



# Perspectives

## **Economic Freedom, Institutions, and Entrepreneurship: Forms, Levels and the Potential Contribution of Management Scholars**

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## INSTITUTIONS, ECONOMIC FREEDOM, AND ENTREPRENEURSHIP: THE CONTRIBUTION OF MANAGEMENT SCHOLARSHIP

### Introduction

Policymakers increasingly look to entrepreneurship as the key to economic growth, job creation, and greater prosperity. Net job growth in the United States, European Union, and some Asian economies is largely driven by small, entrepreneurial firms (Haltiwanger, Jarmin, & Miranda, 2013; McMillan & Woodruff, 2002). However, the US has experienced a decline in entrepreneurial dynamism, with net firm entry and exit rates falling since the 1970s (Hathaway & Litan, 2014), and some European countries continue struggling to build a culture of entrepreneurship despite significant policy efforts (Audretsch, Grilo, & Thurik, 2007; European Commission, 2013; Prodi, 2002). In contrast, a number of developing countries are experiencing a net rise in entrepreneurial activity, which is cited as a critical path for poverty alleviation (World Bank, 2010; Bruton, 2010; Bruton, Ahlstrom, & Obloj, 2008; George, McGahan, & Prabhu, 2012).

What explains these patterns? While country-level characteristics often appear stable over time, there are continual changes in political and legal conditions, as well as social and cultural norms, which enable and constrain entrepreneurial activity. This is a core insight of institutional theory (Scott, 1995) and the new institutional economics (Klein, 1999; North, 1990; Williamson, 1985, 1990). The papers in this symposium focus on a particular aspect of the institutional environment, what the economics and public policy literatures call *economic freedom* (EF). Economic freedom is a summary measure capturing the freedom to engage in economic activity without undue restrictions or subsidies. The institutions, or “rules of the game,” most strongly associated with economic freedom include property rights, the rule of law, open markets, and incentives to innovate (North, 1990; Gwartney & Lawson, 2003).

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3 Empirically, economic freedom is primarily associated with the Economic Freedom of the  
4 World Index, compiled annually by the Fraser Institute (reference).<sup>1</sup>  
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7 Several strands of the management literature deal with the institutional environment and  
8 its effects on strategy, organization, and governance (Ahuja & Yayavaram, 2011; Henisz &  
9 Zelner, 2003; Hillman, Keim, & Schuler, 2004; Pearce, Dibble, & Klein, 2009; Peng, Wang,  
10 & Jiang, 2008). Entrepreneurship scholars are also calling for a more systematic  
11 understanding of how public policy affects entrepreneurship at the spatial, temporal, social,  
12 and institutional levels (Zahra & Wright, 2011: 78-81; Zahra, Wright, & Abdelgawad, 2014).  
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15 EF remains largely absent from contemporary entrepreneurship research, education, and  
16 outreach.<sup>2</sup> The research literature tends to emphasize the characteristics of the individual  
17 entrepreneur and the opportunities, resources, and competitive environments in which  
18 business entry and growth occur with the assumption that relatively unhindered markets  
19 exist. While the institutional literature gives some attention to the normative and cognitive  
20 background facing entrepreneurs (Busenitz, Gómez, & Spencer, 2000; Baughn, Chua, &  
21 Neupert, 2006), the regulative dimension has not taken center stage.  
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24 Yet, surveys of US business owners by the National Federation of Independent Business  
25 (Dunkelberg & Wade, 2015) indicate that the single most important problem facing their  
26 business is “regulation/red tape” and “taxes,” with “competition” and even “poor sales” a  
27 distant third and fourth concern. In other words, US entrepreneurs perceive a lack of EF as  
28 their top concern, while entrepreneurship research usually treats EF as obvious and given,  
29 and thus not deserving of explicit modeling or measurement. Increasingly, political,  
30 regulatory, and cultural institutions play an important role in industries, both promoting, and  
31 potentially constraining innovation and entrepreneurship. A greater understanding and  
32 awareness of how these institutional forces alter the motives, processes, and outcomes for  
33 opportunities, business initiation, and growth is needed to better inform entrepreneurship  
34 research, teaching, and policy.  
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54 <sup>1</sup> Economic freedom incorporates, and is broader than, related concepts and measures such as the ease of doing  
55 business (World Bank, 2015) and the origin of a country’s legal system (La Porta et al., 1998).

56 <sup>2</sup> Exceptions include Meyer et al. (2000) and McMullen, Bagby, & Palich (2008).  
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3 Entrepreneurship, like other forms of economic activity, is constrained by rules. Such  
4 rules can be normative (What forms of entrepreneurial behavior are morally or ethically  
5 justified?), cognitive (How should and do entrepreneurs think about opportunities, resources,  
6 uncertainties, and judgments?), or regulative (What entrepreneurial actions are legally  
7 permitted?) (Scott, 1995). North (1990) usefully distinguishes between informal rules  
8 (norms, customs, and social conventions) and formal rules (constitutions, laws, court  
9 decisions, regulatory opinions). According to Acemoglu and Johnson (2003), “There is a  
10 growing consensus among economists and political scientists that the broad outlines of  
11 North’s story are correct: the social, economic, legal, and political organization of a society,  
12 i.e., its ‘institutions,’ is a primary determinant of economic performance.”  
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21 What is the purpose of formal legal rules? Public-interest theories of regulation interpret  
22 government intervention into the economy as an attempt to improve public welfare by  
23 redressing “market failures” such as externalities, under-provision of public goods, monopoly  
24 pricing, health and safety concerns, and unequal distributions of wealth and income. In  
25 contrast, private-interest theories emphasize ways that regulation and other interventions  
26 favor private interests at the expense of public well-being. For instance, restrictions on  
27 international trade benefit domestic manufacturers at the expense of domestic consumers, and  
28 health, safety, and environmental regulations benefit large firms over small firms and  
29 incumbents over entrants. In a variety of ways, politically connected firms can use the  
30 regulatory system to their advantage.<sup>3</sup>  
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39 The Chicago school’s economic theory of regulation argues that regulators are eventually  
40 ‘captured’ by the firms being regulated, with the regulators protecting incumbents from new  
41 market entrants (Stigler, 1971). The Public Choice or ‘Virginia’ approach questions the  
42 premise that policy makers operate only out of public interest. Instead, politicians and policy  
43 makers also have self-interested motives—career advancement, reelection, etc. Regulations  
44 that primarily serve private interests are more likely to survive when the benefits are  
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52 <sup>3</sup> North (1981) distinguishes between a “contract theory” of the state and a “predatory theory” of the state. In the  
53 former perspective, the state and related institutions provide the legal and political framework for private  
54 transactions to guide economic activity. In the latter, the state acts mainly to transfer resources from one group  
55 to another. Most approaches to public policy incorporate some mix of both categories (Baldwin, Cave, &  
56 Lodge, 2012; den Hertog, 2010).  
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3 concentrated and the costs are dispersed, and when the private interests align with other,  
4 more easily advertised, public ones (Yandle, 1983).  
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7 Of course, “regulation” can include voluntary self-regulation and other forms of “private  
8 ordering,” as well as government intervention. Elinor Ostrom and colleagues have studied  
9 such “polycentric” forms of governance in detail. As Ostrom (2010: 1) observes, human  
10 actors “have complex motivational structures and establish diverse private-for-profit,  
11 governmental, and community institutional arrangements that operate at multiple scales to  
12 generate productive and innovative as well as destructive and perverse outcomes.” Applying  
13 their Institutional Analysis and Decision (IAD) framework, Ostrom and colleagues side-step  
14 binary market or hierarchy (or private and public) explanations by providing a richer  
15 explanation of community, private and public providers solving common-pool resource  
16 problems. This approach is reflected in this symposium with Kim and colleagues’ (2016) call  
17 for further study of entrepreneurial groups and associations as mediating mechanisms  
18 between institutions and the actions of firms and individuals. In turn, these networks also can  
19 shape the macro level institutional environment through their collective action.  
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### 31 **Opportunities and Challenges**

32 Given the increased interest among management and entrepreneurship scholars in public  
33 policy, institutions, and regulation (Pearce, Dibble & Klein, 2009; Hoskisson, Wright,  
34 Filatotchev, & Peng 2013), and greater sensitivity to the complex (and not necessarily  
35 beneficial) effects of state intervention in the economy, greater attention to economic  
36 freedom, conceptually and empirically, should be useful. While there is of course debate  
37 about the proper role of the state and the appropriate level of government intervention to  
38 promote more and better entrepreneurship (e.g Rueger and Sorens, 2013; Kim, Lee &  
39 Reynolds, 2012), most scholars agree that EF is on balance beneficial for economic growth.  
40 The papers in this symposium show how we can approach these issues with an emphasis on  
41 formal political and legal institutions which draw from different theories and data at different  
42 levels of analysis. Here we agree with Jennings et al. (2013): “We are not asking  
43 entrepreneurship scholars to become political scientists—political scientists care about the  
44 ideological content of political battles, which parties win, and political careers—  
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3 entrepreneurship scholars do not. Instead, we think that it would be useful to use  
4 entrepreneurship notions of politics and community to help investigate the creation and  
5 operation of new programs and political units, while controlling for the standard economic  
6 features that normally concern us.”<sup>4</sup>  
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10 We suspect that the limited treatment of institutions more generally, and EF specifically,  
11 within entrepreneurship research may result from a lack of familiarity with available data  
12 sources, methods specific to address policy, and theories that address different institutional  
13 forms. Likewise, the economics, political science, and public policy literatures on EF  
14 typically treat entrepreneurship as a highly abstract, instrumental construct such as “risk  
15 taking” or the “innovation factor,” paying less attention to who entrepreneurs are, what  
16 opportunities they pursue, why they pursue them, and what products they ultimately offer on  
17 the marketplace (Baumol, 2005).<sup>5</sup>  
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24 Research on EF and entrepreneurship can thus benefit from the cross-pollination of  
25 approaches to produce more informed scholarship. For example, management scholars  
26 interested in the intersection of business and public policy have highlighted the effects of  
27 formal institutions on foreign direct investment (Holmes, Miller, Hitt, & Salmador, 2013),  
28 venture formation (Kim & Li, 2014), and poverty (McMullen, 2011). Moreover, cross-  
29 country comparisons of developed economies to subsistence economies reveal why  
30 institutions matter (De Soto, 2003; Peng et al., 2008; Robinson & Acemoglu, 2012). Further,  
31 while much of the prior work addressing institutional effects on entrepreneurship has been  
32 cross-sectional, and at the country level (Karlsson & Acs, 2002), there is much variation  
33 within countries and over time. As a result, there are opportunities for studying institutional  
34 evolution and change, and examining causal relationships between firm and industry  
35 characteristics and institutional characteristics at multiple levels.  
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51 <sup>4</sup> We do not discuss here the literature on public or political entrepreneurship, which applies entrepreneurship  
52 theories and methods to the study of public policy and political change (e.g., Klein et al., 2010, 2013).  
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54 <sup>5</sup> (Klein, 2008: 176-178) describes in more detail the instrumental, or “functional,” treatment of  
55 entrepreneurship in economics in the classic works by Schumpeter, Knight, Kirzner, and others.  
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### Moving Forward: Exemplar Symposium Papers

The papers in this symposium address how scholars can theorize and study the effects of institutions and institutional change on entrepreneurship, and the effects of entrepreneurship on institutions, at and across different levels of analysis. Several recognized scholars with expertise in individual-, firm-, industry-, group- and country-level research were asked to address these questions. We emerged with four insightful papers. Each offers an original contribution while also providing guidance for future scholarship related to institutions and entrepreneurship. We briefly highlight each paper and offer some concluding suggestions for research topics, theories and methods available to researchers moving forward.

*Individual level.* McMullen, Wood, and Kier (2016) address the variation and of individual preferences that are often hidden by higher levels of analysis. They argue that individual choices are often more complex trade-offs of preferences based on cognitive interpretations of socio-political attributes. The authors illustrate this with a conjoint study of 329 managers regarding geographic location of a new venture, examining how managers weigh EF against other attributes. Tradeoffs in the location decision scenarios include regulation, cost of living, business support services, cultural amenities, and whether the manager will be required to relocate. They also consider political party identification and political values as salient individual differences that moderate the effects of socio-political attributes for new venture location decisions. The sample includes 204 entrepreneurs and 125 corporate executives providing further comparison of preferences for entrepreneurs versus corporation executives. Their study addresses an important feature of North's work (1990: p. 111): "Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices. Moreover, by structuring the interaction of human beings in certain ways, formal institutions affect the price we pay for our actions, and to the degree the formal institutions are deliberately or accidentally structured to lower the price of acting on one's ideas, they provide the freedom to individuals to incorporate their ideas and ideologies into the choices they make." McMullen and colleagues (2016) suggest that, if these considerations are indeed important, then an avenue is opened for a stream of research considering individual differences within differing configurations of social and institutional environments.

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*Firm and industry level.* Holmes, Zahra, Hoskisson, DeGhetto, and Sutton (2016) address two questions: (1) how EF shapes corporate entrepreneurship strategy and (2) how firms use political strategy to shape the institutional environment. More specifically, focusing on national technology policy, they examine how government funding for research and intellectual property protection influence the abilities, incentives, and actions (e.g., alliances) firms use to pursue in corporate entrepreneurship. From this base, they also explore the specific mechanisms (e.g., lobbying) that are available to firms to influence public policy. The find that .... In this way, the authors highlight interdependencies (e.g., complementarity) between corporate entrepreneurship and political strategies. By tackling these issues, the authors provide insight into “the reciprocal, dynamic, and emergent processes through which firms and institutions coevolve over time” (Holmes, Zahra, Hoskisson, DeGhetto, & Sutton 2016).

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*Group or meso level.* Kim, Wennberg, and Croidieu (2016) argue for the closer integration of social groups as a meso-level structure within multi-level studies of entrepreneurial activity. The authors modify Coleman’s (1990) “bathtub” model to detail how group-level associations are involved between institutional forces and individual/firm level actions. The Coleman model, well known among sociologists, provides a disciplined approach to theorizing about (1) the situational mechanisms between macro level forces and lower levels, (2) the action responses of groups, firms and individuals to those situational drivers, and (3) how the lower level responses transform back into higher level collective outcomes. This disciplined approach to thinking through the links between levels and within levels leads to better theorizing and avoidance of mistakes, such as aggregating individual-level behavioral descriptions to higher level mechanisms. As an example, their approach sheds light on apparent paradoxes like the China context in which weaker formal institutions (and hence ambiguous levels of EF) coincide with higher levels of entrepreneurship. Understanding how weaker institutions increase a reliance on informal social networks which may lead to higher aggregate entrepreneurship despite the institutional barriers is quite insightful.

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*National level.* Bjørnskov and Foss (2016) review and assess the literature linking EF, entrepreneurship, and national productivity. As they point out, the empirical economics



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3 literature on country-level productivity and growth takes a narrow view of entrepreneurship,  
4 struggles with the causal relationship between entrepreneurship and growth, and tends to  
5 black-box the underlying mechanisms. One problem is that the classic economic  
6 contributions to entrepreneurship theory by Schumpeter, Knight, Kirzner, and others treat  
7 entrepreneurship as *sui generis*, making it difficult to theorize about its antecedents,  
8 institutional or otherwise (Foss & Klein, 2010). Moreover, while it seems obvious that  
9 entrepreneurial activity can contribute to economic growth, aggregate entrepreneurship may  
10 also react to economic conditions (a rapidly growing economy may present more  
11 entrepreneurial opportunities; at the same time, perhaps paradoxically, an economy with  
12 many inefficiencies may present increased opportunities for entrepreneurial restructuring that  
13 creates value). Bjørnskov & Foss show how explicit attention to ideas from strategy (such as  
14 resource recombination and transaction costs) and entrepreneurship (such as judgment and  
15 opportunity recognition) can improve our understanding of these relationships.

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17 These studies provide valuable examples of how a focus on institutions, and EF in  
18 particular, can increase our explanatory power for entrepreneurial decision making, firm  
19 strategy, and in a broader sense, the economic growth of countries. Also highlighted in these  
20 symposium papers are the need for theory, additional methods, and data sources to further  
21 integrate EF and other institutional effects into management and entrepreneurship research.

### 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 **Moving Forward: Constructs and Theory**

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39 The symposium papers highlight potential gains from a more explicit and more nuanced  
40 treatment of how the rules of the game, or the regulative part of the institutional environment  
41 affects and is affected by entrepreneurial activity. Still, there is a further need for construct  
42 clarity and for a better understanding of the underlying mechanisms. For example, our  
43 understanding the relationship between institutions and entrepreneurship depends on how we  
44 conceive the entrepreneurial phenomenon. Theoretically, EF should have a positive net effect  
45 on venture funding, startups, firm growth, IPOs, and other firm-level measures of  
46 entrepreneurship. Free and open markets for capital, labor, equipment, and other inputs allow  
47 entrepreneurs to obtain and combine resources, and to exit successful ventures;  
48 straightforward and transparent legal and regulatory procedures make it easier to start new  
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3 companies; and competition allows for an effective sorting among resources, ventures, and  
4 entrepreneurs. Of course, more interventionist policies (associated with lower levels of EF)  
5 such as subsidies, trade barriers, and other forms of protection can help certain ventures (e.g.,  
6 green-tech), but it seems clear, theoretically, that such policies do not benefit the  
7 entrepreneurial system as a whole (Klein, 2012).  
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12 However, when entrepreneurship is viewed in a more general, abstract way such as  
13 alertness to opportunities or judgment under uncertainty, or is identified with leadership,  
14 creativity, or initiative, its relationship to EF is more difficult to specify. Kirzner (1982: 10)  
15 argues that free markets facilitate more and better entrepreneurial discovery.  
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19 [D]irect controls by government on prices, quantities, or qualities of output  
20 production or input employment may unintentionally block activities which  
21 have, as yet, not been specifically envisaged by anyone. Where these blocked  
22 activities turn out to be entrepreneurially profitable activities (perhaps as a  
23 result of unforeseen changes in data), the likelihood of their being discovered  
24 is then sharply diminished. Without necessarily intending it, the spontaneous  
25 discovery process of the free market has thus been, to some extent, stifled or  
26 distorted.  
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34 However, given the instrumental, metaphorical use of “opportunity” in Kirzner’s works,  
35 and his insistence that profit opportunities are purely exogenous (Kirzner, 2009), it is unclear  
36 how to incorporate EF and other background conditions into Kirzner’s theoretical system  
37 (Foss & Klein, 2010). Is the discovery of new and better ways to evade regulations or to  
38 impose them on rivals, more effective forms of rent seeking, or other forms of advantage in  
39 an interventionist economy not a form of Kirznerian entrepreneurship?<sup>6</sup>  
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44 From the judgment-based perspective (e.g., Foss & Klein, 2012), EF facilitates  
45 entrepreneurship by protecting private property and hence encouraging the effective  
46 allocation of ownership ability in the economy. However, the precise mechanisms by which  
47 various legal rules and regulatory arrangements affect ownership, and the ability to exercise  
48 effective judgments about the deployment and redeployment of resources under uncertainty,  
49 have not been fully spelled out.  
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56 <sup>6</sup> See Holcombe (2002) for a treatment of political entrepreneurship from a Kirznerian perspective.  
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In a similar vein, the current theoretical and empirical approaches for understanding the multidimensional nature of regulatory complexity are limited. We know that entrepreneurs are concerned about “red tape” (Ntaliani & Costopoulou, 2014), but we often don’t know what this refers to or how this influences their decision making or behaviors. There are currently measures of the amount of regulation by industry in the US (Al-Ubaydli & McLaughlin, 2013) and Europe (Koske, Wanner, Bitetti, & Barbiero, 2014), for example. The economic freedom index and World Banks measures address regulatory burden the areas of: property rights, health insurance, labor markets, occupational licensing, banking and other miscellaneous regulations by financial or time cost. However, these measures do not account for the punitive nature of the regulation. In other words, if laws are in place, but it is commonly recognized that they are ignored in some countries, this will be unaccounted for by the measure. Further, while market uncertainty is well established in the literature, uncertainty related to potential regime or policy changes is underdeveloped at this point in the management literature (Fairlie, Kapur, & Gates, 2011).

Additional development of theoretical constructs like “regime uncertainty” (Higgs, 1997, 2008)—the idea that investors and entrepreneurs hesitate to begin new products when the regulatory environment is volatile and unpredictable—would help to explain how entrepreneurship is affected by (and contributes to) the length and depth of economic recessions. Finally, the usual measures also do not capture the psychological cost of regulation related to complexity or loss of autonomy for the entrepreneur (Bylund, Wood and Bradley, in press).

Political power along with market power should continue to be addressed in our understanding the entrepreneurial process (e.g. Kane, 1977; Pfeffer, & Salancik, 1978). “Policy capture” is an important theoretical explanation of a strategic approach used by powerful actors in many industries. However, coalitions sponsoring the legislation often face unintended effects from the legislation and “loopholes” used by actors to protect their economic self-interest often require further legislation and rules (Kane, 1977). Understanding this “cat-and-mouse game” by competitors would further our understanding of how entrepreneurs address this component of their business strategy.

### Moving Forward: Data and Methods

As Bjørnskov and Foss (2016) discuss, there are many available aggregate measures of entrepreneurship, such the number of startups and the percentage of the population that is self-employment, but these do not necessarily capture abstract concept of alertness, judgment, or innovation. Most scholars interested in entrepreneurship are already aware of the Global Entrepreneurship Monitor (GEM) which has conducted surveys since 1999 and now covers 95 different economies. The GEM surveys focus on the study of individual-level entrepreneurial behaviors across countries, but also include macro-level measures of institutions and the country's stage of economic development (Levie, Autio, Acs, & Hart, 2014). The Panel Study on Entrepreneurial Dynamics (PSED) and country affiliates along with the Kauffman Foundation dataset provide individual level cohort and panel data, though these surveys have been discontinued recently. Perhaps less familiar to entrepreneurship scholars are two World Bank datasets, Doing Business and Enterprise Surveys. The Doing Business surveys are country-level business climate assessments and the Enterprise Surveys are random, stratified, individual/firm longitudinal surveys for a number of countries. These datasets include important perceptions about regulation of business entry, taxes and corruption along with business capabilities measures.<sup>7</sup> Many countries collect comprehensive firm-level data each year. These datasets are usually restricted due to the sensitive nature of the information. In the US, researchers can request permission to use the US Census Bureau Longitudinal Business database. Moreover, in 2008 the Census also initiated an annual Business Research and Development and Innovation Survey (BRDIS) of interest to management scholars.

Measuring the institutional environment is more complicated. At the country level, economic freedom indices are provided annually by the Heritage Foundation and Frazer Institute. The Eurobarometer and World Values Survey include cultural attitudes towards entrepreneurship. Holmes and colleagues (Holmes et al., 2013) provide a good example of combining country level measure including: the International Country Risk Guide, Index of Economic Freedom (Heritage), Political Constraint Index, Political Risk Services and World Development Indicators. In a follow up paper using these formal and informal institutional

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<sup>7</sup> Beasley (2015) provides a helpful overview of the benefits, uses, and limitations of the World Bank datasets.

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3 measures Batjargal and colleagues (2013) used these economic, social and political  
4 institution measures with cross country survey data to examine the relationship between  
5 institutions, social networks and firm growth.  
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9 Moreover, evaluating the effect of particular institutional rules or policies typically  
10 involves making at least some comparisons by cost, geography, or time. For example,  
11 Jackson (2010) examined the before and after effects of Massachusetts healthcare mandates  
12 on new business entry. To accomplish this goal, he compared counties within Massachusetts  
13 with matched counties in the surrounding states. World Bank's Doing Business looks at  
14 regulation in terms of quality and efficiency. At the country level, it provides scoring on the  
15 effectiveness of laws that relate to allowing a business to start, operating and paying taxes  
16 and exiting if the business does not succeed (World Bank, 2015). Regulation has also been  
17 measured by the number of procedural and reporting requirements placed on a business. Al-  
18 Ubaydli & McLaughlin (2013) have developed a database (RegData 2.0) by 2-, 3-, and 4-  
19 digit industry in the US with counts of the number of binding words—"shall," "must," "may  
20 not," "prohibited," for the *Code of Federal Regulations* (CFR). The data show that the total  
21 number of regulations have doubled from 1997 to 2012.  
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25 On the methodological side, management and entrepreneurship scholarship, like the other  
26 social sciences, is beginning to pay more attention to causal inference (Foss & Bjørnskov,  
27 2015) and counterfactual thinking (Davidsson & Delmar, 2009; Morgan & Winship, 2014).  
28 In other words, to understand the effect of a policy (treatment), we should also consider what  
29 would have been the potential outcome if that policy had not been in place (counterfactual).  
30 On a related note, it is necessary to tackle issues of endogeneity. For example, to what extent  
31 might positive correlations between economic freedom and entrepreneurship reflect  
32 unobserved third variables, such as individualism or rising incomes, which might fuel both  
33 the predictors and the outcomes?  
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37 To illustrate these issues, consider the significant recent funding directed towards  
38 business incubators to support new firms and create regional job growth. The idea seems  
39 reasonable because new firms have limited resources and higher failure rates (Stinchcombe,  
40 1965). But how can we be certain that business incubators have the intended effect? In a  
41 recent review of 35 academic studies by the Kauffman Foundation (Fetsch, 2015), only one  
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3 study looked at the counterfactual by making comparisons to equivalent non-incubated  
4 firms. In that study (Amezcuca, Bradley, & Wiklund, 2011), the authors found that business  
5 incubators created weaker firms compared to non-incubated firms because they were  
6 shielded from market selection processes. In a follow-up study (Amezcuca, Grimes, Bradley,  
7 & Wiklund, 2013), the authors were able to offer greater detail to how and when incubation  
8 services increased survival rates that may lead to better policy decisions. Causal analysis can  
9 also establish the order of relationships. Kreft and Sobel (2005) found that venture capital  
10 does not lead to greater entrepreneurial activity. Rather, the conditions leading to greater  
11 entrepreneurial activity draws greater capital. This may explain why high levels of  
12 microcredit capital availability combined with limited entrepreneurial opportunity has had  
13 minimal effects on poverty rates in developing countries (Bradley, McMullen, Simiyu, &  
14 Artz, 2012). In yet another example of counterfactual reasoning, Young, Higgins, Lacombe,  
15 & Sell (2014) present evidence that US Small Business Administration Funding actually  
16 reduces local economic growth, theorizing that SBA funding tends to crowd out private loans  
17 that would otherwise have gone to more efficient, but less politically connected, companies.  
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21 The most common approaches include instrumental variables, regression discontinuity,  
22 differences-in-differences, propensity score matching, interrupted time series designs,  
23 differential rate of growth models, analysis of covariance models Heckman selection models,  
24 Bayesian models, and synthetic analysis (Abadie & Gardeazabal, 2003; Antonakis,  
25 Bendahan, Jacquart, & Lalive, 2010; Guo & Fraser, 2014; Li, 2013a, 2013b; Morgan &  
26 Winship, 2014). Field experiments are also increasingly important (Banerjee & Duflo, 2011).  
27 All these have been used to examine the effect of the policy environment on business  
28 activities.  
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31 Other techniques include conjoint studies (Holmes, Holcomb, Sutton, & DeGhetto, 2013;  
32 Wood & Williams, 2014) and simulation approaches such as agent-based modeling (Axelrod  
33 & Tesfatsion, 2006; Bylund, 2015). For data across levels of analysis, the hierarchical linear  
34 model (HLM) provides a means to partial out variance at different levels of analysis (Rabe-  
35 Hesketh & Skrondal, 2008). The HLM approach reduces the temptation for “ecological  
36 fallacy” where inferences about individual or firm level behavior are deduced from  
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3 inferences to group or country level averages (Autio & Acs, 2010; Estrin, Korosteleva, &  
4 Mickiewicz, 2013).  
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### 8 **Summary**

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10 Societies often promote entrepreneurship for its social and economic benefits, such as  
11 job creation, innovation, and new products and services that increase market choices.  
12 Entrepreneurship also benefits the entrepreneurial individual or groups: a space with greater  
13 autonomy for creativity and problem solving that can enrich quality of life. Entrepreneurship  
14 is more than new firms or SMEs with profit motives, but can be viewed more broadly as  
15 problem solving with a broader set of goals that can make the world a better place. The  
16 extension, or point of departure for the papers in this symposium is an emphasis on the  
17 institutional environment that shapes actors' economic activities and social goals. This  
18 institutional environment influences the extent and nature of entrepreneurship within a  
19 society or country. Moreover, whether entrepreneurship is productive, adding value to  
20 society, or unproductive and rent seeking depends on the incentives shaped by the  
21 institutional environment (Baumol, 1996). By including multiple levels of analysis, we gain  
22 richer insight into phenomenon-driven questions like the decline in entrepreneurial activity in  
23 the US in recent years. For example, are there fewer opportunities available in the market to  
24 pursue? Are potential entrepreneurs less capable in recognizing opportunities?  
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37 Or, do entrepreneurs see opportunities and choose not to pursue them due to opportunity  
38 costs or other impediments, such as institutional weaknesses or obstructions? Are policies  
39 increasingly crafted to benefit powerful firms with an interest in the status quo (Pfeffer &  
40 Salancik, 1978)? How are the incentives for business within industries both shaped and  
41 altered by these institutions (Pearce et al., 2009)? Entrepreneurs have told us that institutions  
42 and policy concerns are central to their motives and decision making. Our hope is that  
43 management and entrepreneurship will enrich future research by including these important  
44 factors across different levels of analysis.  
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