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## Loosen up? Cultural tightness and national entrepreneurial activity

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## ABSTRACT

The level of entrepreneurship between countries differs consistently. A source of this variance lies in national culture differences. Recently, the cultural dimension “tightness” has been introduced in the literature. Tightness refers to the degree to which a nation has strong norms and a low tolerance for deviant behavior. Tightness can have a direct effect on national entrepreneurial activity. It can also moderate the strength and/or direction of the relationship between other cultural characteristics and entrepreneurship. Such moderation might explain previous studies' inconclusive findings. This study analyzes tightness's impact on new business ownership, high-growth entrepreneurship, and social entrepreneurship, using recent secondary data from 29 countries. The results show that tightness has neither a direct nor a moderating effect on entrepreneurship. Other cultural dimensions, such as individualism and uncertainty avoidance, have an impact on new business ownership, but not on high-growth entrepreneurship or social entrepreneurship. This suggests that policy makers can use formal institutions to foster high-growth entrepreneurship and social entrepreneurship – even in nations whose cultural conditions do not seem to be supportive.

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## 1. Introduction

The analysis of national levels of entrepreneurial activity is of considerable research interest. National entrepreneurial activity, which this study indicates by the rate of new business ownership (NBO), the share of high-growth entrepreneurship (HGE), and the prevalence of social entrepreneurship (SE), contribute significantly to national wealth and development. Large-scale research projects comparing national levels of entrepreneurial activity, such as the Global Entrepreneurship Monitor (GEM, Kelley et al., 2011), the Global University Entrepreneurial Students Survey (Sieger et al., 2011), and different national strands of the Panel Studies on Entrepreneurial Dynamics (Reynolds, 2001), indicate the global interest in the antecedents of and the persistent differences between countries' entrepreneurial activities (Freitag and Thurik, 2007).

The literature on National Systems of Innovation (NSI) and National Systems of Entrepreneurship (NSE) captures the key drivers of national entrepreneurial activity. The NSI concept emerged from the interplay of academic and policy interest in the national innovation drivers (Sharif, 2006). The NSI concept contains “all important economic, social, political, organizational, institutional and other factors that influence the development, diffusion and use of innovations” (Edquist, 1997, p. 14; Lundvall, 2007), for example university–industry interaction (Al-Tabbaa and Ankras, 2016). Further, the NSI concept contains explicit references to national culture (Edquist and Hommen, 2008). The inclusion of national culture adds to an actor- and policy-centric view of the NSI (Nelson, 1993).

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We argue that this explicit inclusion of culture in the NSI/NSE is warranted, as differences in national culture may explain systematic and persistent differences in innovation and entrepreneurship at national levels (Gupta et al., 2004; Shane, 1992). This supposition is in line with the argument that the new institutional economics proposes: Culture serves as a general, basic institution (Licht et al., 2007; North, 1990; Williamson, 2000).

The recent literature on National Systems of Entrepreneurship (NSE) creates an explicit link between the NSI literature and the entrepreneurship literature by reconciling the NSI concept's systemic nature with individual entrepreneurial agencies (Acs et al., 2014; Radosevic and Yoruk, 2013; Valliere, 2010). Acs et al. (2014, p. 479) assert that “a National System of Entrepreneurship is the dynamic, institutionally embedded interaction between entrepreneurial attitudes, ability, and aspirations, by individuals, which drives the allocation of resources through the creation and operation of new ventures.” The NSE concept emphasizes the role of growth-oriented entrepreneurship in addition to innovation (which is the NSI literature's main focus, see Ratinho et al., 2015, for the position of the NSE in the literature on technology entrepreneurship). Key components of such a NSE (Acs et al., 2014) are, among others, the entrepreneurship framework conditions (EFC) of the GEM model (Levie and Autio, 2008). We argue that, beside the institutional and individual components, the NSE approach should also emphasize national culture as a basic institution, as differences in national culture may explain the persistent differences in national entrepreneurial activity (George and Zahra, 2002).

The NSI and NSE approaches are both currently focused on technological innovation and growth-oriented entrepreneurship. This is

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understandable, given the positive economic implications of innovation and growth-oriented entrepreneurship (Wong et al., 2005). However, social entrepreneurship (SE), another stream of entrepreneurial activity, may be overlooked in the literature on NSI and NSE.

Social entrepreneurship can be defined as an “[...] innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors.” (Austin et al., 2006, p. 2). Social value creation is thus a core element of SE (Choi and Majumdar, 2014). But perspectives on who creates social value are controversial (Kroeger and Weber, 2014).

One perspective conceptualizes social value creation as a motive: “Common across all definitions of social entrepreneurship is the fact that the underlying drive of social entrepreneurship is to create social value, rather than personal and shareholder wealth” (Austin et al., 2006, p. 2). This definition of SE refers to the motivational emphasis attributed to social rather than personal wealth creation. Note that ventures thus defined as socially entrepreneurial need not exhibit actual social value creation. For example, a critical analysis of social entrepreneurship finds a “troubling account of work/life balance centered on self-sacrifice, underpaid and unpaid labor and the privileging of organizational commitment at the expense of health, family and other aspects of social reproduction” (Dempsey and Sanders, 2010, p. 437) in SE ventures.

According to a second perspective, social value creation is conceptualized as a result. Baumol (1990) stresses that profit-driven entrepreneurs also create rents, which, consequently, lead to higher overall utility. In a free exchange economy, transactions take place when the consumer is at least equally or better off than before, resulting in consumer rents and, hence, externalized value (Mankiw, 2010). If this is so, then growth-oriented entrepreneurial ventures should be in a good position to create social value (Acs et al., 2013). In addition, those ventures also contribute to dynamic efficiency in by being the cornerstone of dynamic capitalism (Phillips and Kirchoff, 1989; Kirchoff et al., 2013). Based on these arguments, it would be neglectful not to include (growth-oriented) innovative entrepreneurial activity in an analysis of entrepreneurial activity that generates social value.

Thus, antecedents to national levels of both social entrepreneurship and profit-driven entrepreneurship are of key interest to policy makers. A key antecedent of national entrepreneurial activity and a key element of NSE is national culture (George and Zahra, 2002). Following Weber's tradition of relating the birth of capitalism to Calvinist ethics (Franke et al., 1991; North, 1990), research has linked national culture to economic outcomes. On the bases of national culture dimensions, such as individualism and uncertainty avoidance (Hofstede, 2001; House et al., 2004), researchers have empirically established national culture's impact on entrepreneurship (see Hayton et al., 2002 for a literature survey). However, the results tend to remain inconclusive (see Appendix 1).

Recently, the cultural dimension “tightness” has been shown to be a significant cultural characteristic in modern societies (Gelfand et al., 2007; Gelfand et al., 2011). Tightness refers to the degree to which a nation has strong norms and a low tolerance for deviant behavior. Tightness can be directly related to entrepreneurial activity, in that tight nations may accept entrepreneurial behavior less. Tightness can also be indirectly related to entrepreneurial behavior, because it operates as an “enhancer” of the impact that other cultural dimensions have on entrepreneurship by making behavior deviating from what these cultural dimensions suggest less likely (Taras et al., 2010). As a consequence, different levels of tightness may be the reason for the inconclusive findings of previous studies on the relationship between culture and entrepreneurship.

This study analyzes the impact of tightness on the relationship between culture and national entrepreneurial activities by drawing on secondary data from 29 countries. This analysis uses current meta-analytical data on the Hofstede dimensions by Taras et al. (2012) to mitigate several crucial issues with the original Hofstede data. The

results indicate that tightness does not have a direct relationship with entrepreneurship, nor is it a moderator between national culture and entrepreneurship. While other cultural dimensions, such as individualism, uncertainty avoidance, masculinity, and power distance, have an impact on new business ownership (NBO), they do not have an impact on high-growth entrepreneurship (HGE) or social entrepreneurship (SE). These results imply that HGE and SE may be possible in nations with a wide range of cultural characteristics. Individual social and high-growth entrepreneurs may not feel restrained by cultural boundary conditions. Also, policy makers can consciously create entrepreneurial framework conditions that may be effective in stimulating different types of entrepreneurship.

We contribute to the literature on the impact of national culture on national levels of entrepreneurship (Hayton and Cacciotti, 2013) in multiple ways. First, we add to the new research stream on the moderators that link national culture and national entrepreneurial activity (Hayton and Cacciotti, 2013; Li and Zahra, 2012). This new research stream has the potential to go beyond simple, unmoderated approaches to the relationship between national culture and entrepreneurship. Second, we introduce the widely discussed cultural dimension “tightness” to the entrepreneurship debate (Gelfand et al., 2007; Gelfand et al., 2011). Third, we contribute the first application to the entrepreneurship literature of the Taras et al. (2012) data on cultural indicators, which mitigate known issues with the original Hofstede data, such as their focus on IBM employees, and the age of the data.

## 2. National cultural characteristics and entrepreneurial activity

### 2.1. On the relationship between national culture and entrepreneurial activity

National culture is defined here as “the underlying system of values peculiar to a specific group or society” (Mueller and Thomas, 2001, p. 51). National culture shapes individual behavior by either directly influencing “the development of certain personality traits and motivate[ing] individuals in a society to engage in behaviours that may not be evident in other societies” (Mueller and Thomas, 2001, p. 51), and by facilitating the emergence of formal institutions that have an influence on behavior (Gelfand et al., 2011). Three approaches to national culture's influence on entrepreneurial behavior are discussed below (Gelfand et al., 2011; Stephan and Uhlaner, 2010).

Following the *values approach*, national culture is an aggregate of what individuals claim as their desired guidelines in life. The sum of individual values constitutes a national culture. As these individual values may be rooted in character traits, this approach is also called the “aggregate traits approach” (Hofstede et al., 2004). Proponents of this approach see a direct link between cultural dimensions and the relative frequency with which corresponding character traits appear in a population. For example, Mueller and Thomas (2001) find that entrepreneurial traits, such as an internal locus of control combined with innovativeness, are more frequent in individualistic, low uncertainty avoidance cultures than in collectivistic, high uncertainty avoidance cultures. Sternberg and Wennekers (2005) find that entrepreneurial traits are more common in nations that are characterized by values that support innovation, proactiveness, and risk-taking.

Following the *descriptive norms approach*, respondents describe their society in terms of typical behavior (Stephan and Uhlaner, 2010). Individuals whose activities are congruent with a society's legitimate behavior will experience fewer barriers and more support for their actions. Since entrepreneurs use social capital (Wdowiak et al., 2009; Yoon et al., 2015), or even co-develop their ventures with external parties (Sarvasvathy, 2001), the chance of starting a venture is increased if these entrepreneurs are embedded in a national culture that supports entrepreneurial behavior. A supportive cultural environment makes potential entrepreneurs more likely to regard their behavior as socially legitimate and lets them perceive fewer psychological barriers to acting

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