took 700 days for a business in Surinam to complete its requirements imposed by the government. Ironically in New Zealand it will take them one single day to complete their requirements. In the domain on entrepreneurship, these regulatory requirements have been studies by many researchers. Baron & Henry, 2010; Mitchell, 1994; Mitchell et al., 2007).

One of the barriers to entrepreneurship is the complexity of the the institutional environment. Entrepreneurs who want to establish businesses are deterred by the time consuming, cumbersome regulatory processes. According to Glaeser and Shleifer (2003) explain that regulations arose because many powerful corporations started to question the court regarding the fair practices among the companies and private individuals. Thus entrepreneurs have to deal with these hurdles which discourage them in engaging in business dealings especially for those who are driven by opportunity. Government can mitigate entrepreneurship via high tax collection that weakness the incentives for opportunity driven entrepreneurs and offers high welfare provisions such as increasing wages and benfits to employees which ultimately decreases the expected return from entrepreneurial activities. (Parker 2004). In addition to this, necessity driven entrepreneurs can be reduce to indulge in business dealings by these strong welfare states. One of the cases studied by Henrekson (2005) has illustrated that in Sweden the welfare state had a negative impact on the both the entrepreneurs driven by necessity and opportunity.

Cognitive institutional environment

Cognitive institutional environment refers to limit behaviour by values and beliefs that are operating at the level of language and customs. (Bruton et al. 2010) It also entails the institutional environment that retain the knowledge conceptions within the society and frameworks that help to evaluate information (Busenitz et al., 2000)Culture is viewed as the major component of cognition which is defined as the programming of a mind, cognitive institutional environment affects entrepreneurs in their attitudes in case of risks, thinking and decisions regarding business initiations. (Hayton et al. 2002). According to research culture’s

significance towards entrepreneurial behaviour is evident(Kreiser et al. 2010; Stephan and Uhlaner 2010; Wennberg et al. 2013; Wennekers et al. 2007)which includes the formation of new ideas and concepts (Kreiser et al. 2010).

When we take into account the impact of cognitive institutional environment on entrepreneurship, previous knowledge is taken into account which points out some of the indicators of cognitive institutional environment which are power distance dimensions in a culture, uncertainty avoidance, institutional collectivism. (Kreiser et al. 2010). Most of the countries that have a high level of uncertainty tend to avoid new products and services which are mostly the outcome of entrepreneurship opportunity.. For instance it was studied in a sample of 20 European economies who have lower tolerance in ambiguity have less patent requests which demonstrates their willingness to commercialize new ideas. Kaasa and Vadi (2008). Consequently, this means that uncertainty avoidance will not have a positive effect on opportunity driven entrepreneurial actives.

However its different for necessity driven entrepreneurs. As stated by aldez et al. (2011), both the necessity and opportunity driven entrepreneurs are associated with uncertainty at different levels. He mentions that opportunity driven entrepreneurs have high level of uncertainty because they focus more upon new business models, ideas, products and services while necessity entrepreneurship often just copy the old concepts and ideas to start a venture.

Another dimension of culture is institutional collectivism, it affects entrepreneurship in such a way that indivufals interests are less valuable as compare to the group goals. Javidan and House (2001). Opportunity driven entrepreneurs wouldn't have valued the cultural collectivism while necessity driven entrepreneurs take advantage by attracting social support so that they can benefit in their new venture. (Thurik et al. 2008)

Finally, the last dimension of cognitive institutional environment is power distance. Countries that have high power distance, wealth is distributed unequally and exerts more power over the members of society that are less powerful. (Javidan and House 2001; House et al. 2004).

Entreprenurs that are driven by opportunity would create wealth by disrupting the norms by taking advantage of the high power distance within their societies while the necessity driven entrprenurs would be pushed towards the informal sector. Williams, C.C. Int Entrep Manag J (2009)

In addition to this culture also affects some of the traits of individuals such as the ability to take risks, motivation towards a particular goal or objective and the risk taking initiation (Thomas and Mueller 2000). Similarly culture gives birth to the societal norms and the personal cognitive schemas that affect entrepreneurship in economies(Baron, 2007).. Individuals who are practice entrepreneurship develop cognitive patterns that help them to identify opportunities. This phenomena to identify and execute decisions is known self efficacy. Research shows that the expected level of performance, confidence of an individual is particularly shaped through education that positively affects individual's in the way they perceive to start a new business. (Verheul et al., 2002),

In addition to this, the novel opportunities through the perception of individuals help them in building the necessary skills and knowledge to start up a venture. (Busenitz et al., 2000). Similarly these assumptions and perceptions for example to identify opportunities or being

confident in the business venture are positively related to entrepreneurship. (Arenius and Minniti, 2005). Thus the beliefs in an entrepreneur in refers to skills and knowledge greatly impact the recognition of opportunity and exploitation. Shane, 2000) depending on the entrepreneurial activity that will be performed. (Krueger et al., 2000). Furthermore, Bowen and De Clercq (2008) discovered that actives that foster education influence entrepreneurship positively with high growth perspective.

Conclusion:

Institutional profiles within countries may change from time to time (Peng, 2001). Institutional environment is giving birth to entrepreneur ventures due to the economic exchange, economic reforms have paced which is making institutional barriers more critical for entrepreneurial activity. (Ahlstrom & Bruton, 2002). Future longitudinal studies could thus document the dynamic coevolution of the institutional environment and entrepreneurship in emerging economies. A longitudinal study would be better to document the impact of institutional environment on entrepreneurship. Also, entrepreneurship can only be promoted if public policies are in favour of it. An economy that consists of friendly legislation, promotes entrepreneurial competencies as well as strategic investments can help to encourage entrepreneurship. According to researchers these implications such as the regulatory, normative and cognitive dimensions of institutionalization make entrepreneurs aware of the pressure over them. Furthermore, education and training academies have fostered young students to develop the necessary skills to become entrepreneurs which help to improve their perceptions in reference to the cognitive and normative environment. (Urban, 2013). Thus education system should be promoted more in order to enhance the norms in the society that would help to enhance the entrepreneurial level in the society.