



Dipartimento di Science Politiche

Cattedra Political Economy of Development

ENTREPRENEURSHIP AND DEVELOPMENT

How institutions shape entrepreneurial behavior to spur
economic development

RELATORE

Prof. Ferrante Francesco

CANDIDATO

Noviello Jessica

077543

ANNO ACCADEMICO 2016/2017

Index

Introduction	2
Chapter 1 – Definitions of entrepreneurship and entrepreneur	5
1.1 Entrepreneurship across history	6
1.2 Key features of entrepreneurship	10
1.3 Entrepreneurship: subjective and environmental factors	15
Chapter 2- Entrepreneurship and development	21
2.1 Three stages of economic development and their relationship with entrepreneurship	22
2.2 Are all the types of entrepreneurship beneficial to development? (Distinction among productive, unproductive and destructive)	24
2.3 Global Entrepreneurship Monitor and a case-study	26
Chapter 3 – Institutions and entrepreneurship	36
3.1 Property right and the rule of law	36
3.2. Policies which influence entrepreneurial activity	38
3.3 The importance of education	46
Conclusion	50
References	53
Riassunto	55

Introduction

The present world faces several challenges, one of these is specifically the inequality in socioeconomic conditions among different parts of the globe and within countries.

Since the end of WWII, many attempts have been put forward to improve the living-conditions of the so-called developing countries and the development theories have gained interest. One of the first attempt is represented by the *Washington Consensus*. In 1989 John Williamson redacted a list of ten principles, each of which was related to specific policy recommendation in order to spur economic development in Latin America, South East Asia and other countries. It then became a set of broadly free market economic ideas, supported by prominent economists and international organizations, such as the International Monetary Fund, the World Bank, the EU and the US.

It mainly advocates free trade, floating exchange rates, free markets and macroeconomic stability.

The Washington Consensus revealed itself as a failure in that it represents a model of the “one size fits all” approach, according to which underdeveloped countries may enhance development simply imitating the process undergone by developed country.

One of the reaction to the failure of the Washington Consensus was the Hausmann-Rodrik-Velasco Growth Diagnostics Framework. Its starting point is that, once efficient investment and entrepreneurship are accepted for economic growth & development, there is the need for country-specific binding constraints. The Growth Diagnostics is a decision tree for identifying and alleviating the most binding constraints for each country currently and in future.

As an example, suppose a country is constrained by low level of private investment & entrepreneurship. The decision tree identifies the-how-to-solve the problem. The initial causes could be (a) low return to economic activity and (b) high cost of finance.

The fact that the solution to these binding constraints are so many and multi-dimensional shows that the “one size fits all” approach in development policy does not represent a solution.

This basic assumption, serves our scope of identifying those policy solutions which may favour the fostering of economic development through more entrepreneurial activity.

The idea is that there exist, generally, some benefits associated with entrepreneurial activity, such as innovation, employment creation, knowledge spill overs and as a result, development. However, these benefits are not automatic results of entrepreneurship but they depend heavily

on the institutional environment, i.e. the rules of the game in which the entrepreneurial activity is embedded. Thus, the central hypothesis is that it is the set of rules of the game that undergo significant changes from one period/place to another that dictate the ultimate effect on the economy via the allocation of entrepreneurial resources.

The first chapter is the introductory one, which gives an overview of entrepreneurial activity. It includes a set of definitions of entrepreneurship and entrepreneur, which help understanding the category of people and the kind of activity addressed. The first section drives on Baumol (1990) and follows the historical path of the evolution of entrepreneurship, already with the idea that institutions do have a major impact on the contribution that entrepreneurship gives to society. The second section articulates the concept of entrepreneurship into a series of key components of entrepreneurial activity. One of the main components is certainly the individual i.e. the entrepreneur who becomes the focus of the last section where the subjective and environmental factors influencing entrepreneurial activity are stressed and defined. Entrepreneurship, in fact, is also shaped by the characteristics of the underlying population e.g. skills and attitudes, and relies on the ability of firms and individuals to access ancillary resources, such as technology, finance, external markets.

In the second chapter the interest on entrepreneurship starts to include the concept of development. The first section defines the three stages of economic development and analyses main characteristics of entrepreneurship in those three stages. The following section again recalls on Baumol. This section provides an account of the distinct types of entrepreneurship which may be productive, i.e. beneficial for society, unproductive or even destructive depending on the type of incentives generated by institutions.

The last section illustrates the analysis of the Global Entrepreneurship Monitor which today represent the world's foremost survey and study on entrepreneurship. The second chapter concludes with the case-study of Jamaica which represent a peculiar case, in that it shifted in a few years from a developmental stage to the following and the change in the entrepreneurial activity will be highlighted

The last chapter tries to put together the different pieces of the puzzle. The idea is to assess the relation between entrepreneurship and development and the specific role of institutions in that context. The first section will consider the two institutional tools which, more than others, affect the entrepreneurial activity: the protection of property rights and the rule of law. The subsequent section tries to give a comprehensive list of those policies aimed at shaping entrepreneurial activity and the effect they have on the latter. The last section focuses on the role of the education. Based on the assumption that education is an important component of

the developing process, this last paragraph highlights the importance of programs on entrepreneurial education which, in turn, may have a positive impact on development by fostering entrepreneurship.

The present paper will conclude with some ending remarks and with a door open for policy and research suggestions, so that the study on the present topic will continue further.

Chapter 1 – Definitions of entrepreneurship and entrepreneur

Entrepreneurial activity has undoubtedly come to be conceived as a vital force in the economies of developed and developing countries, however complexities have been observed in finding a global accepted definition. The difficulty in defining entrepreneurship stands on the basis that entrepreneurship itself is a multi-dimensional concept which rarely corresponds to any established academic discipline. Various definitions of entrepreneurship have been put forward by scholars according to their domain of specialty: predominantly by economists, social behaviourists and psychologists.

In order to have a *prima facie* assessment, the definition of entrepreneurship proposed by the *Business Dictionary* may serve our scope: “The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. In economics, entrepreneurship combined with land, labour, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace.”

The definition just given is primarily related to the economic field but it is obviously not the only one available. Some view entrepreneurs as agents who enter new markets, others define entrepreneurs as persons who engage in the creation of new organizations (Gartner, 1988). The functionalist perspective considers entrepreneurship as the essential function of new value creation. This latter trait of entrepreneurship, the creation of new value, is in fact acknowledged by the majority of the scholars in the field.

According to North, for example, entrepreneurs are the main agents of change (1997a).

Besides the definition of entrepreneurship in fact, those of the entrepreneur and of enterprise should be advanced.

Enterprises are usually conceived as those organizations set up by entrepreneurs which adapt their activities and strategies moulding them to fit the opportunities and limitations provided through the formal and informal institutional framework.

The entrepreneur, on the other hand, is someone who has the ability to exercise initiative by organizing a venture to take benefit of an opportunity and, as the decision maker, decides what, how, and how much of a good or service will be produced.

Once opportunities are identified, the successful entrepreneur must select, organize and adopt strategies to develop these opportunities (Ferrante, de Bruin 2011).

According to economist Joseph Alois Schumpeter (1883-1950), entrepreneurs are not necessarily motivated by profit but regard it as a standard for measuring achievement or success. Schumpeter argues that entrepreneurs:

1. greatly value self-reliance,
2. strive for distinction through excellence,
3. are highly optimistic (otherwise nothing would be undertaken), and
4. always favour challenges of medium risk (neither too easy, nor ruinous).

Despite the differences in the huge amount of definitions that may be found, a concrete number of common features identified by the majority of scholars have to be highlighted, and this is precisely the scope of the second section of this first chapter.

1.1 Entrepreneurship across history

The following section aims at defining the path along which entrepreneurship has developed. This historical approach may help the reader to trace the routes of entrepreneurship across space and time but, most of all, it helps understanding how the changing *rules of the game*, i.e. institutions have influenced entrepreneurial activity. The importance in defining this path relies on the idea that entrepreneurship may positively affect development when the institutional system manages to allocate entrepreneurial resources efficiently.

The historical dimensions which can be identified may correspond to different periods and eras depending on the classification adopted. This section is intended to be faithful to the classification proposed by William J. Baumol in his article *Entrepreneurship: Productive, unproductive and destructive* (Baumol,1990). His paper is based on the assumption that entrepreneurs have always been present in the economy and they play some substantial role. However, the role they play varies considerably and sometimes they may not follow the constructive and innovative definition usually attributed to the entrepreneur. Indeed, at times the entrepreneur may even arrive to destroy social value instead of creating it. How the entrepreneurs act, according to Baumol, depends heavily on the rules of the game – the reward structure in the economy – that happen to prevail.

For instance, the peculiarity of ancient Rome stems from the Romans' idea that wealth and its accumulation were not desirable if linked to participation in industry and in commerce. Persons of honorable status, in fact, had different sources of income which can be summarized as: landholding, usury and political payments. According to Veyne (1961) in fact, commerce was an occupation mainly undertaken by former slaves who bore a social stigma for life, the so-called *freedmen*. According to the writer, slavery represented one way

to advance in society for someone coming from the lower classes. A clever member of that lower order might arrange to be sold into slavery so that, once released with a fortune, he could invest in commerce hoping to multiply the financial stakes accumulated. What Brooke (1964) derived from this evidence is that the ancient world's rules of the game encouraged the pursuit of wealth but not necessarily through the exercise of productive entrepreneurship.

During Middle Ages the Chinese monarch commonly claimed possession of all property in his territories. As a result, when the sovereignty was in financial straits, confiscation of the property of wealthy subjects was the norm. For this reason, those who had resources preferred not to invest in any sort of visible capital so to avoid confiscation. This resulted in a substantial impediment to economic expansion.

In addition, imperial China reserved the most substantial rewards in wealth and prestige for those who "climbed the ladder" of imperial examinations, which were heavily devoted to subjects such as Confucian philosophy and calligraphy. The high social standing reserved to those successful candidates was instead denied to those engaged in commerce or industry. Consequently, those who gained great wealth in the entrepreneurial process, usually preferred using their resources to prepare their descendants to contend for a position in the scholar bureaucracy rather than encouraging them in the direction of entrepreneurship.

In other words, the rules of the game lacked to create the scope for individual enterprise. There was no security for private enterprise and no legal foundation for property rights other than those of the state. The latter in fact limited from the start any attempt of the bourgeoisie to be different, to become aware of themselves as a class.

It is believed in fact that the enterprise was subjected to impediments deliberately imposed by the officials. Balazs for example explains: "The state's tendency to clamp down immediately on any form of private enterprise or to take over and nationalize in the long run has killed not only initiative but even the slightest attempts at innovation. It frequently happened during the course of Chinese history that the scholar-officials, although hostile to all inventions, gathered the fruits of other people's ingenuity. Here follow three examples of inventions that met this fate: paper, invented by a eunuch; printing, used by the Buddhist as a medium for religious propaganda; and the bill of exchange, an expedient of private businessmen."

In the earlier Middle Age, before the rise of the cities, wealth and power were purposed primarily through military activity. The warring of the barons, which aimed at forms of wealth like lands or castles, can be reasonably interpreted as the pursuit of an economic objective. For example, during the reign of William the Conqueror there were frequent attempts by the barons in Normandy and neighboring portions of France to take over each

other's lands and castles; and the prime incentive for William's supporters in his conquest of England was their obvious aspiration for lands (Douglas, 1964). This conquest of lands may be paralleled to entrepreneurship mainly for two motives. First, it involved innovation, which was the use of the stirrup by the Normans. Second, the invasion was an impressive act of organization, with William having to convince his allies that they had more to gain by joining him in England than by staying behind.

This type of entrepreneurial undertaking obviously differs vastly from the introduction of a cost-saving industrial process or a valuable new consumer product but it represents the kind of entrepreneurial activity of that period.

By the end of the eleventh century the rules of the game had changed from those of the Dark Ages. In towns, the subjects had acquired some privileges such as the protection from arbitrary taxation and confiscation. The free-enterprise turmoil of the barons had eventually been impeded by the church's pacification efforts; but Jones (1987) suggests that some free-enterprise military activity by the barons continued in England throughout all the sixteenth century. However, a number of activities that were neither agricultural nor military began to yield good returns. The most common source of earnings started to be water-driven mills which resulted on a monopoly rather than in any resulting improvement in efficacy.

An interesting story however, is represented by the entrepreneurial role that monks had acquired in that period. They accumulated vast tracts of land; the size of their domesticated animal flocks was enormous by the standards of the time; their investment rates were remarkable; they sought to exercise monopoly power after the erection of a water mill, etc.

The rules of the game appeared to have offered substantial economic rewards to the exercise of Cistercian entrepreneurship. The order frequently received support from the laity and from the church in form of exemptions from road and river tolls and from payment of tariffs.

Later in time, the fourteenth century brought with it a considerable increase in military activity, notably the Hundred Years' War between France and England. The payoffs favored more than ever the inventions designed for military purposes. Cannons appeared as siege devices and armor was made heavier. Another business enterprise of this bellicose century was the company of mercenary troops who supported the side who could offer the most and, when unemployment threatened, wandered about taking up military enterprises of their own, at the expense of the general public. Clearly, the rules of the game had changed to the disadvantage of productive entrepreneurship¹.

¹ Productive entrepreneurship will be intensively discussed in the second section of the next chapter.

Interestingly, however, the slowdown of entrepreneurial activity has a variety of explanations, many of them having no connection with entrepreneurship. For one thing, it has been deduced by scholars that average temperatures dropped, reducing the yield of crops. The effect provoked was the decimation of much of the population. This is just to emphasize the fact that the entrepreneurial activity can be and surely is affected by other factors than the one commonly linked with the economic activities of a territory.

The last period of entrepreneurial activity that Baumol identifies is the one of rent seeking. In economics rent-seeking involves seeking to increase one's share of existing wealth without creating new wealth. Rent-seeking results in reduced economic efficiency through poor allocation of resources, reduced actual wealth creation, loss of government revenue, increased income inequality, and (potentially) national decline².

Rent seeking also gradually became a substitute for military activity as a prime source of wealth and power in the upper strata of society. This transition may be explained as a consequence of the triumph of the monarchies and the following imposition of a law and order structure. Rent-seeking entrepreneurship consequently took a huge variety of forms such as the quest for grants of land and patents of monopoly from the monarch. There are records of the use of litigation in the twelfth century in which the proprietor of a water-driven mill sought and won a prohibition of use near mills driven by animal or human power (Gimper, 1976).

However, Hobsbawm (1969) conveys a different story, according to him the wealthiest noble families had still incomes more than 10 times as large as those of the rich merchants, and those noble families were the heirs of the *Roundheads* (the supporters of the puritan party) in the Civil War. According to this view military activity continued to be the most promising source of entrepreneurship.

Things started to change, mainly in England, when the eighteenth-century industrial revolution arrived. In that period, the still present tradition of primogeniture forced younger sons of noble families to resort to commerce and industry. What changed particularly was the approach institutions took towards entrepreneurship. Having understood its importance, the role institutions took in fostering economic activity and productive entrepreneurship became crucial. This change of direction by the institutions, with high probability, led to what Samuel Huntington in the late 1970s had defined *Great Divergence*. The latter refers to the process by which the Western World overcame the pre-modern world limitations and emerged during the

² Rent seeking will in fact be indicated in the following chapter as one kind of unproductive activity.

19th century as the most powerful and wealthy civilization of all time, generating the widespread inequality in GDP per capita that is observable today³.

The consequence at this point seems straightforward: if entrepreneurship is the imaginative pursuit of position, with limited concern about the means used to achieve the purpose, then we can expect changes in the structure of rewards to modify the nature of the entrepreneur's activities, sometimes drastically (Baumol, 1990)

1.2 Key features of entrepreneurship

Given the assumption of the multi-faced dimension of entrepreneurship, listing the key determinants of entrepreneurship becomes a bit of a stretch. The importance in identifying some key factors however stems from the necessity to assess how entrepreneurship varies across regions and countries, as well as to identify the different ways that public policy can be implemented to foster entrepreneurial activity.

The first group of features that will be taken into consideration, are those defined and theorized by Audretsch (2002) which acknowledges the fact that “entrepreneurship is shaped by many factors, spanning a spectrum range of determinants, ranging from economic to historical, psychological, social, cultural and political”. For example, the field of psychology has focused on the motives and the characteristic traits of entrepreneurs and potential entrepreneurs. Sociology instead has examined the collective background of entrepreneurs; what is tried to do here is to give a collective exemplification of what the entrepreneurial activity is about. In order to be in conformity with the theory of Audretsch, it is necessary to follow his definition of an economic framework which distinguishes between the factors shaping the supply of entrepreneurial activities; and those influencing its demand.

The actual rate of entrepreneurship, E , in fact, is determined by both macro and micro factors. The supply side generates (potential) entrepreneurs that take advantage of entrepreneurial opportunities, to the degree that they have the resources, abilities and personal characteristics to engage in the activity⁴. Entrepreneurial opportunities, which are generated on the demand side, stem from market needs; necessarily these opportunities vary across regions and countries. The advantage of this framework is precisely that combines both environmental conditions with individual characteristics.

Different occupations are characterized by different *risk-reward profiles*. Therefore, the choice to become entrepreneurs rather than, e.g. employees is based on the comparison

³ This same process has been defined by Eric Jones in 1981 as the *European Miracle*.

⁴ Those abilities and characteristics are not purely individual in that they are heavily influenced by the population of origin of the potential entrepreneur and its cultural norms and tradition.

between these different profiles. Individual occupational choice determines the total supply of entrepreneurs in the economy, i.e. the share of individual involved in entrepreneurship.

If the actual degree of entrepreneurship, E , deviates from the *socially desirable* degree of entrepreneurship, E^* , government policies may be implemented to alter the forces shaping entrepreneurial activity through occupational choices⁵.

Widening the approach of this framework we may derive that the demand side may highlight the opportunities that enterprises and individuals can undertake in a developing country and subsequently they may invest in, develop, pursue and implement entrepreneurial strategies. The supply side, instead, focuses on the capabilities and capacity for such entrepreneurial strategies to be developed and implemented and may represent a guidance for future policies. The list that follows tries to gather together a comprehensive list of the key determinants of entrepreneurship, both macro and micro:

- The individual

One important, or maybe the most important, unit of observation to analyze the determinants of entrepreneurship has been the individual involved in a business venture. This is mainly because individuals do not have to be entrepreneurs, and those who select into it tend to have different characteristics to those who do not (Parker, 2005). The characteristics of the individual which affect the decision and the ability to engage in entrepreneurial activity will be discussed in the third section of this chapter.

Just to give an overview of the importance of the individual as interconnected with other features of entrepreneurship, the quotation of Álvaro Cuervo may be more than useful.

“To better understand the emergence of entrepreneurial activity in each country, it is unavoidable to complement the analysis of the psychological and non-psychological characteristics of the individual entrepreneur that currently dominates entrepreneurship studies with the analysis of environmental characteristics in terms of the availability of resources and competition, as well as the conditions of the institutions that govern economic activity. These three groups of factors enable the entrepreneur not only to identify a business opportunity, but also to exploit it, and create a firm that achieves profitability and generates wealth.” (Cuervo, 2005)

- Spatial level – cities & regions

⁵ The figure which shows the interaction of both the demand and supply side together with the rate of entrepreneurship and the risk-reward profile process is shown at pag.32 in the third chapter.

An important strand of literature links entrepreneurial activity to characteristics specific to a spatial unit of observation, typically the city or region. This literature emerged first in the regional studies field (Reynolds, Storey and Westhead, 1994), but more recently has expanded to geography and economics as well. The contemporary theories linking geography to entrepreneurship are based on three factors identified by Krugman (1991) which help to explain why a predominant amount of startup activity occurs within geographic clusters. These are (1) a pooled labor market; (2) monetary externalities enabling the provision of a variety of nontraded inputs to an industry at a lower cost; and (3) information or technological spillovers. The studies which followed this path have usually focused on new-firm startup activity as a measure of entrepreneurship and this has generated a series of studies trying to identify those geographic-specific characteristics such as unemployment rate, population density, population growth, levels of labor skills and human capital, all of which are conducive to new-firm startup.

For example, the special issue of *Regional Studies* on “Regional Variations in New Firm Formation” (Reynolds, Storey and Westhead, 1994) included a collection of European country studies, and together with the survey by Storey (1991) suggest that the empirical evidence has been generally explicit with respect to the findings for population density (a positive impact on startup rates), population growth (positive impact on startup rates), skill and human capital levels of the labor force (positive impact), and mean establishment size (negative impact on startup rates). By contrast, the empirical evidence about the impact of unemployment on startup rates is still considered more ambiguous.

- Finance

The role that the access to finance plays in determining entrepreneurship has been the focus of many scholars. A great contribution on this topic was given by Stiglitz and Weiss (1981) who demonstrated that for an enterprise to be subject to credit rationing is not neutral with respect to firm size; rather, the likelihood of credit rationing tends to systematically increase as firm size decreases. For clarity sake, credit rationing refers to the situation where lenders limit the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates. It is an example of market imperfection, or market failure, as the price mechanism fails to bring equilibrium to the market. As Petersen and Rajan (1992, p. 3) observe "small and young firms are most likely to face this kind of credit rationing. Most potential lenders have little information on the managerial capabilities or investment opportunities of such firms and are unlikely to be able to screen out poor credit risks or to

have control over a borrower's investments." If lenders are unable to identify the quality or risk associated with borrowers, Jaffe and Russell (1976) show that credit rationing will occur. Another contribution is given by Parker and Van Praag (2004) who propose a model to unify the literature about human capital and that of borrowing constraint. According to them, the more highly educated entrepreneurs will face lower borrowing constraints, which endows human capital with both a direct and an indirect effect on entrepreneurial performance. The direct effect is the "rate of return" to education; the indirect effect results in an enhanced performance, thanks to lower capital constraints that permit more capital to be released. These authors suggest that, in general, the highly educated individuals are likely to become among the most successful entrepreneurs⁶.

- Taxes and administrative burden

It may seem trivial to emphasize this aspect but it is acknowledged that taxes *do* represent a barrier to entrepreneurship. A number of studies have identified that taxes have a negative impact on the startup, survival, growth and general viability of businesses within a European context. Poutziouris et al. (2000) provide evidence that the tax burden of small firms is surprisingly greater than that of their larger counterparts. This is particularly true in high technology sectors. Their study, based on the United Kingdom, shows that small high technology companies pay proportionately higher taxes, as a percentage of total assets than do their low-technology counterparts. They conclude that the British tax system, the rules of the game, disproportionately affects the financial development of high-tech startups and constrains their growth potential.

Another relevant study is that of Parker and Robson (2004) which use the so-called "panel data cointegration estimators" to isolate the factors that explain the substantial variations in self-employment rates across OECD countries and their results suggest that national tax-benefit policies partly explain these variations, with higher taxes resulting in lower rates of entrepreneurship.

On the other side of the story, an important limitation is represented by government restrictions and administrative burden. As an example, one of the motifs why the biotechnological sector in Germany is slowly developing is exactly because of these two elements (Krauss and Stahlecker, 2001). As these restrictions were loosened, a dramatic increase in biotechnology startup was documented.

⁶ Education and, specifically entrepreneurial education, will be the topic of discussion of the last paragraph of the present paper and the above suggested relationship between entrepreneurial performance and education will be confirmed.

However, the third chapter of the present paper will provide a better analysis of this aspect, specifically addressing the role of institutions and the impact of their policies, such as tax legislation and regulation.

- Innovation

Innovation is one of the specific tools of entrepreneurs, the means by which they exploit change as an opportunity for a different business, product or service. Entrepreneurs need to look purposefully for those sources for a successful innovation.

Practically speaking, an innovation is a new combination of three elements: nature raw materials, physical and mental labor and capital. The most common form of innovation for an entrepreneurial activity is the creation of a new product but it is of course not the only one. It often happens that entrepreneurs take something that already exists and improve it. Innovation assumes importance not only in guaranteeing longevity to firms; but it is a source of competitiveness on which ground small firms or start-up may try to compete with the industrial giants on the economic scenario.

The problem with innovation is mainly that it does not necessarily stems out from research and new knowledge. The “European paradox” describes exactly this complexity: a strong science base correlated with weak innovative performance. Therefore, in the last decades the European Union placed increased emphasis on innovation in EU-funded R&D projects; and the European Commission published in 2013 a paper titled “How to convert research into commercial success story? Analysis of EU-funded research projects in the field of industrial technologies”. Its basic assumption is that while ‘Commercialization’ is almost always believed as directly converting research results into a product available to the market, there are only a few cases where such a direct and almost linear relation between research and market success was actually found. In order this to happen, however, it is necessary that there is a clear demand for the innovation but at the same time the technology should be advanced enough to satisfy the existing demand and create new markets. Moreover, this technological advance not always reaches the market and, most of all, the timing of the innovation cycle varies considerably across cases. As an example, usually innovations demonstrating high technical complexity managed to reach the market within a couple of years, whereas the market entry of innovation related to the medical sector can take 15-20 years due to the regulatory market. This aspect recalls us the importance of regulations which permit the entrepreneurs to carry out their activities. The same of course happens when entrepreneurs look for financial support other than their own savings, they need to face banking and institutional policies. While the role of institution will be the center of the third chapter, this

section will end with the list of the activities which compose the innovation trajectory identified by the scholars working for the European Commission:

- Research: close involvement of industry and diverse funding sources. This part is focused a lot on the development of knowledge in the form of discoveries.
- Interaction with users, designers and engineers: active involvement of community from the very beginning.
- Exploring market opportunities: obtaining good knowledge of the market.
- Protecting and managing IPR (Intellectual property rights)
- Prototyping and industrial demonstration: processes for efficient manufacture and market delivery in the future.
- Product trials and sales: since product differentiation in terms of function and cost may well determine the market winners, the commercial stage represents the peak of private value for the innovation timeline.
- Industrialization: searching for cost-efficient solutions
- Innovation management: Innovation management refers to the central activity of the innovation cycle and is linked to all other elements. Without proper management processes, it is not possible for R&D&I to be efficient. Innovation management includes a set of tools that allow entrepreneurs, managers and researchers to cooperate with a collective understanding of goals and processes. To succeed in it, an understanding of both the market and the technical problems is needed.

It is necessary to emphasize that these activities are not chronologically listed, since they represent groups of activities which are in continuous interaction and create feedback loops between parallel steps.

1.3 Entrepreneurship: subjective and environmental factors

Entrepreneurial research during the decades has been conducted, among the others, in two directions:

1. Focus on the entrepreneurs with related factors like personal characteristics, specific traits and human capital factors.
2. Focus on the influence of exogenous factors like general environment, culture, political system and economic institutions.

Both groups of elements affecting entrepreneurship can define entrepreneurship intention. Entrepreneurship intention is defined as the growing desire to start a new enterprise or create new core values in existing organization (Bygrave, 1989). However, intention factors are

complicated and difficult to study (Ajzen, 1991) since people with closely similar characteristics may behave differently, while some with totally different traits can have a same reaction in the correlative environment. Even the same person may behave differently depending on circumstances. Obviously, people do their business intentionally and how they become entrepreneurs is a result of decision making.

Within the economic literature, the most prevalent model studying the entrepreneurial decision-making process has been the *income choice model* that was first theorized by Knight (1921) or, as Parker (2005) defined it, the *occupational choice under uncertainty model*. These models have continuously been re-adapted and interpreted by many scholars such as Lucas (1978) or Kihlstrom and Laffont (1979). In Lucas's opinion, individuals differ in terms of their *innate* entrepreneurial ability and the most able entrepreneurs end up running the largest firms. The interpretation of Kihlstrom and Laffont, and subsequently also that of Parker (1997), instead conceives entrepreneurial choice as a trading off between risk and returns; individuals in this model differ according to how risk averse they are.

In its most simplistic interpretation however, the *occupational choice model* sees individuals as confronted with a choice of earning their income either from wages or by starting a new firm. In facing this choice, individuals have to compare the wage an individual expects to earn through employment, W^* , with the expected profits from a new startup, P^* . For this reason, the probability to start a new firm, $Pr(s)$ is given by:

$$Pr(s) = f(P^* - W^*)$$

The choice to start a new firm, however, does not only depend on expected wages, it heavily relies on the personal inclinations, the human capital, the experiences as well as the environment an individual is embedded within.

An important contribution on the topic has been given by Khuong and Huu An (2016) who examine three different models to predict and compare the impact that personal and environmental elements have on people's intention to become business founders. These are: internal human capital based, external environment and intention based models.

The *model focusing on the personal human capital of entrepreneur* is based on the assumption that there is an association of the human capital and the decision to exploit entrepreneurial chances. The persons who have greater entrepreneurial human capital and entrepreneurial characteristics tend to have higher intention to start their own business venture (Douglas, 2011). At the individual level, the human capital, which is defined as the age, gender, skills, personalities, education, knowledge and prior experience in terms of their value

has been proved as the influence of entrepreneurship intention. The focus here will be mainly on prior entrepreneurial experience and personal traits.

1) *Prior entrepreneurial experience*

The prior contact to entrepreneurship and work experience have a certain impact on individuals' attitude toward entrepreneurship and intention to choose it as a future profession. Parker (2005) showed that entrepreneurs rely mainly, 84%, on their past experiences and beliefs and respond only to a limited extent, 16%, to new information about market conditions.

2) *Personal traits*

Personal traits have received strong supporting evidence and been applied as factors to predict entrepreneurial intention by many research experts. According to (McClelland, 1961), there exist a link between personality features and entrepreneurial activity which differentiates the person with entrepreneurial propensity from those without entrepreneurial propensity.

The elements which proved to be significant are: high internal locus of control which is necessary for individual to take the risk of starting new business; high risk-taking propensity; the stronger an individual prefers decision-making autonomy and the higher they intent to entrepreneur (Douglas, 2002)

Before passing on to the model focusing on external environment, another contribution has to be taken into account. The work conducted by de Bruin and Ferrante (2011) also focused on the ability of the entrepreneur to recognize and exploit entrepreneurial opportunities starting from an analysis of some personal characteristics; they underline that knowledge is crucial to the opportunity recognition process. Since knowledge is now recognized as an input in the production process (Griliches, 1979) the authors decide to focus their research on that input. They use the term *entrepreneurial knowledge* (EK) to define those elements that entrepreneurs can access in the process of opportunity identification and development. However, EK is not single-dimensioned, it is instead formed by *Tacit knowledge* (TK), which involves experience, training on the job, family background or access to social network; and *Codified knowledge* (CK) which coincides with education and general training. In general, TK is not explicit and is an individual asset while CK is exactly the opposite. What they will find out, is that not only tacit knowledge is the one who helps to recognize and develop opportunities, but it is also the key ingredient in problem-solving activity, in that it helps to identify endogenous problems and solutions in specific environment.

An alternative view is proposed by Lazear (2002, 2004) which suggests that entrepreneurial selection and performance are guided by the mix or balance of skills held by individuals,

rather than by specialized expertise. He in fact claims that specialized experts are generally found in wage and salary work. What he deduces, is that industries like art (which requires disparate skills including artistic talent) are less likely to be populated by entrepreneurs than, for example, insurance.

Coming back to the work of Khuong and Huu An (2016); The *model focusing on the external environment* has generally divided the environment into two major categories: the task environment and the general one. The general environment is a set of wide-ranging economic, technological trends, socio-cultural, demographic, political or legal, and global forces that affect the organization; on the other hand, the task environment is a subset of the general environment which includes those sectors that *directly* impact the firm ability to do its business, such as the industry sector, competitors, customers, supply of material, and techniques of production. Shapero (1982) concluded that the social and cultural factors can enter into the formation of entrepreneurship directly influencing the formation of individual value systems. In a social system that gives prominence to the role of entrepreneurship, more individuals will choose the path to become entrepreneurs. This statement is also true in those social systems that encourage more innovation, risk taking, and independence in entrepreneurial activities than in a system with contrasting norm [Licht, Jordan (2006)].

The *intention-based model* has been developed in different directions.

According to Shapero's Entrepreneurial Event theory (SEET), human behavior is guided by "inertia" by which if the individual is doing something, he continues doing it unless it is interrupted by the force outside himself. The interruptions, which could be negative or positive, force the decision makers to choose the best available opportunity among other options. According to the SEET, the outside factors do not directly affect the intentions. Start-up intentions come from two main dimensions, perceived desirability and perceived feasibility with the propensity to act upon opportunities. Mai and Anh (2013) consider desirability as a "desire to create a new venture," and feasibility as the confidence to start-up new enterprises.

A second point of view is represented by the Theory of Planned Behavior (TPB) by Ajzen (1991), whose main assumption is that human behavior is mainly planned and is preceded by intention. This model allows to predict more precise entrepreneurial intentions by focusing not only on personal but also on social factors.

According to him the behavioral intentions in the model are determined by three main "attitudinal antecedents":

- Attitude toward performing the behavior

- Subjective norm
- Perceived behavioral control

The first component is defined as the perception of an individual of performing a particular behavior with reference to specific outcomes, such as personal quality of life, personal wealth, independent, stress and community benefits. In this case, entrepreneurial decision may come from utility-maximizing career choice; so, people will choose to become an entrepreneur if the total utility they expect is greater than the expected utility from the best employment they can find in the market.

The second component represents the individual's set of values, thoughts, beliefs and norms who have a huge influence on him. The most common example of social norms could be one's parents expect their child would become a doctor or engineer just because these are perceived as prestigious careers. Interestingly, however, it is argued that the impact of social norm starts to be weaker for individuals who *strongly* desire to achieve and to implement that behavior (Bagozzi, 1992). What is important to stress, is that social norms acquire much importance in explaining differences in matter of entrepreneurial choice across countries.

The third component represents instead the personal belief about the possibility to conduct the planned behavior, the faculty of thought, physical ability, finance and resources to execute that action; it has been clearly stated that desire is not the only requirement to transform motivations into intention.

Bandura in 1986 defined self-efficacy as “a belief that we can do something specific”. It simply corresponds to the individual's judgment of one own competencies whether they have the possibility to execute the target behavior [Ajzen]. Many prior studies have identified self-efficacy as the key component that both directly and indirectly affects entrepreneurial intentions by influencing perceived behavioral control. Chen, Greene and Crick have theorized that the self-efficacy may affect the entrepreneurial intention because of three reasons. Firstly, we can divide people into two groups by the way they respond to the surrounding environment. The same entrepreneurial environment could be recognized differently between two groups. Some people in the group of high entrepreneurial self-efficacy who love challenge and have a high need of achievement can identify the unstable environment as “replete with opportunities”. On the other hand, group of the individuals with low entrepreneurial self-efficacy may judge homogeneous conditions as risks and costs. Secondly, even if the people in the first group identify the reality is full of risks, uncertainties or dangers, they tend to feel more superior facing an obstacle than those in the second group. Lastly, individuals with high self-efficacy are more optimistic in forecasting the result of a

behavior. The division into two groups with different viewpoints can be explained by the high belief of entrepreneurs in their ability to achieve the goal in harsh conditions and therefore more likely to have higher intention to launch a business venture.

Chapter 2- Entrepreneurship and development

It is now the moment to shift to the core of the thesis. How does entrepreneurship influence the economy? Is it beneficial? Does it spur development? Should governments encourage entrepreneurship? If yes, under which conditions and why?

These questions will receive a comprehensive answer throughout chapter 2 and chapter 3 which have been divided for simplicity sake.

The main assumption we make here is that entrepreneurship, in fact, may represent a “good thing” as long as it is productive and that we ought to have more of it (Parker, 2004). It is considered to be an important mechanism for economic development through employment, innovation and welfare effects [Schumpeter (1934), Audretsch (1988), Baumol (2002)]. Of course, promoting entrepreneurship is something which has to do with institutions which will be the core topic of chapter 3. Given the importance of the rules of the game for entrepreneurship, the discussion about institutions will be anticipated here.

Before going on, it is somehow also of primary importance to discuss the difference between economic growth and development. By economic growth is meant an increase in a country’s real level of national output (GDP- Gross National Product) which may be brought about by an increase in the quality and quantity of resources, by improvements in technology or in general, by an increase in the value of goods and services produced by the economy.

Economic development is a broader and a multi-dimensional concept which has been defined by many scholars. Amartya Sen, for example, defined development as “a process of expanding the real freedoms that people enjoy”⁷. The definition adopted here is that given by Michael Todaro and Stephen C. Smith (Todaro and Smith, 2012) who theorize development as a process of improving the quality of all human lives. They understood the importance of going beyond the mere economic condition of a country, as measured by GDP, when facing underdevelopment and they considered the need to assess the broader social system which varies from country to country. Todaro and Smith then identified three core values which serve as a conceptual basis and a practical guideline for understanding the inner meaning of development:

- Sustenance: the ability to meet basic needs
- Self-esteem: to be a person
- Freedom from servitude: to be able to choose

⁷ This concept is part of the “capability approach” by Amartya Sen, according to which the *capability to function* is what really matters for status as a poor or non-poor person. This view sees development as a way to enhance the lives we lead and the freedoms we enjoy.

Their conclusion is that development is both a physical reality and a state of mind in which society has secured to people the means for obtaining a better life. From this point, they identified three objectives of development:

1. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.
2. To raise levels of living, including, in addition to higher income, the provision of more jobs, better education, and greater attention to cultural and human values, all of which serve not only to enhance material wellbeing but also to generate greater individual and national self-esteem, human dignity and respect.
3. To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

As a shared opinion, entrepreneurship does in fact promote economic growth, the difficulty stands in understanding if it also has an impact on development and the key tool in doing so is assessing the role and the influence of the institutional structure.

The aim of this chapter is to give an analysis of different types of entrepreneurship as well as the various stages of development in order to understand how they interact among them.

2.1 Three stages of economic development and their relationship with entrepreneurship

At this point, it should be clear that the dynamics of entrepreneurship can be vastly different depending on the institutional context and the level of economic development. That is why if one is interested in studying entrepreneurship within or across countries, the broad nexus between entrepreneurship, economic development and institutions is a critical area of inquiry (Acs et al., 2008). The nexus makes the analyst understand why the contributions of entrepreneurship can vary so considerably across time and space.

The starting point is the distinction among three stages of development done by Porter (1990) and Porter et al. (2002). These are *factor-driven* stage, *efficiency-driven* stage and *innovation-driven* stage with two transitions between these stages. This same distinction is adopted and exploited by the Global Entrepreneurship Monitor which will be the focus of the third section of the present chapter.

Almost all economies experience the *factor-driven* stage and the countries in this stage compete through low cost, mainly due to low wages, in the production of commodities. They undergo high rates of non-agricultural self-employment, and the self-employed represent the

majority of employed people in small manufacturing firms and service firms. These countries neither create knowledge to innovate nor use knowledge to export products.

A critical point to stress, however, is represented by the difference between necessity entrepreneurship and opportunity entrepreneurship. They refer to two different motivation-led entrepreneurial activity which may lead to different outcomes. Necessity entrepreneurship means starting a business because someone is pushed into it, because there are no other occupational options as income sources; while opportunity entrepreneurship is starting a business to exploit perceived business opportunity. In the *factor-driven* stage the GEM report has shown the lowest share of opportunity-motivated entrepreneurs in relation with the other stages. This is principally because, in the first developmental stage, per capita income is low and unemployment is generally high.

To move to the second stage countries must increase their production efficiency and educate the workers to be able to adapt to the technologies and innovations which characterize the successive developmental stage. In the *efficiency-driven* stage, companies have to be able to exploit economies of scale. Industries in this stage are manufacturers or provide basic services. This stage of economic development is marked by a lower rate of self-employment in relation to the previous one.

Additionally, as an economy becomes wealthier, the average firm size should increase consequently (Lucas, 1978). The average firm size is widely accepted as an increasing function of the wealth of the economy *when* capital and labor are substitute. According to this argument, an increase in the capital stock increases returns from working and decreases returns from managing; so, marginal managers may discover that they can earn more money when employed by someone else. In the *efficiency-driven* stage, so, the relationship between the share of individuals involved in entrepreneurial activity and per capita income is a negative one ⁸.

The third stage, the *innovation-driven* one, is characterized by an inversion of the previous process, there is in fact an increase of entrepreneurial activity. In the *efficiency-driven* stage, there had been a trend away from small firms and towards larger organization; moving to the third stage, studies such as those of Evans and Leighton (1989) demonstrated that this trend toward larger enterprises ended by the mid1970s and it then slowly started to reverse itself.

⁸ There are other, simpler, explanations for why entrepreneurial activity may decline as economies develop. Improvements in the economy's infrastructure, such as transportation, telecommunications and credit markets, probably increase the advantages of larger firms over smaller firms. Improvements in transportation and telecommunications make it cheaper to distribute goods and services over larger areas. Assuming there are scale economies up to a point, better distribution systems enable firms to operate larger production units that can serve larger markets.

Acs et al. (1994) also showed that the firm size distribution in developed countries began to shift away from larger corporations and towards a more diffused entrepreneurial activity. There are three reasons why entrepreneurial activity, i.e. the share of people involved in entrepreneurial activity rises in this stage:

1. The innovation-driven stage is marked by a decrease in the manufacturing sector and an increase in the service sector which provides more opportunity for entrepreneurship.
2. Improvements in information technologies, such as telecommunications, may increase returns to entrepreneurship since they make exchanging information less expensive and less time consuming.
3. Aquilina et al. (2006) underlined the importance of the presence of a high value of the elasticity of factor substitution. It makes easier for an individual to become an entrepreneur.

In order to shift towards this third stage of development countries have to develop environmental conditions conducive to entrepreneurship. Several countries in the world have already managed to do so in the past decade, including Korea, Ireland, Israel and Taiwan (Acs and Szerb, 2007).

As a conclusion, we would expect that in economies in the early or middle stage of economic development, the efficiency-driven stage, entrepreneurial activity would be negatively related to income per capita since most people would be trying to move from self-employment to wage employment. In developed economies, experiencing the innovation driven stage we would expect entrepreneurial activity to be positively related to income per capita as people shift from wage work to entrepreneurial activity. This framework implies that a U-shaped relationship in fact exist between entrepreneurial activity and income per capita in the global economy.

2.2 Are all the types of entrepreneurship beneficial to development? (Distinction among productive, unproductive and destructive)

As anticipated at the beginning of the present chapter, governments should make an effort to encourage high level of entrepreneurial activity since the latter seems to be beneficial to economic growth and development. However, not all types of entrepreneurship may benefit economic development and people's wellbeing. William J. Baumol, as explained before, distinguished three types of entrepreneurship: productive, unproductive and destructive.

To be precise productive entrepreneurship, according to Baumol, refers to any activity that contributes directly or indirectly to generate net value in the economy.

In 2002 Foss added to this definition the element of new discovery, which can be of attributes, opportunities, procedures etc.

Resuming his historical analysis, Baumol found out that the *rules of the game* in the ancient world encouraged the pursuit of wealth but discouraged its pursuit through the exercise of productive entrepreneurship while, subsequently, the industrial revolution of the twelfth and thirteenth centuries came with a series of successful innovations which encouraged productive power and led to a system of improved rewards to industrial activity. In medieval China instead, the lack of the individual freedom together with the overwhelming prestige of the state bureaucracy inhibited the free enterprise which is in fact quite abnormal in Chinese economic history. This is a case where productive entrepreneurship is not encouraged. There are also cases where entrepreneurs select instead the way of unproductive entrepreneurship. Even if the latter takes many forms, Baumol emphasize the role of *rent-seeking* as an unproductive activity. Rent-seeking through litigations, takeovers, tax evasion etc. seem to constitute the first threat to productive entrepreneurship. This happens for example in high-tax societies, where it is not impossible to become rich but it is difficult to do so by way of productive effort in the ordinary production system (Lindbeck, 1987).

Murphy, Shleifer and Visshny (1993) also analyzed the activity of rent-seeking but they treated the latter as something distinct from entrepreneurship; probably this is the result of the tendency to consider entrepreneurship as a desirable activity in general (Acs, Desai, Witzel, 2010).

Illegal entrepreneurial activities or involvement in informal economy, instead, are mostly associated with activities such as the production and distribution of illegal drugs, racketeering and blackmail. Although likely to be profitable, illegal or informal types of entrepreneurial behavior are seen as unproductive because little, if any, value is added to the economy (Baumol,1993). Moreover, these activities will have a destructive role in an economy and society when they manage to attract followers.

Acs, Desay and Witzel argue that, in Baumol, the distinction between productive and unproductive had been always very clear while the definition of destructive *per se* remained largely ignored. It is for this reason that they decide to give it a definition and they extend Baumol's peripheral discussion of the concept in an intuitive manner, by defining destructive entrepreneurship as wealth-destroying. However, even once

acknowledged this fact, it is not simple to give a broader overview on destructive entrepreneurship. The authors suggest that destructive entrepreneurship, in many countries, is not always a choice. They propose the example of extractive mining of natural resources in Congo. They are carried out physically by poor citizens who are coerced to work and generally considered enslaved. However, trade and earnings are controlled by middlemen, who are the actual entrepreneurs. This of course brings some problems, such as measuring the share of destructive entrepreneurship related to the other two.

In any case, the allocation of the entrepreneurial activity has to be channeled. Baumol has repeatedly underlined the necessary role of the *rules of the game* in this case. So, once again, the scope of the third chapter becomes always more urgent.

2.3 Global Entrepreneurship Monitor and a case-study

The Global Entrepreneurship Monitor (GEM) is of great relevance here in that it is the largest study on entrepreneurship in the world. It may help our purpose of understanding the links among entrepreneurship and development.

The first GEM report, published in 1999, surveyed the condition of 10 developed economies from the OECD, included Japan and the United States of America.

The last GEM report has been released in 2016 and assesses entrepreneurship in 66 world economies. It now brings together 400 researchers from across the globe and includes more than 100 institutions every year.

The scope of the present section is to focus on the methodology of investigation used by the GEM and its main conclusions. A case-study will be also discussed to show how the Global Entrepreneurship Monitor can contribute to detect the main features of entrepreneurship and to assess its actual contribution to economic development.

The GEM survey has tracked rates of entrepreneurship across multiple phases of entrepreneurial activity; assessed the characteristics, motivation and ambitions of entrepreneurs; and explored the attitudes societies have towards this activity.

The 66 countries taken into consideration in the 2016 report cover 68.2% of the world's population and 84.9% of the world's GDP. The introduction of the report stresses that entrepreneurs and new businesses established; play a critical role in development and well-being of their society and that the survey builds on the idea that entrepreneurship and economic development are interconnected. The objectives of the survey are:

- Discover the factors that encourage or discourage entrepreneurial activity.

- Provide a platform for assessing the extent to which entrepreneurial activity influences economic growth within individual economies.
- Uncover policy implications for the purpose of enhancing entrepreneurial capacity in an economy.

Figure 1: GEM conceptual framework

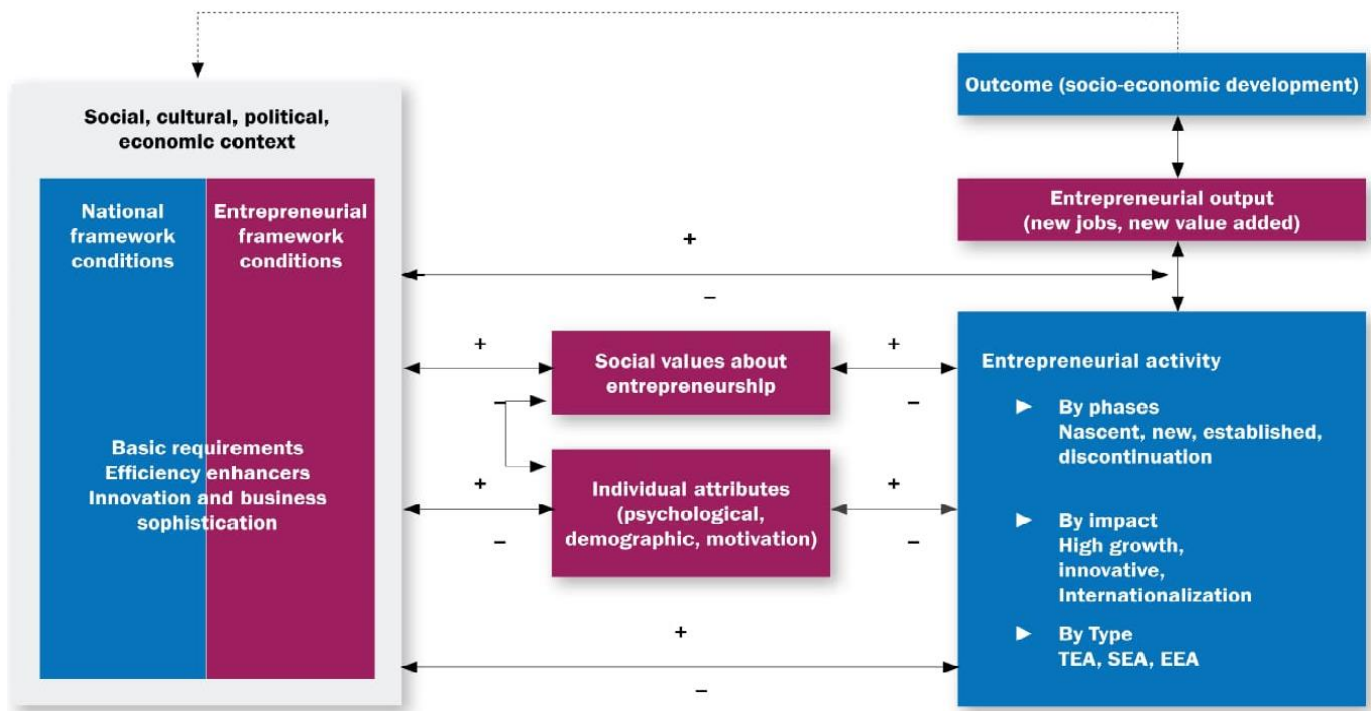


Figure 1 illustrates the conceptual framework on which the GEM is based.

On the left, the social, cultural, political and economic context is represented through the NFCs (the national framework conditions) which consider the advancement of each society through the three phases of economic development that have already been mentioned: *factor-driven*, *efficiency-driven* and *innovation-driven*. The EFCc (the entrepreneurial framework conditions) instead relate more specifically to the quality of the entrepreneurial ecosystem and include: entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R&D transfer, commercial and legal infrastructure, internal market dynamics and entry regulation, and cultural and social norms.

The figure shows that the GEM considers entrepreneurship as part of a complex system and makes explicit the relationships between societal values, personal attributed and various forms

of entrepreneurial activity. The GEM also recognizes that entrepreneurship can mediate the effect of the NFCs on job creation and economic or social value creation. Entrepreneurial activity is the result of the interaction of an individual's perception of an opportunity and capacity (motivation and skills) to act and the distinct conditions of the respective environment in which the individual is embedded. In addition, while entrepreneurial activity is influenced by the framework conditions in the particular environment in which it takes place, this activity ultimately benefits this environment as well, through the generation of social value and economic development.

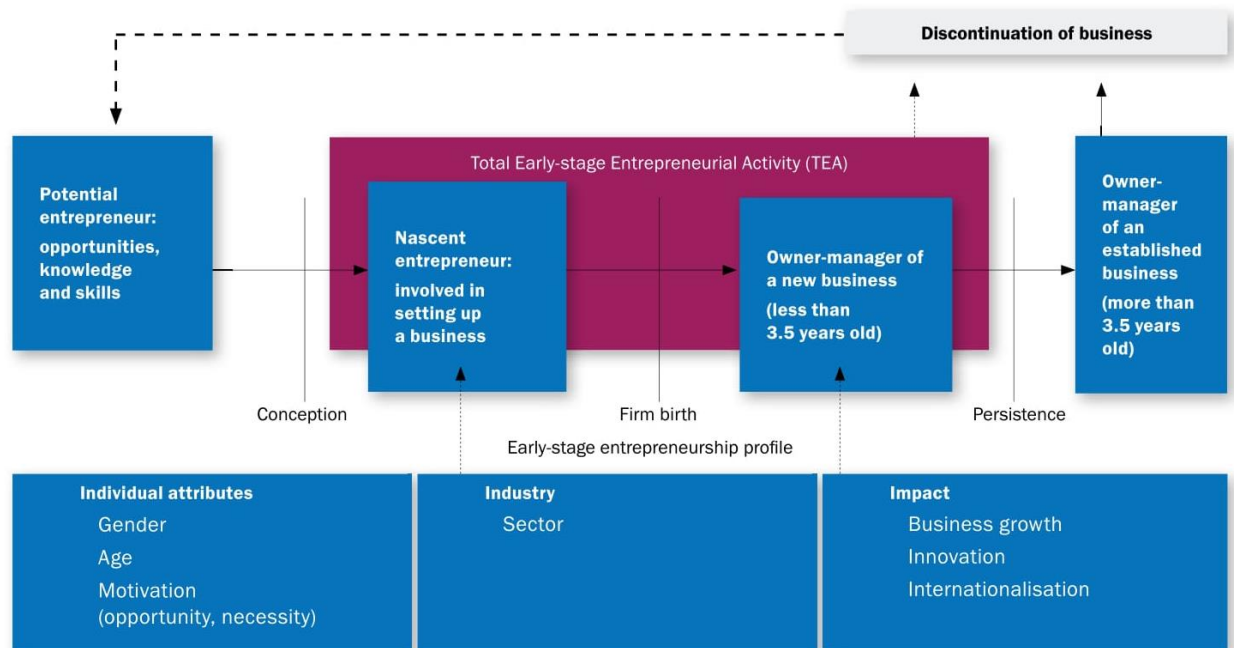
In the central part of the framework we find societal values towards entrepreneurship and individual attributes. The former includes aspects such as whether society values entrepreneurship as a good career choice, whether entrepreneurs enjoy high societal status and the extent to which media attention to entrepreneurial activity contributes to the development of a positive entrepreneurial culture. The latter, the individual attributes, instead includes different demographic factors (such as gender, age, geographic location); psychological factor (perceived capabilities, perceived opportunities, fear of failure); and motivational aspects (necessity vs. opportunity based ventures;).

On the right of the figure instead there are three different classification of entrepreneurial activity: that according to the phases of the life cycle of businesses, according to impact and by type.

Just to be even more explicative, a more articulated figure may be of help.

Figure 2 shows the indicators that have been highlighted in the framework and their interaction.

Figure 2: GEM model of business phases and entrepreneurship characteristics



While many indicators have been explained, or are easy to deduce, some of them need further explanation. For example, it seems useful to define the classification of the phases of entrepreneurial activity by type, *i.e.* the distinction among TEA, EEA and SEA.

TEA stands for Total-Early-stage entrepreneurial Activity and refers to the percentage of adult population between 18 and 64 who are in the process of starting a business or own a new business which is less than 42 months old.

EEA stands for Entrepreneurial Employee activity and includes the percentage of adult, always between 18 and 64, who as employees have been involved in entrepreneurial activities such as developing new goods or services.

SEA stands for Social Entrepreneurial activity and refers to the percentage of adult population engaged in early-stage entrepreneurial activities with a social goal *i.e.* social entrepreneurship. However, the main goal of the present paper is to discuss how contextual factors and, in particular, institutions and policy, affect entrepreneurship and its impact on society. To this purpose, two of the assessment of the GEM may result very helpful. First of all, the *impact of the entrepreneurial activity* is of primary interest. The Report recognizes that while all entrepreneurs are important, they have different impacts on their society in terms of contribution to growth and development through job creation and innovation. As regard the

former, the creation of jobs may sustain an inclusive growth which reduces poverty and unemployment. That is why this is a central issue for policy makers in developing countries.

It is interesting to note, however, that the GEM did not find any relative difference regarding hiring expectations along the three phases of economic development; as a consequence, there should be other aspects, other than the level of economic development, which affects entrepreneurs' growth ambition. According to the 2015/16 GEM Global Report sophisticated technology and communications are those elements which, enabling entrepreneurs to operate on their own, deter entrepreneurs from hiring employees.

In general, however, the academic community shares the view that entrepreneurship creates jobs. Some controversies regard the question whether are the small or the large entrepreneurial firms that manage to create more jobs. According to Acs and Audretsch (1993) in the 1980s the United States suffered from a shift away from employment in large firms towards small enterprises. Three years later, Davis *et al.* challenged this claim, asserting that it was the larger manufacturing structure which created (and destroyed) most manufacturing jobs. There is now "general agreement" that the share of jobs accounted for by many small firms has increased in most developed economies.

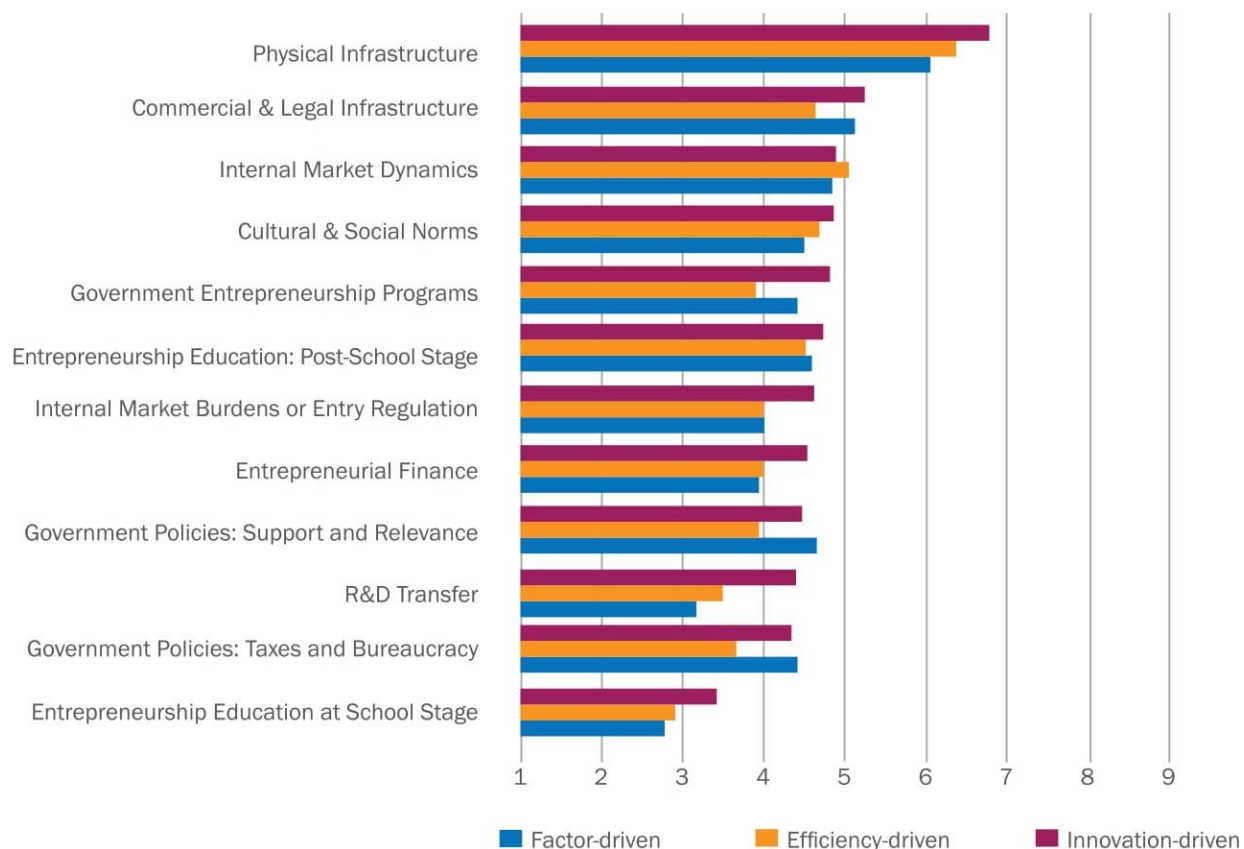
The situation is different when the report assesses the level of innovation across the three phases. Innovation, in the GEM survey, is measured looking at the extent to which entrepreneurs are introducing products that are new to some or all customers, and are offered by no or few competitors. The findings here are quite clear: innovativeness increases with economic development. The 2015/16 GEM Global Report finds several reasons for this finding that innovation levels tend to be linked to development levels. More developed economies tend to have higher levels of education and more diverse industry sector profiles, with higher levels of participation in more sophisticated sectors such as information and communication technology, and professional and other service industries. This, together with greater access to advanced technologies, may encourage entrepreneurs to be more innovative.

It may be interesting to note that according to Parker (2005), small entrepreneurial firms are a way more innovative than the larger one and they contribute around 2.4 times as many innovations per employee as large firms do (Acs and Audretsch, 1990).

The second assessment provided by GEM is about *entrepreneurship ecosystems*. With this concept, the GEM refers to those environmental factors which are influential in creating unique business contexts. The NES, mentioned before, is helpful in that it captures experts' views about specific national conditions which are expected to have a significant impact on the entrepreneurial attitudes and activities. These are the entrepreneurial framework

conditions (EFCs) which are: financing, government policies, taxes and bureaucracy, government programs, school-level entrepreneurship education and training, post-school entrepreneurship education and training, R&D transfer, access to commercial and professional infrastructure, internal market dynamics, internal market burdens, access to physical and services infrastructure, and social and cultural norms (Fig.3).

Figure 3: Development phase averages for entrepreneurial ecosystems for 66 economies, GEM 2016- average scores



The GEM Report concludes providing policy recommendations and suggestions for each individual country as well as in general. After the global fiscal crisis (2008-2012) a series of policy responses were implemented but they did not manage to spur recovery. For this reason, the GEM underlines the necessity not to maintain the current policy responses and to incite collaboration among policy makers, business and civil society leaders. The key goal of the GEM survey is, in fact, to inform academics, educators and policy makers with relevant and up-to-date information about the multi-dimensional nature of entrepreneurship on a global scale.

The aim of the GEM is to advance knowledge about entrepreneurship and to guide decisions that can facilitate the building of more supportive ecosystems in which entrepreneurs and entrepreneurship can flourish.

The following and last chapter will address specifically this issue, in the spirit of the Growth Diagnostic Approach (Hausmann, Rodrik and Velasco 2004), taking into consideration the GEM and other suggestions, together with already implemented policies, which may help entrepreneurship to affect positively economic development.

Before concluding however, it may be interesting and helpful to look at one of the 66 countries about which the GEM report provided information. The selected case-study here is Jamaica.

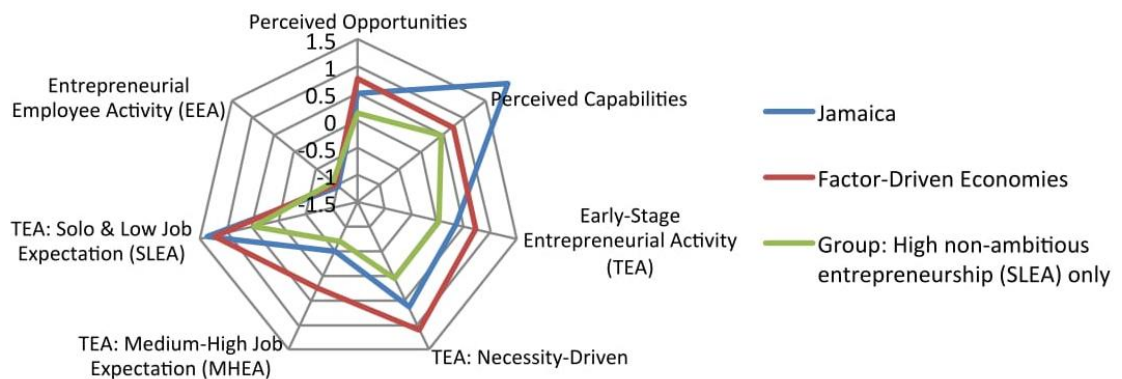
The GEM report of 2011 had labelled Jamaica as a country in the *factor-driven* economic phase; while in the last report Jamaica is instead in the group of the *efficiency-driven* countries. For this reason, the following tables aim at demonstrating the differences in time of a country which shifted from a level of economic development to the following one.

GEM REPORT 2011- Jamaica

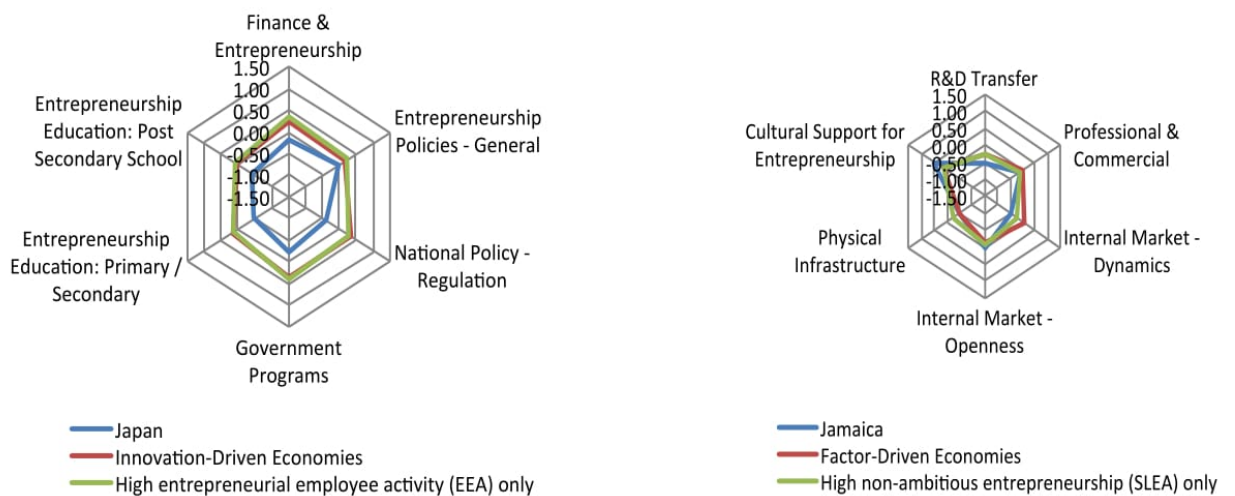
General Characteristics*		GEM 2011 Entrepreneurship Indicators*	
Population (x 1,000):	2,741	Perceived Opportunities	49
Area (x 1,000 km ²):	11	Perceived Capabilities	79
Density (persons / km ²):	249.4	Fear of Failure	32
GDP Per Capita (PPP) (USD):	9,004		
		Nascent Entrepreneurship Rate:	9.0
Global Happiness Index:	6.7 (44/149)	Owner-Managers in New Businesses Rate:	5.0
Human Development Index:	0.73 (79/187)	Owner-Managers in Established Businesses Rate:	5.1
		Total early-stage Entrepreneurial Activity Rate (TEA):	13.7
Global Competitiveness Index:	3.8 (107/142)	- Necessity-Driven TEA Rate:	4.5
Global Innovation Index:	29 (92/125)	- Medium-High Job Expectation Rate: (MHEA)	2.5
Doing Business Index:	(88/183)	Entrepreneurial Employee Activity Rate (EEA):	0.1
GEDI Index:	0.22 (50/79)	- Private Sector EEA Rate (PEEA):	0.1
Classification Phase of Economic Development:	Factor-Driven Economies		
Classification Entrepreneurship Profile (Ch. 4):	High non-ambitious entrepreneurship (SLEA) only		

Nascent entrepreneurship increased from 6% in 2010 to 9% in 2011 while the TEA rate increased from 10.5% in 2010 to 13.7% in 2011. The Statistical Institute of Jamaica reported that the unemployment rate increased from 11.6% in July 2010 to 12.9% in January 2011, and to 12.3% in July 2011. Perceived opportunities declined from 56% in 2010 to 49% in 2011.

Entrepreneurial Profile



Entrepreneurship Institution Profile



The government has increasingly been advancing entrepreneurship as one of the means of job-creation and also as a strategy for inducing growth in the economy. It is heartening that in 2011 the Caribbean Examinations Council (CXC) introduced Entrepreneurship Education as a course in the Caribbean Advanced Proficiency Examination (CAPE) curricula. This bold initiative may hopefully support resourcefulness, self-sufficiency and initiative in teaching, and may lead to more entrepreneurial thinking at the secondary level of education.

GEM REPORT 2016 - Jamaica

Population: 2.8 million (2015)

GDP: \$13.9 billion (2015)

GDP per capita: \$4,948 (2015)

SME contribution to GDP: N/A

World Bank Doing Business Rating (2015): 68/100; **Rank:** 67/190

World Bank Starting a Business Rating (2015): N/A; **Rank:** 12/190

World Economic Forum Global Competitiveness Rating (2015): 4.1/7; **Rank:** 75/138

Economic Development Phase:
Efficiency-Driven

Self-Perceptions About Entrepreneurship		
	Value %	Rank/65
Perceived opportunities	64.4	4
Perceived capabilities	83.5	2
Undeterred by fear of failure	24.5	60
Entrepreneurial intentions	37.9	11

Activity		
	Value %	Rank/65
Total Early-stage Entrepreneurial Activity (TEA)		
TEA 2016	9.9	35
TEA 2015	N/A	N/A
TEA 2014	19.3	N/A
Established business ownership rate	8.2	21T
Entrepreneurial Employee Activity – EEA	0.7	55T

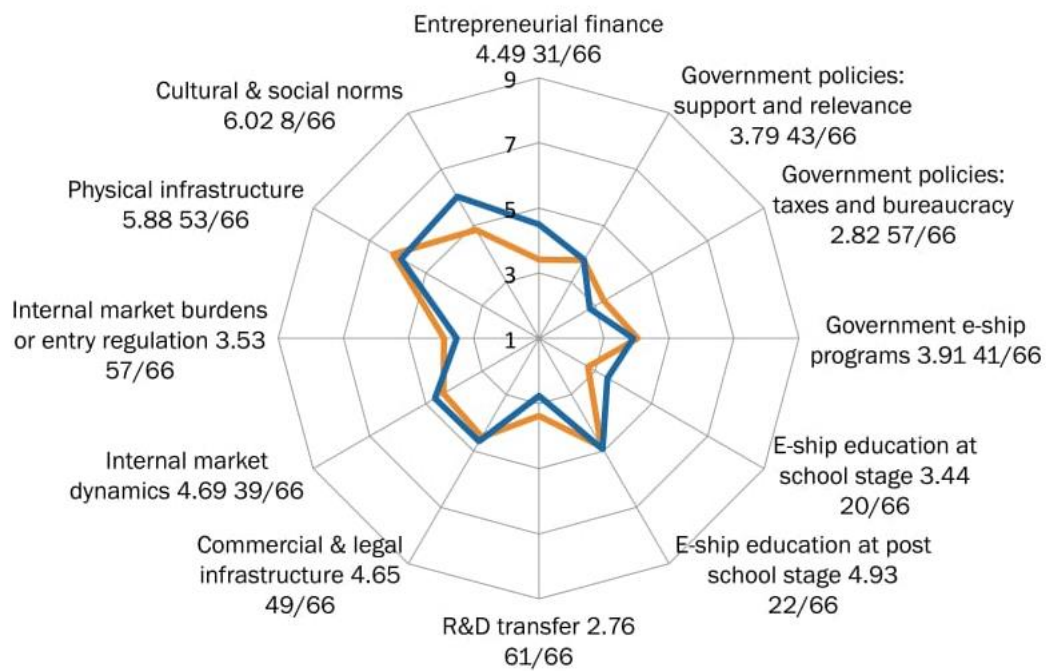
Societal Value About Entrepreneurship		
	Value %	Rank/62
High status to entrepreneurs	84.5	4
Entrepreneurship a good career choice	85.2	2

Expert Ratings of the Entrepreneurial Eco-system (ranked out of 66)

— LATIN AMERICA & CARIBBEAN

— JAMAICA

1 = highly insufficient, 9 = highly sufficient



Chapter 3 – Institutions and entrepreneurship

This third chapter represents the climax of the present paper since throughout the precedent chapters the importance of the institutional setting has been underlined frequently. The chapter is intended to continue the line of thought underlying the previous one: entrepreneurship is held to stimulate competition; create innovation and jobs; with other companies; and provide a route out of poverty of discrimination [Parker, 2005 (p.41)]. Since we assume that free market tends to have market failures such as credit rationing and under-investment; government ought generally to intervene to correct those failures and increase involvement in entrepreneurship for everybody's good. When we say government, however, we mean all those political as well as economic leaders and entities which are able to intervene, not only what *formally* refers to a government i.e. executive authority of a state.

The problem scholars face, however, is one of measurement. In considering the entrepreneurial activity, individuals cannot be left apart. Adis and Estrin (2009), however, had already identified a theoretical and empirical challenge which derives from the fact that the conceptual framework which links individual entrepreneurial choices and institutional environment remains still quite underdeveloped. Institutions in their own, moreover, are not easy to measure (Acemoglu and Johnson, 2005). In recent years a rich study on institutional measures is being developed, that allow the problem to be addressed more analytically. An example of that is the GEM which has been analysed in the previous chapter and that has been used by Adis and Estrin (2009) in their work. This chapter will start with the analysis of two institutions which are considered to be fundamental in explaining entrepreneurial activity and it will continue with a series of policies which may encourage or limit entrepreneurial choice. The third and final part will analyse the role of entrepreneurial education as a way to spur development.

3.1 Property right and the rule of law

The majority of the scholars analysed for the present paper, focused their attention on two key institutions which, if well-established and enforced, manage to encourage entrepreneurship. These are *property rights* and *the rule of law*.

In a study of five post-communist countries, it was found that two countries over five, Russia and Ukraine, diverged from the others due to differences in protection of property rights and a weaker rule of law. As a result, these two countries were placed in the so-defined “backward group”.

Many scholars ⁹ have defined the property right system as the backbone of the institutional setting which influences the market economy. Strong legal property rights are defined as “individual ability, in expected terms, to consume the good (or the services of the asset) directly or to consume it indirectly through exchange” (Barzel 1997, p.3). The focus today is mainly on the institutional conditions that make those rights effective. Since those property rights may function well for the economic elite and remain deficient for others (Sonin,2003), the implication of those rights in the performance of entrepreneurial activity is critical. The access to formal property rights also has another immediate benefit which is that of creating a basis for financial contracts as well as assets and finance. Thus, property rights and finance form the two complementary blocks of the market economy which efficiently support entrepreneurial entry.¹⁰

Moreover, the regulations aimed at protecting private property seem to have another effect which is the one of forcing new entrants to detach as much as possible from existing intellectual properties. This kind of negative effect, however, seems not to be acknowledged by the majority of academics which, as a general rule, believe property rights to be an incentive to do research, seen that the latter will be protected.

Doing Business 2017 has in fact demonstrated that, around the world, owners with registered titles are more likely to invest as well as more likely to receive credits when they use intellectual property rights as collateral; again, the relation between property rights and access to finance.

The concept of the *rule of law* is instead broader. The definition adopted here is the one provided by the World Justice project which comprises four universal principles composing the rule of law:

1. The government and its officials and agents as well as individuals and private entities are accountable under the law
2. The laws are clear publicized, stable and just; are applied evenly; and protect fundamental rights including the security of persons and property and certain core human rights
3. The process by which the laws are enacted, administered, and enforced is accessible, fair and efficient

⁹ North and Thomas (1973), Williamson (1987), Barzel (1997), Rodrik (2000), Acemoglu and Johnson (2005) and others

¹⁰ According to De Soto (2001), a lack of an efficient system of property rights, that is registering, protecting and trading property, may represent an enormous obstacle for entrepreneurs in combining productive assets and transforming them into real capital.

4. Justice is delivered timely by competent, ethical, and independent representatives and neutrals who are of sufficient number, have adequate resources, and reflect the makeup of communities they serve

This very articulated definition identifies the rule of law as a group of institutional practices, not a single one. In some sense, in fact the rule of law comprises the enforcement of property rights as well as the majority of the institutional policies which will follow in the next section. Boette and Coyne (2015) argue that the absence of an efficient system of rule of law is very likely to result into a large sector of “unofficial economy”. The extralegal activities evolve mainly in order to circumvent legal institutional structures which prevent or retard key economic activities. This may be the case of poorly enforced rule of law. More specifically, Nyström (2008) clearly points out the powerful link between a secure legal structure on one hand and entrepreneurship on the other.

The theory of the rule of law and its link with entrepreneurship however has been defined as *mixed*, given the fact that there are some diverse results, as suggested by Hartog, Van Stel and Storey (2010).

They argue that the alternative argument to that of Nyström, poses on two reasoning. The first one is that, while entrepreneurs operating in the legal channels take advantage of cheap, transparent and legal systems; many entrepreneurs may find alternative but probably equally effective methods for contract enforcement. Secondly, improvement in the rule of law seem not to benefit every actor, but only the larger one, who may continue to exploit their market dominance. The authors found support for this in Aidis *et al.* (2009) who noticed a positive effect of the *rule of law* in a sample of developing and middle-income economies, but when they also considered highly developed economies, the overall effect of the rule of law seemed to disappear.

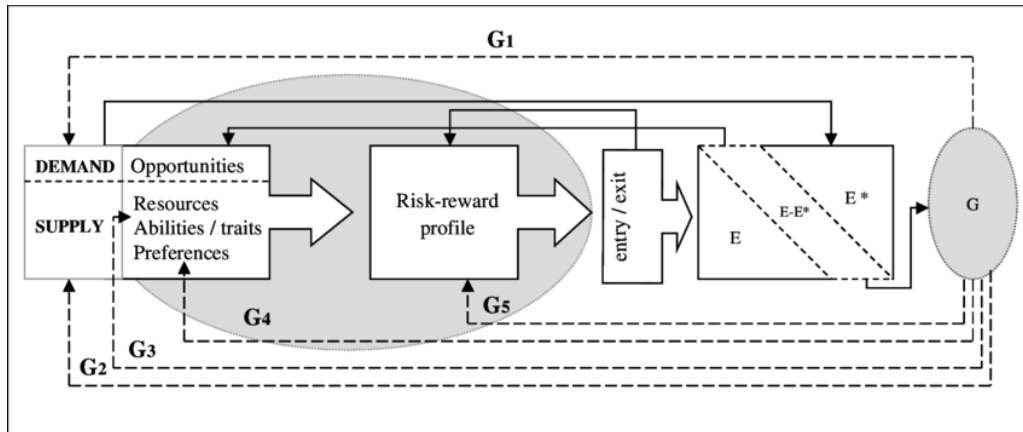
The next section will focus on other kind of institutions, i.e. public policies, which influence entrepreneurial activities.

3.2. Policies which influence entrepreneurial activity

This section is intended to show the effects of a list of policies. This list has been created putting together the classification and lists of the scholars consulted for the present work. Some of them may appear to have a greater effect on the entrepreneurial activity and some less, but as a general rule, all of them influence somehow the level and quality of entrepreneurship of an economic structure.

Before listing them all, it may be useful to refer to Audretsch (2002) who defines five different types of entrepreneurship policies which may be implemented by policy-makers¹¹.

Figure 3: Economic framework for the determinants of entrepreneurship [Audretsch (2002)]



The first type, G1, promotes entrepreneurship by altering the factors shaping opportunity for entrepreneurship. Such policies include the deregulation of entry into markets, the privatization of many services, access to government procurement programs, promoting firm linkages and clusters, and access to global value chains.

G2, G3 and G4 promote entrepreneurship by altering the factors shaping the supply side. Such policies focus on promoting the capabilities of individuals and firms and facilitating access to resources. This involves increasing the supply of potential entrepreneurs through immigration and diversity policies which facilitate the participation and access by previously excluded minorities (G2). A different type of policy involves enhancing the skills and capabilities of individuals, through education and training, or by provision micro-credit or other types of finance (G3). Policies designed to improve the view towards entrepreneurial activity, including promotional campaigns using the media and the educational system, are represented by G4.

Entrepreneurship policy can also change the risk-reward profile directly. Examples of such policies include taxes, subsidies, labor market rules and bankruptcy regulation (G5).

From this moment on, the following list tries to englobe as much policies as possible.

¹¹ This classification refers to the definition of entrepreneurship supply and demand which have been shown in the first section of Chapter 1.

Taxes

The analysis of the effect of changes in the tax system is fundamental since those changes are under the direct control of governments. Sometimes the reason underlying those changes is exactly the will to stimulate entrepreneurship, as was the case for Thatcher and Reagan administrations in the 1980s.

Before analyzing the impact of taxes, it may be interesting to note that the entrepreneurs, which are self-employed, and the employees differ in matter of taxation on income mainly in three aspects (Hartog, Van Stel, Storey, 2010). First, employees find themselves with their taxes removed “at source”, while the self-employed declare their income to the tax authorities. Second, the detraction of taxes from the employees happens immediately, in the case of entrepreneurs, they usually pay taxes at the end of the fiscal year. Finally, self-employed may claim expenses against their income on a scale which usually is not available to the employee. These three differences seem to offer some potential benefits to the self-employed and might influence the choice to become or not an entrepreneur.

Based on the assumption that most individuals may choose not to pay taxes, it is expected that lowering tax rates for the self-employed or raising them on employees may encourage individuals to shift to self-employment. In 2000, Shuetze demonstrated that increases in average income tax rates have positive effects on self-employment in Canada, while Fölster discovers that reducing the tax burden by 10% (of GDP) increases the share of self-employment in Sweden of about 3 per cent.

A similar result was found out by Aidis and Estrin who consider an onerous tax system as something strictly related to a large state sector. As a general rule, a larger state sector rows against the entrepreneurial activity, both via state revenues and expenditures. In particular, taxes and welfare provisions mentioned before may have an effect on the expected returns to entrepreneurial entry as well as its opportunity cost. Higher taxes reduce the incentives for opportunity-driven entrepreneurs to enter the market by reducing potential gains while prominent level of welfare support provide alternative sources of income, in particular to necessity entrepreneurship.¹²

Moreover, in 2000s Carroll *et al.* studied the United States Internal Revenue Service (US IRS) data from 1985 to 1988 which included the tax cutting of the Tax Reform Act of 1986 to test whether income tax reduction increase the propensity of entrepreneurs to hire labour. They

¹² This analysis by Aidis and Estrin has been done by using factor analysis. The set of indicators for the cross-country analysis is taken by the Heritage Foundation/ Wall Street Journal which provide a reliable and big data set of countries and years

discovered that decreasing an entrepreneur's marginal income tax rate by 10 per cent would increase the mean probability of hiring by about 12 per cent. This elasticity of 1.2 suggests that general income tax reductions is a powerful way to stimulate employment creation (Parker, 2005).

The above argument however, focused only on the effect of the *income* taxes, but government *do* impose other kinds of taxes such as business, inheritance or sales taxes. For example, Michaelas *et al.* (1999) showed that the taxes levied on the profits of small companies were likely to lead to lower growth rates since those profits represented the primary source of investment for those small companies. This latter argument is intended to suggest that the relationship between taxation and entrepreneurship depends heavily on the nature of that taxation.

Regulation

Regulations serve mainly to prevent fraud in order to protect public interest. The literature which links regulation to entrepreneurship is surely extensive. The pioneering study is considered to be that of Djankov *et al.* in 2002 which emphasized the differences among countries with varying regulation which created different outcome of time and cost of business creation. At that time, a Spanish entrepreneur needed 82 days to start a new business while for a Canadian or an American, 3 days were sufficient. Later evidence (Djankot *et al.*, 2002) has shown that countries with heavier regulation of entry and low law enforcement have higher corruption and a larger unofficial sector. As a general case in fact, scholars believe that a negative correlation between regulatory restrictions and entrepreneurship exist. Those regulation, justified on the ground that they provide protection for customers and creditors, have a direct effect on lowering business creation rates.¹³

High regulation, such as a strict employment protection legislation raise the operating cost of small business and make entrepreneurship less attractive. It is important to note that small firms are mentioned here, since it seems naïve to say that large firms are able to more easily respond to those regulations.

These empirical findings gave the incentive to policy makers to seek to lower regulation. An example may be given by the reduction of the numbers of days to start a business: between 1999 and 2004, France reduced the number of days from 53 to 8, Spain from 82 to 47 and Italy from 63 to 13.

¹³ It may also happen that countries may decide to erect bureaucratic barriers in order to limit the entry of charlatans. This is the case of countries with untrustworthy populations which try to limit incumbents to become *fat and lazy*. In the case of more developed countries, with better information systems the better contract and law enforcement, entrepreneurs seem more unlikely to misbehave

Exactly to this purpose, fourteen years ago the World Bank Group started to publish the *Doing Business* report which measures the regulations that enhance business activity and those that constrain it. As its core, it seeks to provide quantitative measures of business regulation in eleven regulatory areas that are central to how the private sector functions. It is based on the assumption that governments all around the world can work together with the private sector to create a thriving business environment. More specifically, the World Bank Group assumes that effective business regulation can encourage firm start-up and growth as well as minimizing the chances for market distortions or failures. Of course, a discussion of the benefits of business regulation must be accompanied by a parallel discussion of its costs. Many businesses complain about the negative impacts of excessive regulation—or as it is more commonly known, “red tape.”

The answer is not always more regulation; rather, the most effective answer advocated by *Doing Business* is smarter regulation, that aims to strike a balance between the need to facilitate the activities of the private sector while providing adequate safeguards for the interests of consumers and other social groups.

What has been said above, however, refers to what theoretically is the relationship between government regulation and restrictions and entrepreneurship. Empirical evidence however, usually tells a different story. The actual burden of regulation should be constantly paralleled to an appropriate regulatory enforcement system. Ensuring effective compliance with rules and regulations is an important factor in creating a well-functioning society and, in this case, a productive entrepreneurial society. As an example, Italy has an onerous system of entry regulations which should restrict the share of self-employed individuals; despite this, however, the low law enforcement system permits individual to avoid those limitations presented by regulation, consenting a 24.7 percentage of self-employment rate in Italy (OECD.org data).

Another interesting case is posed by Capelleras *et al.* (2008). They compared the high regulated Spain with the low regulate Britain. Looking at the official data, which of course include only official firms, the finding is consistent with what has been said until this moment. When, on the contrary, both official and unofficial firms are included, the differences among the countries disappear and the role of the law enforcement system comes to the fore.

Credit Rationing

Since the focus here is the role of institutions, one assumption must be that banks, which often assume a fundamental role in financing business, *do* follow regulations issued by government, so they might not be excluded from the present analysis.

In the case of credit rationing, there are three highly influential theoretical models which shaped the general understanding of business lending and the role of governments which *do* intervene in credit markets (Parker, 2005).

- Stiglitz and Weiss (1981)

This model, as the following one, assumes asymmetric information where entrepreneurs are better informed about their projects than banks are; therefore, banks have to offer the same debt contract to all loan applicants. This model, however, sees a difference in the projects applying for loans in terms of risk and safety. Since projects that will turn out to be undesirably risky cannot be detected at the time of the loans, the optimal action would be that of setting interest rates below market clearing levels and to ration loan applicants. An implication of that model is that banks necessarily under-invest in entrepreneurial activities relative to the social optimum.

- De Meza and Webb (1987)

This second model is based on the same assumption of asymmetric information of the precedent one but it considers entrepreneurs as differing from each other not in terms of risks but in terms of expected returns, with the ablest entrepreneurs running the projects with the greatest probability of success. Since once again there is something unobservable at the time of loaning, this time *ability*, banks once again have to offer a pooled interest rate. In this case, the ablest entrepreneurs end up cross-subsidizing the least able. According to these authors there is always *over-investment* in the sense that too many entrepreneurial projects are undertaken. Everyone in the market may be better off if the least able entrepreneurship were discouraged from entering entrepreneurial activities; and this may be reached by taking bank deposits.

- Evans and Jovanovic (1989)

This third model starts from a completely different assumption, which is that entrepreneurs' wealth limits the amount of funds they are given. They predict a direct link between wealth and the probability that a given individual enters entrepreneurship. However, this direct link has not been explained satisfactorily and this model is continuously under empirical research as well as criticism (see Cressy 2000)

What is interesting to note is that, even if the theory may be of profound influence, empirical evidence usually tells a different story. Empirical tests which exploited variations in loans that

can and cannot be committed to entrepreneurial projects in the future (Berger and Udell, 1993) found out that there is little evidence for credit rationing in the US loans markets. Levenson and Willard's (2000) extended the observation, claiming that at most 2 per cent of entrepreneurs fail to obtain finance from banks. It may mean that the applicability of "pure" credit rationing theory is limited.

In the case of *borrowing constraints* once again empirical findings are of significant help.

Dutch evidence from mid-1990s indicates that one fifth of start-up entrepreneurs obtained less finance than they required [Parker and Van Praag (2004)]. The most popular approach for measuring this phenomenon builds on Evans and Jovanovic's suggestion of interpreting significant differences on personal wealth. In any case, the most recent research casts doubt on the importance of wealth as a determinant of entrepreneurial participation. Hurst and Lusardi, in 2004, found that the relationship between the two is significant only for the top quintile of the wealth distribution, where people, however, are the least affected by borrowing constraints. At the same time, even for people which are not in that top quintile there are now extensive sources of start-up finance in modern developed economies, including credit cards. In short, evidence does not seem to support the notion that borrowing constraints seriously impede entry into entrepreneurship in the present century.

Loan guarantee schemes (LGS)

Loan guarantee schemes (LGS) are the primary way governments intervene in the credit markets of development countries to support entrepreneurial start-ups [Parker]. LGS are diffused in many developed countries such as UK, the US, France, Germany and Canada. Once banks detect some projects which they consider potentially successful but they do not want to fund those, banks nominate those investment projects to the LGS which analyse the quality of the proposal and if it agrees with the potential success, it accepts to underwrite a percentage of the loan (usually between 70 per cent and 85 per cent).

This happens mainly when banks refuse to support those groups which seem to have limited collateral, such as blacks or women. Even if they have resulted in a marginal increase in entrepreneurial activity, it should be remembered that the range of guaranteed loans accounts only for 1 per cent of the sector as a whole, this is the case of US and UK where LGS are extremely well-established sectors.

Social security entitlements

Social Security benefits are paid monthly to retired workers who have, during their working years, paid into the Social Security system. Social Security benefits are also available to qualifying individuals who are completely or permanently disabled, and are determined by a

specific and rigid set of criteria issued by the Social Security Administration. These are part of the welfare system which has already been mentioned, and generally, they have a negative effect on entrepreneurship. They weaken the incentive structure and they do not encourage unemployed or economically inactive to start an entrepreneurial activity if social security income is high and if social security benefits also will be. In this sense, social security entitlements distance themselves to definition given to productive entrepreneurship in that they do not represent “any activity that contributes directly or indirectly to net output of the economy or to the capacity to produce additional output”.

Before concluding this section on policies, it might be useful to look at historical evidence. Audretsch (2002) put together a series of implemented policies¹⁴, in different countries, aimed at solving some specific problems and in an exhaustive table he resumes the main policies which may tackle entrepreneurship-related problems of a country.

¹⁴ He actually takes and modify the classification by Storey (2003).

Table 1: Illustrations of public programmes to assist small-medium enterprises and enhance entrepreneurship.

Problem	Programme	Description	Country	Success
Access to Loan Finance	Loan Guarantee Scheme	SMEs without access to own collateral obtain access to bank loans by state acting as guarantor	UK USA Canada France Netherlands	Yes, generally viewed as helpful, but small scale impact on the overall financing of SMEs in most countries
Access to Equity Capital	Enterprise Investment Scheme	Tax breaks for wealthy individuals to become business angels	UK	Unknown
Access to Markets	Europartenariat	Organisation of Trade Fairs to encourage cross-border trade between SMEs	EU	General satisfaction amongst firms that participated
Administrative Burdens	Units established within government to seek to minimise administrative burdens on smaller firms	Sunsetting Legislation deregulation Units	Netherlands Portugal, UK	The view of small firms themselves is that bureaucratic burdens have increased markedly in recent years
Science Parks	Property based developments adjacent to Universities	Seek to promote clusters of new technology based firms	UK, France, Italy and Sweden	Conflicting findings on impact of SPs on performance of firms
Managed Workspace	Property provision to assist new and very small firms	Often called business incubators, these provide premises for new and small firms on "easy- terms"	World-wide	General recognition that such initiatives are of value
Stimulating Innovation and R&D in small firms	Small Business Innovation Research Program	\$1 billion per year is allocated via a competition to small firms to stimulate additional R&D activity	USA	Lerner implies SBIR enhances small firm performance, but Wallsten is unable to show it leads to additional R&D
Stimulating Training in small firms	Japan Small Business Corporation (JSBC)	JSBC and local governments provide training for owners and managers of small firms. The training programme began in 1963	Japan	Unknown
Entrepreneurial Skills	Small Business Development Corporations (SBDCs)	Counselling is provided by SBDC mentors to small business clients who may be starting a business or be already trading	USA	This study finds SBDC clients have higher rates of survival and growth than might be expected. Reservations over these findings are found in the text
Entrepreneurial Awareness	Entrepreneurship Education	To develop an awareness of enterprise and/or an entrepreneurial spirit in society by incorporating enterprise into the school and college curriculum	Australia, Netherlands, but leading area was Atlantic Canada	Conventional assessments are particularly difficult here because of the long "lead times"
Special Groups	Law 44	Provides finance and mentoring advice to young people in Southern Italy, where enterprise creation rates were very low	Southern Italy	This is an expensive programme, but most studies show the survival rates of assisted firms to be well above those of "spontaneous" firms

3.3 The importance of education

The present section differs a little bit from the previous ones but is of extreme importance. Since the initial deal was that of understanding the relationship between entrepreneurship and development, the focus on education represents only one of the dimensions of the concept of development. In chapter two, following Todaro, one of the determinants of development was the "provision of a better life" which included also the setting up of a better educational system.

The importance of education, in the present specific case, does not refer to general education but it specifically addresses the development of entrepreneurial skills and attitudes.

Before going into the discussion a specification has to be made. Although education *is* in fact a determinant of entrepreneurship, in the sense that on average, entrepreneurs tend to be more

educated than non- entrepreneurs (Parker, 2004) or that the decision to become self-employed is influenced by education (Robinson and Sexton, 1994 and Cooper and Dunkelberg, 1987), this section does not point out to this results. Most important, the performance of entrepreneurs seems to improve with their education.

This section is in fact based on the argument proposed throughout the precedent lines, which is that entrepreneurship *is* a good thing and should be encouraged. In order to achieve that goal, *entrepreneurial education* may be of great help.

This same approach is the one followed by the European Union. In 2014, the European Commission and the Member States met to assess the improvements in the educational system of the whole Union. Although some improvements, the desired effects were not met. The result of this discontent was the ET 2020- strategic framework for European cooperation in education and training, which sets out a series of programs to be enacted between 2016 and 2020.

One of the programs is called Entrepreneurship in Education which aims at inspiring entrepreneurial potential. People need the mind-set, skills and knowledge to generate creative ideas, and the entrepreneurial initiative to turn those ideas into action.

Anthony Gribben, one of the members of the European Training Foundation speaks about one of the points of the program *Learning outcomes*. He identifies the necessity of setting *learning outcomes* objectives for all the levels of education so that entrepreneurial learning will proceed in parallel to the educational system. In this way the size and quality of the entrepreneurial society will gradually increase.

The European Union has set its standard countries but what is really important is that this kind of approach may be followed to improve the condition of developing countries. A UNESCO study on “the economic of education” estimated that “less than 50 per cent of a country’s economic growth can be attributed to increases in capital, land, labour and other factors of production. The residual factors such as infrastructure, education and entrepreneurship provide the remaining impetus to economic development”. According to Robert E. Nelson, additionally , developing countries have to work on *their* people, which are the primary resource of the country.

As a concrete example, an article of the *Mediterranean Journal of Social Sciences* may be taken into account. It is titled “Entrepreneurship education in South Africa” and was published in 2014 by Tendai Chimucheka. The aim of the study is to show that improving entrepreneurship education may improve the economy of the nation and ultimately help afford its socioeconomic challenges, especially unemployment and low economic growth. The

current state of the South African economy is a cause of concern for citizens who are confronted with real challenges like crime, mismanagement, corruption and unemployment (North, 2002). Moreover, the total level entrepreneurial activity among South African citizens is very low compared to other countries. Von Broembsen *et al.* (2005) reports that most South African youths do not believe that they have the skills to start a business and this may be attributed to the low proportion of South Africans that have completed secondary education.

In 2001 and 2002 the education and training system was regarded as the number one limiting factor for

entrepreneurship in South Africa (Herrington & Wood, 2003). It has been argued that acquiring and developing entrepreneurial competencies is more important than the direct provision of financial resources and consulting support that may be needed by entrepreneurs and these competences are to be conveyed through education at every level.

Considering the fact that there are different audiences that intend to benefit from entrepreneurship education, the benefits of entrepreneurship education will definitely be different to different individuals or organizations. Henry *et al.* (2005) highlighted the benefits and advantages of entrepreneurship education:

- it plays a critical role in raising awareness of the nature and importance of entrepreneurship to economic growth of a nation;
- contributed to the development and building of an entrepreneurship culture in any country;
- can help aspiring entrepreneurs by equipping them with practical skills and knowledge that is required in business start-up and management;
- can also develop attitudes, perceptions and mindsets that are not averse to risk taking, failure and competition;
- can increase the intrinsic motivation and self-confidence of both emerging and existing entrepreneurs;
- makes people realize that entrepreneurs can be made and not necessarily born; and that the possibility of business success can be enhanced if the problems anticipated are understood and solutions investigated prior to the business start-up through entrepreneurship education.

According to the Consortium for Entrepreneurship Education (2004) entrepreneurship education empowers individuals with knowledge and skills. The knowledge and skills that

can be gained from entrepreneurship education include the ability to recognize opportunities, the ability to pursue opportunities by coming up with new ideas and marshalling the needed resources, the ability to create and manage a new venture and the ability to think in a creative and critical manner.

Of course, the problem in South Africa may be one of practice. It may be the case that there are no concrete possibility of setting up such a system where the most basic education system in Africa is already inefficient or quite inexistent. However, according to the author “Entrepreneurship education in South Africa”, the fact that South African government have realized the importance of entrepreneurship education in one step towards a better future, however all stakeholders, including business owners and managers should also make it their responsibility to improve entrepreneurship skills and knowledge.

Conclusion

The main aim of this thesis has been to assess the relation between entrepreneurship and development and to highlight the role that institutions have in allocating human capital among different activities. The first chapter was devoted only to the concept of entrepreneurship, it has conveyed the idea that entrepreneurship is a multi-dimensional concept and for this reason the definitions attached to it are more than one. The first paragraph drives on Baumol following the historical route of entrepreneurship and it shows the role that the *rules of the game* take in encouraging or discouraging entrepreneurial activity. It has been shown how in some periods other activities such as the military or the bureaucratic ones were privileged over the accumulation of wealth through entrepreneurship. The following paragraph tries to exemplify the main features influencing entrepreneurial activity such as the role of taxes, regulation, anticipating in some sense the discussion on policy of the third chapter. Together with the last paragraph of the chapter, the second one, tries to put together those environmental and personal elements influencing entrepreneurship. The last paragraph in fact focuses on the individual and those characteristics who influence the choice to become or not an entrepreneur. Relevant here seem to be the influence of prior entrepreneurial experience, expected profits as well as risk taking propensity.

The second chapter has brought in the idea of development by assessing a connection between the latter and entrepreneurship. It starts with the classification by Porter *et al.* (2002) of three developmental stage: factor-driven, efficiency-driven and innovation-driven stages. It shows that the higher developmental stage, i.e. innovation-driven stage, corresponds to the higher rate of income per capita. Income per capita alone does not mean higher economic development but it *does* represent economic growth which surely is a starting point for economic development. The second paragraph spells out Baumol's distinction among productive, unproductive and destructive entrepreneurship where the first is the one which benefit the society and helps economic development; therefore, the one which public policies should aim at. The third paragraph analyses the role and the main characteristics of the Global Entrepreneurship Monitor, the most relevant study and survey on entrepreneurship around the globe.

The third and last chapter shows how the relation between entrepreneurship and development may be a positive one *if and only if* the institutions which intervene in the relation manage to contribute positively to entrepreneurial activity. Its first paragraph analyses two of the most influential institutional tools for businesses. The protection of property right represents a guarantee for those who are willing to accumulate wealth through entrepreneurship. The *rule*

of law instead has a broader scope in that it is related to the enforcement capacity and the accountability of a government and, if weak, it may lead to the proliferation of extralegal activities which are unproductive or may even be destructive. The subsequent paragraph contains a list of other institutional tools relating them to the entrepreneurial activity. As relevant cases, it has been shown that more taxes and a heavy administrative burden may represent limitation to entrepreneurs. However, it has been stressed the role of the law enforcement system, which has been proved to be inefficient in a variety of legal systems.

The very last paragraph focuses on the role of education, stressing out the opinion that an improved entrepreneurial performance is in fact related to a good entrepreneurial education. The European Union also embraces the opinion, conveying the idea that entrepreneurial education may empower individuals with skills and knowledge as well as with the capacity to recognize and exploit entrepreneurial opportunities.

As stated in the introduction, the central hypothesis of the present paper is the idea that the *rules of the game* may spur economic development through entrepreneurship. This is why, this paper has underlined the role of institutions in constructing an incentive-structure which manages to push entrepreneurship in productive activities which in turn, stimulate growth and development.

It may happen sometimes, however, that institutional rules are set and kept even if they prove inefficient. This may happen with informal rules which tend to survive even if they clash with subsequent formal rule, in that the former usually become part of the habitual behaviour of individuals (i.e. culture). Furthermore, they usually change a way more slowly than the formal ones.

This kind of *lock-in* also happens in the case in which some informal rules represent the “comparative advantage” of some organization which have evolved as a result of the incentive structure of the institutions in place.

Together with those institutional arrangements that have been highlighted throughout the paper, it seems appropriate to consider a list of arguments which may represent topics for further research, so to increase the quantity and quality of the study connecting entrepreneurship to development. These may be: spill overs from entrepreneurship to the rest of the economy and society; scrutinizing further the effects of regulation on entrepreneurs; cost- benefit analysis of policies which aim at entrepreneurial education; exploring discrimination in the credit markets against members of ethnic minorities; considering regional variations; taking into consideration those non-standard form of start-up activities which do not fit the classification made in this paper.

In conclusion, enduring research on the specific effects of policies and institutional arrangement on entrepreneurship will not only confirm the assumption of this thesis, but it will provide policy suggestions to decision-makers willing to foster economic development.

References

- Acs, Z.J., Desai, S. & Hessels, J. (2008) Entrepreneurship, economic development and institutions. *Small Business Economics* 31:219–234
- Aidis, R, Estrin, S & Mickiewicz, T (2009). Entrepreneurial entry: which institutions matter. IZA discussion paper series, no. DP No. 4123, IZA, Bonn (DE).
- Audretsch, D. B. (2002). Entrepreneurship: A survey of the literature for the European Commission. Enterprise Directorate General
- Baumol, W. (1990) Entrepreneurship: Productive, Unproductive, Destructive, *Journal of Political Economy* 98(5): 893 -921.
- Boettke P. J., Coyne C. J. Entrepreneurship and development: cause or consequence? In *Austrian Economics and Entrepreneurial Studies*. Published online: 08 Mar 2015; 67-87
- Bosma N., Wennekers S., Amorós J. E., and Global Entrepreneurship Research Association (GERA) (2011)
- Global Entrepreneurship Monitor 2011 Extended Report: Entrepreneurs and Entrepreneurial employees across the Globe
- Chimucheka T. (2014), Entrepreneurship education in South Africa. Department of Business Management, University of Fort Hare, Alice. *Mediterranean Journal of Social Sciences*, MCSER Publishing, Rome-Italy. Vol.5 No.2
- de Bruin, Anne M. and Ferrante, Francesco M. (2011). Bounded Opportunity: A Knowledge-Based Approach to Opportunity Recognition and Development. *Entrepreneurship Research Journal*: Vol. 1: Iss. 4, Article 2.
- Desai S., Acs Z., Weitzel U. (2010) A model of destructive entrepreneurship. United Nations University, UNU- WIDER, Working Paper No. 2014/34
- European Commission (2013) Innovation - How to convert research into commercial success story? Part 3: Innovation management for practitioners. Luxembourg: Publications Office of the European Union
- Global Entrepreneurship Research Association (GERA) (2016) Global Report 2016/17

Hartog C., van Stel A., Storey D. J. (2010) Institution and Entrepreneurship: the role of the rule of law. Zoetermeer, SCALES

Klapper L., Laeven L., Rajan R (2004), Barriers to entrepreneurship.

Parker S. C. (2005), The economics of entrepreneurship: What we know and what we don't. University of Durham

Rodrik, Dani. One Economics, Many Recipes: Globalization, Institutions, and Economic Growth. Princeton: Princeton University Press, 2007. Print.

Todaro, Michael P, and Stephen C. Smith. Economic Development. Boston, Mass: Addison-Wesley, 2012. Print.

World Bank (2017). Doing Business 2017: Equal Opportunity for All. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0948-4. License: Creative Commons Attribution CC BY 3.0 IGO

Riassunto

Il presente elaborato di tesi nasce da un duplice interesse: quello di analizzare e definire la relazione tra imprenditoria e sviluppo economico e, più specificatamente, di chiarire il ruolo che le istituzioni assumono in tale relazione.

L'economia politica dello sviluppo, la materia su cui verte questa tesi, ha come obiettivo principale quello di illustrare le differenze socio-economiche tra le nazioni e tra le varie fasce della popolazione mondiale. La dottrina, una volta rilevate tali differenze, ha elaborato numerose teorie volte ad offrire una soluzione per mitigare gli squilibri fra le *economie industrializzate* e i paesi *in via di sviluppo*.

Successivamente al secondo conflitto mondiale, la teoria maggiormente accreditata consisteva nella mera estensione della teoria economica convenzionale, secondo la quale i vari stadi di sviluppo fossero omologhi a tutti i paesi. Di conseguenza, i territori *in via di sviluppo* quali America Latina, Asia e paesi Africani rappresentavano lo stadio “primitivo” lungo il percorso lineare dello sviluppo. Questo tipo di approccio, definito in inglese *the one-size-fits-all approach*, si concretizzò nel *Washington Consensus* del 1989 che si rivelò poi un fallimento, successivamente alla presa di coscienza, da parte di studiosi e dirigenti, della necessità di considerare le diverse e specifiche condizioni dei diversi paesi. Da qui il bisogno di individuare per ogni paese specifiche problematiche di riferimento, i cosiddetti *binding constraints*, come esemplificazione della situazione socio-economica del paese. Da questa necessità si sviluppò il *Growth Diagnostic Approach* di Hausmann, Velasco, Rodrik (2005), che ancora oggi si rileva un approccio vincente, in base al quale una volta esaminati i problemi peculiari di un determinato Stato le istituzioni si impegnano a far confluire le soluzioni in un quadro normativo di riferimento.

Il modello ha come assunto fondamentale l'idea che l'imprenditoria e l'investimento efficiente siano alla base della crescita e dello sviluppo economico ed è proprio questo il punto di partenza del presente elaborato di tesi. Si vuole fornire un'argomentazione quanto più coerente e completa della tesi secondo la quale le istituzioni possono incentivare e regolamentare l'imprenditoria in modo che favorisca lo sviluppo economico dell'intero paese. Il primo capitolo ha complessivamente l'obiettivo di chiarire il concetto di imprenditoria, partendo dalla fondamentale premessa che il termine imprenditoria in sé, comprende una moltitudine di definizioni che spaziano tra le varie discipline, tra le quali economia, sociologia, psicologia. La prima definizione proposta proviene dal *Business Dictionary* e identifica l'imprenditoria come “la capacità e il desiderio di sviluppare, organizzare e gestire un'iniziativa imprenditoriale prendendosi carico dei rischi con l'obiettivo di generare

profitto. Il più ovvio esempio di imprenditoria coincide con la creazione di nuove aziende. In economia, l'imprenditoria in combinazione con il lavoro, le risorse naturali e il capitale può generare profitti. Lo spirito imprenditoriale è caratterizzato dall'innovazione e la propensione al rischio, ed è parte essenziale dell'abilità di una nazione di affermarsi nel mercato globale in continuo mutamento e sempre più competitivo" (trad.)

A questa, si aggiungono poi le definizioni di imprenditore ed impresa. L'imprenditore generalmente è colui che sa riconoscere le opportunità imprenditoriali, valutarle e sfruttarle generando un profitto. Secondo l'economista Joseph A. Shumpeter (1883-1950), invece, non è il fine del profitto che muove l'intenzione imprenditoriale ma piuttosto il desiderio di raggiungimento e successo.

Una volta generato un quadro complessivo sull'imprenditoria, il primo paragrafo fa riferimento a Baumol (1990) definendo la rotta storica dell'imprenditoria secondo il punto di vista dell'autore. Egli identifica sei periodi storici in cui le *regole del gioco* (le istituzioni), determinate dal contesto socio-culturale delle varie epoche, creano diversi incentivi che variano a seconda del luogo e periodo storico favorendo così lo sviluppo o meno di attività imprenditoriali produttive, cioè attività che abbiano un contributo benefico per la società e il conseguente apporto di un valore aggiunto.

Il primo periodo che egli identifica, il periodo dell'antico Impero Romano, si contraddistingue per il grande valore attribuito a coloro che accumulavano beni e ricchezze, tranne nei casi in cui la ricchezza conseguisse ad attività commerciale. Quest'ultima infatti godeva di una pessima reputazione in quanto era l'attività a cui erano dediti gli schiavi una volta divenuti liberi. Essi utilizzavano la ricchezza accumulata durante gli anni di servizio in modo da avviare un'attività commerciale, facendo sì che l'attività imprenditoriale assumesse lo stesso stigma sociale generalmente attribuito alla loro classe di appartenenza. In questo modo, le regole del gioco nell'Antica Roma incoraggiavano l'accumulazione della ricchezza ma ne scoraggiavano il raggiungimento tramite l'imprenditorialità.

La monarchia cinese, durante il Medio Evo, invece deteneva il diritto di confiscare i beni dei singoli individui in caso di necessità. Così facendo, questo periodo storico divenne caratterizzato dal disincentivo dell'accumulazione di ricchezza e beni creando invece incentivi per altri impieghi, quali per esempio impieghi amministrativi o burocratici.

Più avanti nel tempo il Basso Medio Evo e il quattordicesimo secolo furono caratterizzati dall'aumento dell'attività bellica che rappresentò una valida alternativa all'attività commerciale, limitando così lo sviluppo di imprenditoria produttiva. Questi due periodi furono tra loro separati dall'Alto Medio Evo che invece Baumol identifica come caratterizzato

da imprenditoria produttiva data la grande quantità di innovazioni (es. mulini ad acqua) che rappresentarono un beneficio per l'attività commerciale e per la società.

L'ultimo periodo identificato dall'autore si contraddistingue per le attività orientate alla rendita, il *rent-seeking*. Essa viene identificata come attività improduttiva in quanto prevede l'accumulazione di ricchezza senza però apportare nessun valore aggiunto all'economia.

Il secondo paragrafo rappresenta invece una lista di fattori che caratterizzano e/o influenzano l'imprenditoria. Tra questi, il territorio che sembra influenzare positivamente l'attività nel caso in cui sia contraddistinto da (1) un mercato del lavoro gremito, (2) la possibilità di ottenere fattori di produzione a basso costo e (3) *spillovers* tecnologici (Krugman, 1991). In seguito, vengono analizzate le influenze dei metodi di finanziamento, il peso del sistema tributario e l'importanza dell'innovazione. Quest'ultimo elemento viene trattato con più rilievo facendo riferimento al costante impegno dell'Unione Europea finalizzato a rendere più efficiente il passaggio da ricerca a commercializzazione efficace di un nuovo prodotto o servizio, finanziando una grande quantità di progetti di ricerca e sviluppo (R&D).

L'ultimo paragrafo si concentra sulla figura dell'imprenditore e su quei fattori che spingono un individuo a scegliere il lavoro autonomo piuttosto che un altro impiego. Il nodo centrale è che alla base della scelta ci sia l'aspirazione ad un guadagno maggiore e di conseguenza che la scelta sia frutto di uno specifico processo di *decision-making*. Da qui l'elaborazione dell'*occupational choice model* secondo il quale la probabilità di diventare imprenditore si definisca come una relazione tra i guadagni previsti dalla gestione di un business e la remunerazione da impiegato.

$$\Pr(s) = f(P^* - W^*)$$

La trattazione poi procede definendo quegli elementi, ulteriori rispetto al guadagno previsto, che determinano la scelta di intraprendere l'attività imprenditoriale, quali ad esempio l'età, il genere, l'educazione, le abilità tanto quanto la propensione al rischio e/o precedente esperienza o formazione imprenditoriale. Di grande rilievo in questa sezione è il lavoro di Ferrante e de Bruin (2011) che mira all'identificazione dell'*entrepreneurial knowledge* (EK) che permette, o meno, all'individuo di riconoscere e mettere a frutto le opportunità imprenditoriali.

Il secondo capitolo della tesi ha come obiettivo l'analisi del rapporto tra imprenditoria e sviluppo economico. Dopo aver definito la differenza tra crescita e sviluppo, il primo paragrafo si rifà alla classificazione di Porter (2002) relativa ai tre livelli progressivi di sviluppo economico.

Il primo di questi, indice quindi di un basso livello di sviluppo economico, è il factor-driven stage caratterizzato da bassi salari e da un alto tasso di impiego autonomo non agricolo. In questo primo momento l'economia non produce nuova conoscenza, non vi è innovazione ne tanto meno la capacità di esportare nuovi prodotti. Il passaggio allo stage successivo, l'efficiency-driven stage, può avvenire solo successivamente all'aumento dell'efficienza produttiva e la creazione di sistemi formativi atti ad educare individui verso l'imprenditorialità. Questo stage intermedio è caratterizzato da un basso livello di lavoro autonomo e dal progressivo aumento delle dimensioni dell'azienda. Questa tendenza verso organizzazioni più grandi va invece a regredire una volta raggiunto il terzo e ultimo livello: innovation-driven stage (Evans and Leighton, 1989).

Acs (1994) dimostra infatti che il terzo stage è marcato dal più alto tasso di attività imprenditoriale dimostrando così che lo sviluppo economico è direttamente proporzionale all'incremento dell'attività imprenditoriale.

Resta comunque il bisogno di fare una specificazione. Il primo e il terzo stage identificati da Porter, sono entrambi caratterizzati da un alto tasso di attività imprenditoriale. La differenza sta nella motivazione che spinge gli individui a intraprendere questo impiego. Nel caso del factor-driven stage quasi la totalità degli imprenditori è mossa dalla necessità di intraprendere l'attività imprenditoriale, non avendo altre valide alternative di guadagno; nel caso dell'innovation-driven stage l'imprenditorialità diventa il risultato di una scelta (necessity-led vs. opportunity-led motivation).

Il secondo paragrafo riprende la discussione di Baumol del primo capitolo differenziando tra tre tipi di imprenditoria: produttiva, improduttiva e distruttiva. La distribuzione delle attività imprenditoriali in uno di questi settori piuttosto che un altro è strettamente dipendente dal ruolo delle istituzioni.

Baumol spesso si rifà all'innovazione come tipo di imprenditorialità produttiva. Come esempio di quella improduttiva invece, si fa riferimento al caso della monarchia Cinese analizzata nel primo capitolo; in quel caso, la mancanza di libertà individuale combinata al prestigio tipico dell'attività burocratica ha rappresentato un disincentivo alla libertà d'impresa, motivo per cui l'imprenditorialità produttiva non risultava incoraggiata.

Acs, Desay and Witzel, nella loro analisi del lavoro di Baumol, esplicitano i loro dubbi riguardanti l'imprenditorialità distruttiva e decidono di interpretarne le caratteristiche. Essi la definiscono come wealth-destroying, cioè distruzione di ricchezza, e spiegano che non sempre essa coincide con una scelta. Portando l'esempio delle miniere in Congo, dimostrano come i lavoratori siano cittadini il cui lavoro può essere ricompreso in una delle tante forme di

schiaivizzazione, mentre i frutti dell'attività arrivano nelle mani di altri uomini che poi costituiscono i reali imprenditori. Ancora una volta, il paragrafo chiude con l'importanza che hanno le istituzioni nel canalizzare le attività imprenditoriali nei vari tipi.

L'ultimo paragrafo esemplifica lo scopo e le caratteristiche del Global Entrepreneurship Monitor, ad oggi lo studio più rilevante sull'attività imprenditoriale a livello globale. Il secondo capitolo conclude con un esempio peculiare: la nazione Jamaicana che, nel giro di qualche anno, ha effettuato il passaggio dal primo livello di sviluppo economico a quello successivo, secondo i criteri definiti da GEM.

Il terzo capitolo rappresenta il punto focale dell'elaborato. Esso assume ancora una volta che l'imprenditoria può rilevarsi benefica per le condizioni socio-economiche del paese, stimolando la competizione, generando innovazione e lavoro, e può infatti rappresentare un modo per sradicare la povertà da un territorio.

Nonostante ciò, è necessario che siano le istituzioni ad indirizzare l'attività imprenditoriale in questo senso, favorendone gli elementi socialmente benefici e semplificandone la gestione.

Il primo paragrafo identifica due delle prerogative dell'ordinamento socio-giuridico che in maggior modo influenzano l'imprenditoria: la tutela dei diritti di proprietà e lo stato di diritto (*rule of law*).

La tutela della proprietà privata rappresenta una garanzia rispetto dell'accumulazione di beni e ricchezze attraverso l'iniziativa economica privata. L'attenzione dell'ordinamento giuridico nei confronti del diritto di proprietà, anche intellettuale, rappresenta un incentivo al lavoro imprenditoriale. Con stato di diritto (*rule of law*) si intende quel sistema di regole che disciplinano l'esercizio del potere pubblico in genere e che ne garantiscono il rispetto e la corretta implementazione. Nel caso di una debole *rule of law*, si potrebbe assistere alla proliferazione di attività illecite che si distanziano di gran lunga dallo scopo produttivo dell'imprenditoria. L'esempio riportato fa riferimento ad uno studio di cinque nazioni nel periodo post-comunista. Due paesi su cinque studiati, Russia ed Ucraina, non riuscendo a metter su un efficiente sistema di *rule of law* rimangono per lungo tempo nel così- definito "backward group" (gruppo sottosviluppato).

Il paragrafo successivo contiene la lista di altri strumenti istituzionali che vanno ad influenzare l'attività imprenditoriale. Tra i risultati più rilevanti vi sono quelli relativi al sistema tributario e alle regolamentazioni. Un'alta pressione fiscale si dimostra come fattore scoraggiante nei confronti dell'imprenditoria così come l'eccessiva regolamentazione riguardante l'entrata e la gestione dell'impresa.

In ogni caso, l'eccessiva regolamentazione risulta restrittiva per l'imprenditore solo quando è assistita ad un sistema efficace di law enforcement (applicazione della legge). L'Italia risulta peculiare in quanto la copiosa quantità di regolamentazioni non sembra essere supportata da un buono sistema di implementazione e applicazione normativa.

L'ultimo paragrafo focalizza l'attenzione sul ruolo dell'educazione, avanzando la tesi che la performance imprenditoriale risulta migliore e più efficiente se derivante da una adeguata formazione in tal senso. La stessa opinione è infatti condivisa dall'Unione Europea che ad oggi suggerisce l'idea che l'educazione imprenditoriale conferisce agli individui le conoscenze e le competenze necessarie ad un buon rendimento economico, e permette loro di riconoscere ed identificare le opportunità più proficue.

La conclusione dell'elaborato riprende l'ipotesi iniziale che l'imprenditoria può incitare ed accelerare lo sviluppo economico, a patto che essa venga canalizzata e regolamentata efficientemente da parte delle istituzioni. Quest'ultime hanno il compito di creare una struttura di incentivi che riesce a spingere l'imprenditorialità verso una serie di effetti benefici e produttivi per la società e l'economia.

Il presente lavoro chiude con una serie di suggerimenti volti ad arricchire le modalità e i contenuti di ricerca nell'ambito di imprenditorialità e sviluppo, quali ad esempio l'analisi dei costi e benefici delle regolamentazioni, studi che mirano ad identificare ed interpretare le discrepanze regionali o ancora esplorare la discriminazione ai quali i soggetti delle minoranze etniche sono sottoposti.

In conclusione si può coerentemente affermare, sulla base degli studi condotti ed esaminati nell'elaborato, che il ruolo delle istituzioni non è secondario bensì primario, in quanto, come si è analizzato, esse incidono e orientano profondamente l'attività imprenditoriale e possono correttamente condurre, attraverso una puntuale ed efficiente regolamentazione, allo sviluppo economico.