



BE PART OF
SOMETHING
EXTRAORDINARY

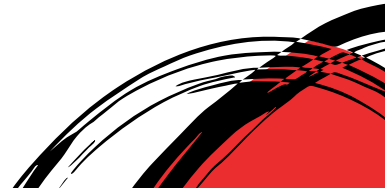
CENTRE FOR ENTERPRISE AND
ENTREPRENEURSHIP STUDIES

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LUBS2045 Week 4 Lecture Entrepreneurship and Institutions

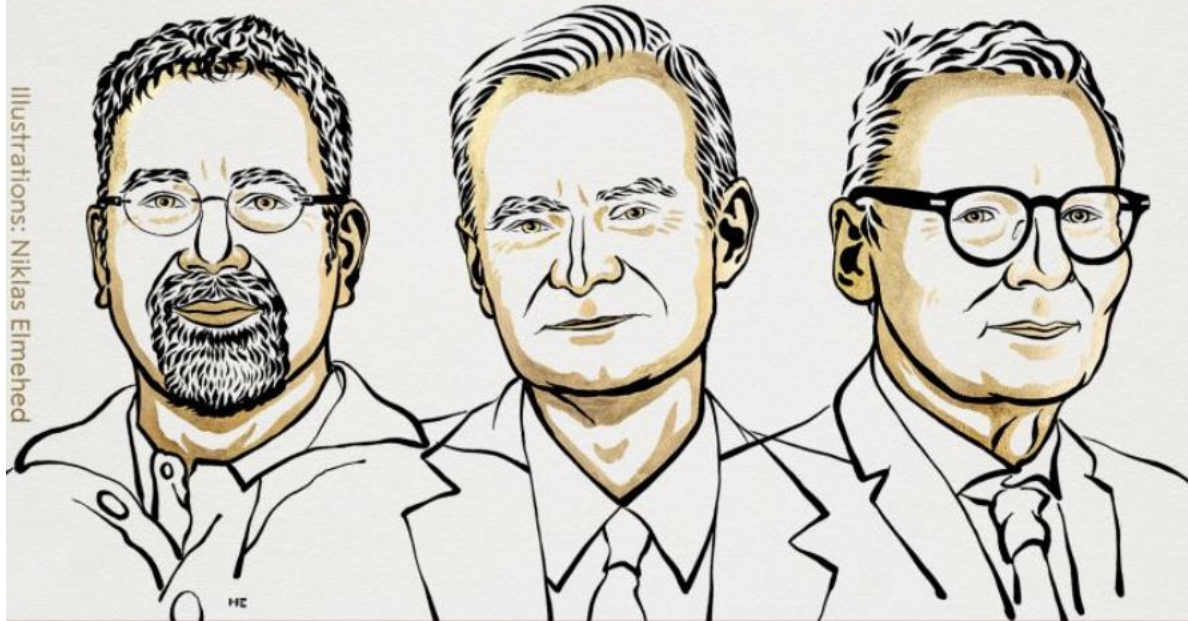
Overview

- Previously looked at individual level of entrepreneur; now we will examine context
- Entrepreneurship is a crucial element in economic growth
- Entrepreneurship does not operate in a vacuum
- Entrepreneurship is omnipresent but not sufficient
- Institutions: de jure (formal rules) / de facto (informal norms) overlap
- Institutions drive entrepreneurship: what you get depends on which rules are followed
- Some types of entrepreneurship are better than others



THE SVERIGES RIKSBANK PRIZE
IN ECONOMIC SCIENCES IN MEMORY
OF ALFRED NOBEL 2024

Illustrations: Niklas Elmehed



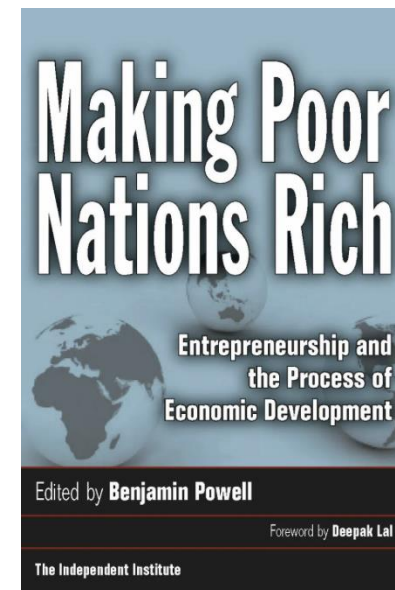
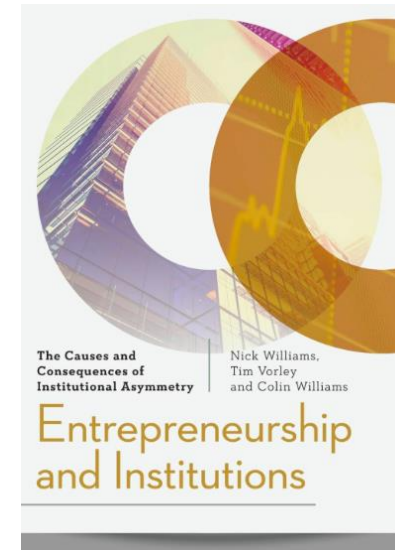
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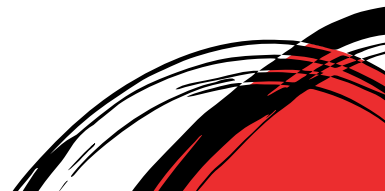
"for studies of how institutions
are formed and affect prosperity"

THE ROYAL SWEDISH ACADEMY OF SCIENCES



Defining entrepreneurship

- “Economic growth occurs whenever people take resources and rearrange them in ways that are valuable ... [It] springs from better recipes, not just more cooking”. (Romer, 2007, p.128)
- Many prosperous countries have little in the way of natural resources, while many countries rich in natural resources remain income-poor (Sautet and Kirzner, 2006)
- What matters is the institutions which foster (or prevent) entrepreneurship (Williams and Vorley, 2015)



Institutions and rules



North Korea

Capital: Pyongyang

Population: 25 million

GDP per capita: \$1,500

South Korea

Capital: Seoul

Population: 52 million

GDP per capita: \$32,000



Communism imposed
on North

South became
(relatively) free market,
open economy

Korea was divided into
North and South Korea
in 1945 as a result of
World War II that
ended Japan's 35 year
rule of Korea



Different institutional paths

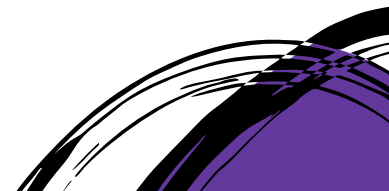
- South Korea incentivised commercial cooperation
- Entrepreneurs free to produce and retain profits; unsuccessful businesses allowed to go bankrupt; resources reallocated
- South Korea became major vehicle manufacturer, pop music and films, cosmetics etc.
- Standard of living has risen



Different institutional paths

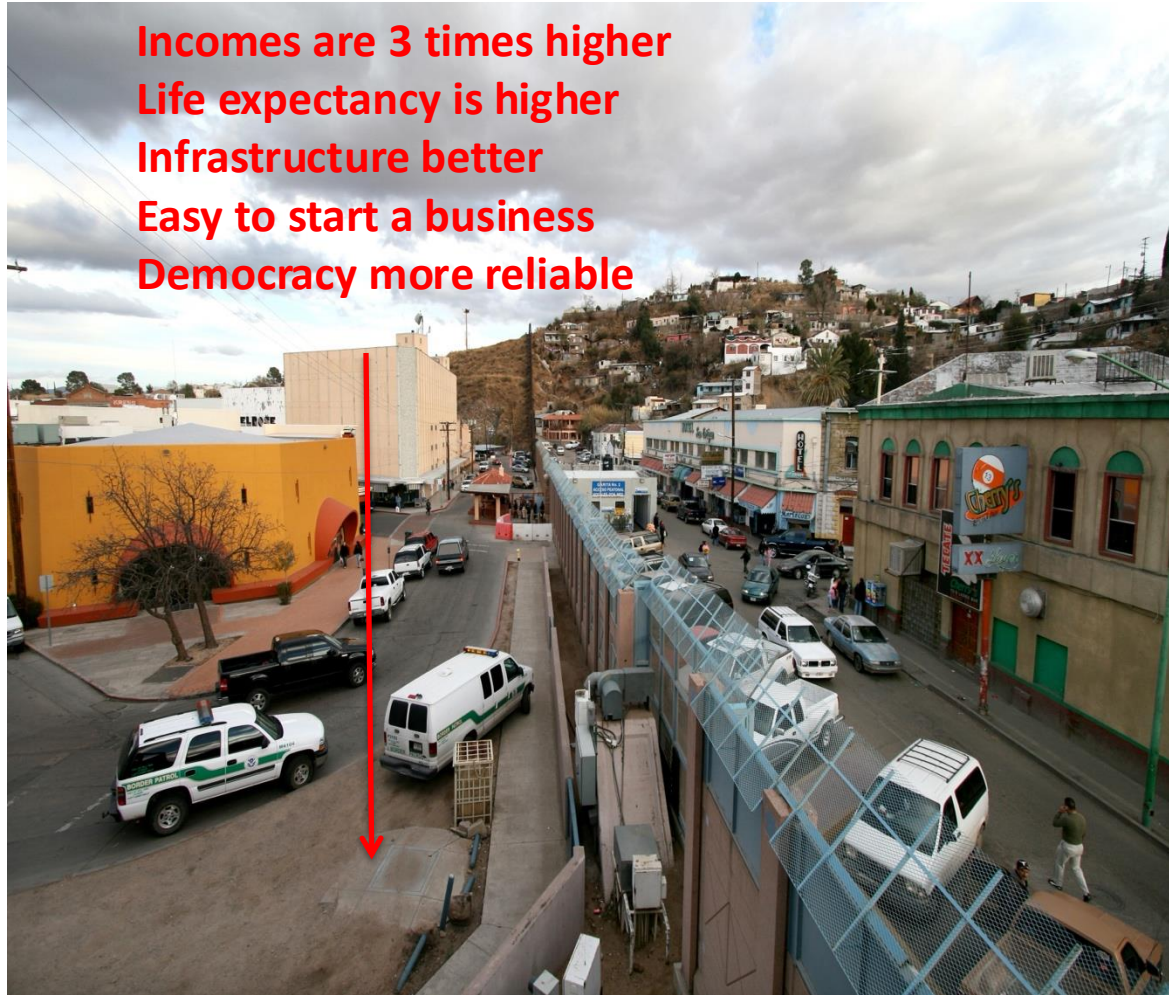
- North Korea became totalitarian state
- Economy centrally planned and directed
- Most people did not have freedom to start businesses
- Capital allocated by Communist Party
- Starvation and famine over decades





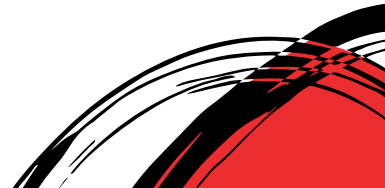
Other borders

Incomes are 3 times higher
Life expectancy is higher
Infrastructure better
Easy to start a business
Democracy more reliable

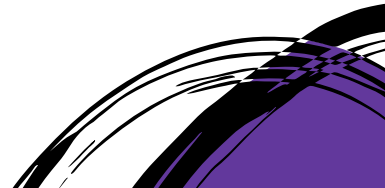


Why do institutions matter?

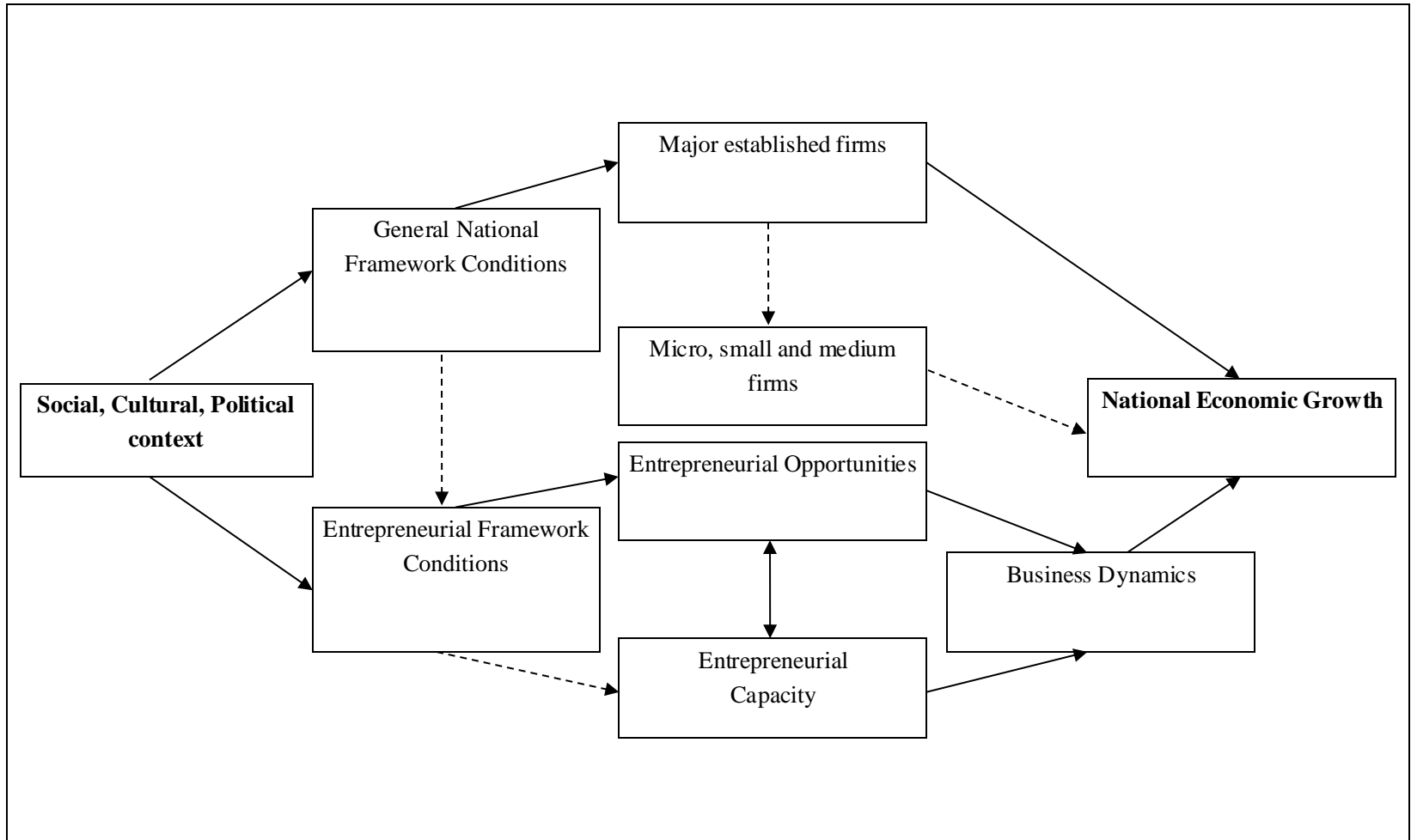
- Which institutions matter?
 - Property rights
 - Rule of law
 - Free press
 - Effective government
 - Open markets
 - Trust
- Why do some countries have different institutions?
 - History
 - Geography
 - Culture
- What does this mean for entrepreneurship?



The role of institutions



GEM conceptual model

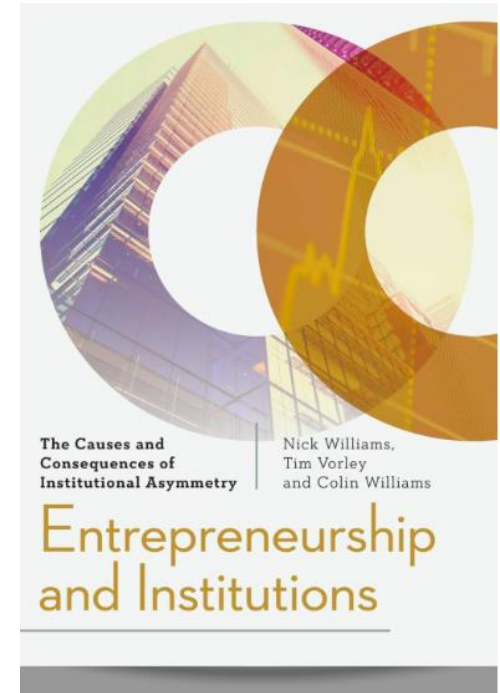


Tangled in red tape?



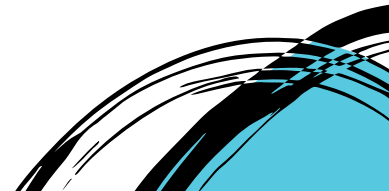
The role of institutions

- Provide guidance: shape actions and expectations
- allow for routines: cognitive short-cuts
- reduce uncertainty: what guides the actions of others
- stable and predictable



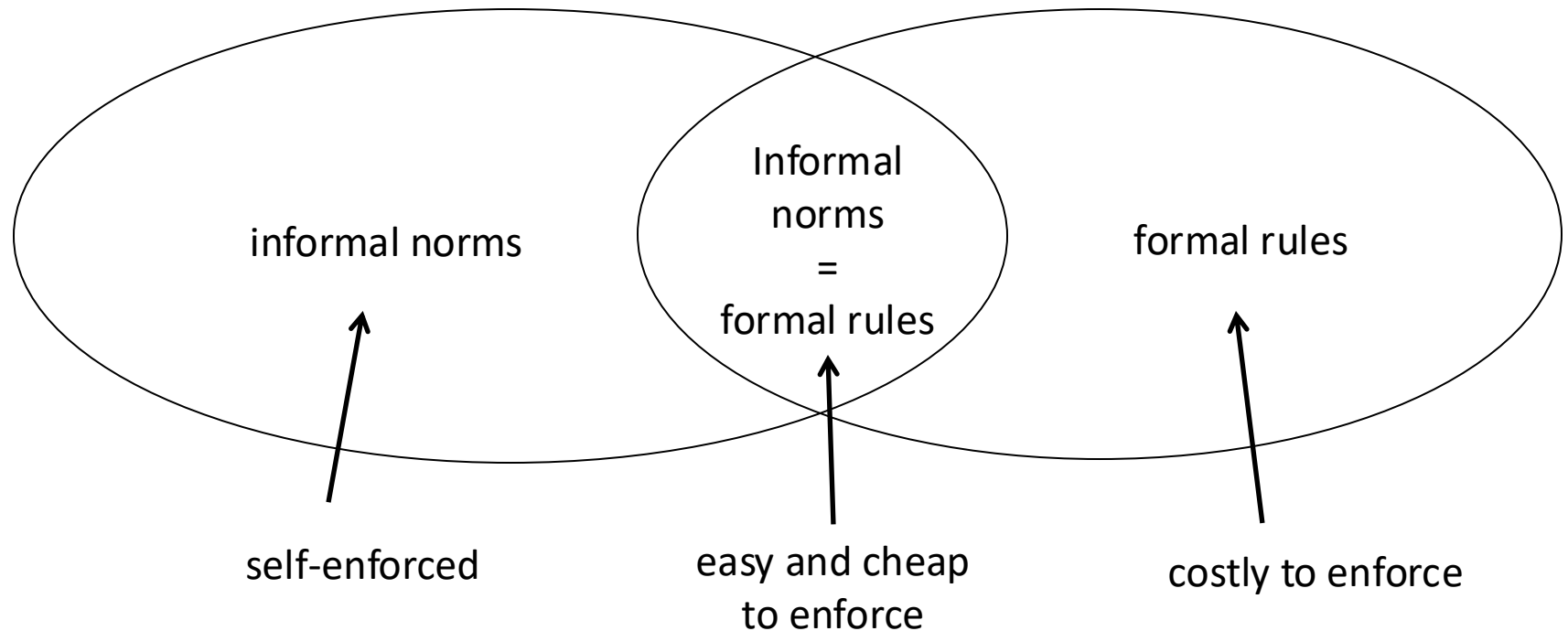
The nature of institutions

- Distinction at the core of the analysis:
 - formal rules – de jure: constitution, legislation
 - informal norms – de facto: implicit behavioural social codes accepted by most but written nowhere
- Sport analogy: tennis (ITF rules...)



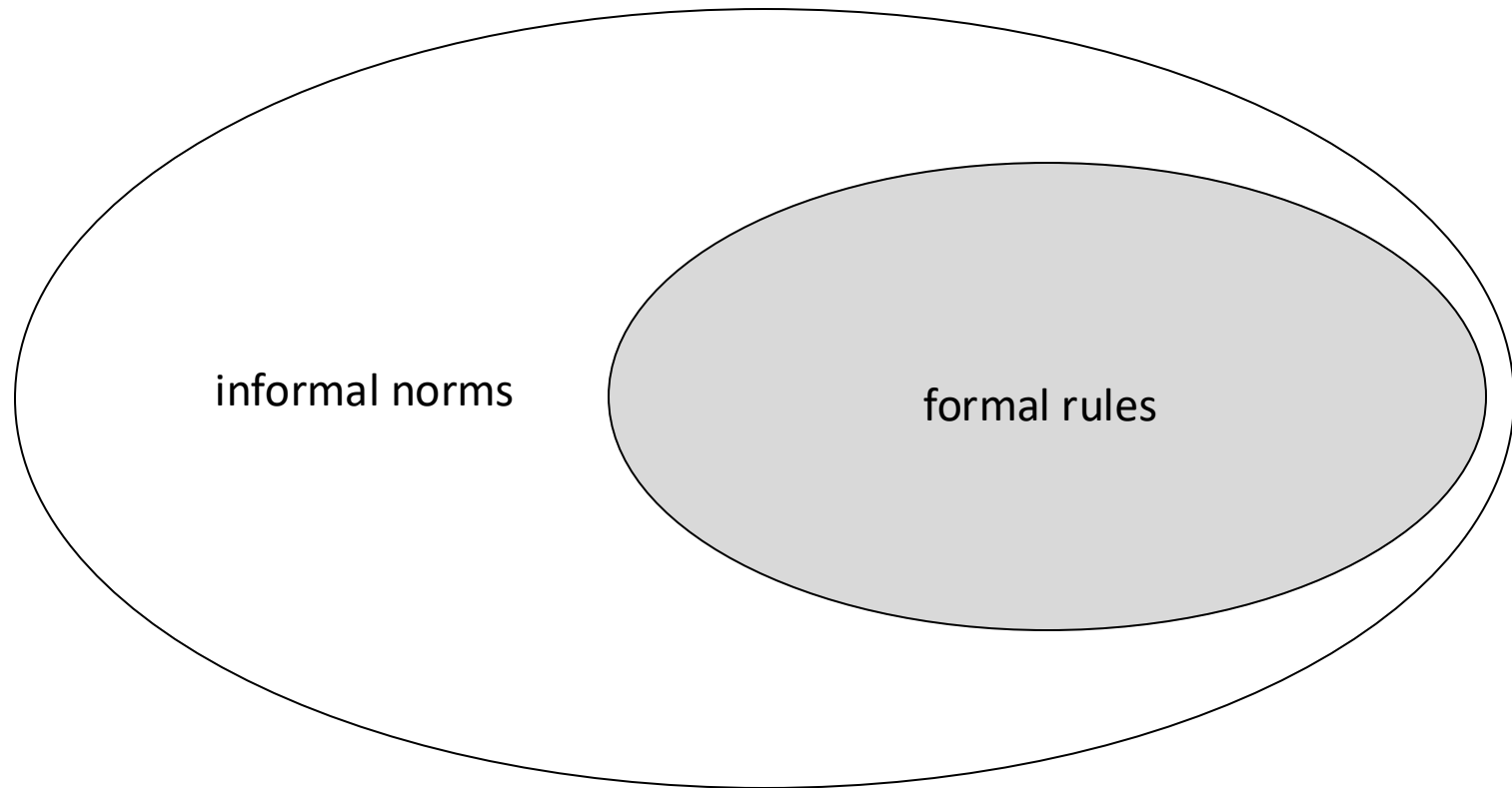
Formal / informal overlap?

- Institutions only affect people if enforced
- Formal and informal do not always overlap



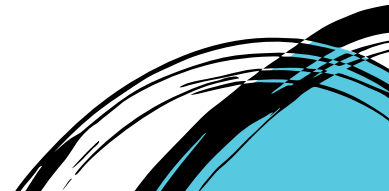
The best case scenario

- Complete overlap: embeddedness

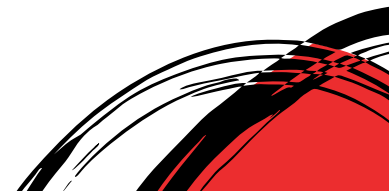


Institutions: change and evolution

- Rules and culture evolve over time
- Policy often disregards the de facto
 - Leads to “stickiness” problem
- Dual problem:
 - bad de jure ignoring de facto (bad government)
 - bad de facto that cannot be influenced by de jure (poor society)



Entrepreneurship and Institutions



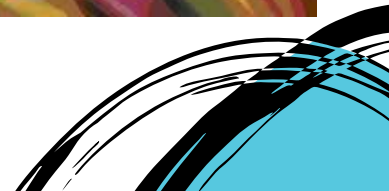
Entrepreneurship

- Entrepreneurship is about creation and discovery
- Every individual is capable of it to some degree: entrepreneurship is omnipresent
- Alertness to profit opportunities is the important element
- Institutions provide incentives to entrepreneurs



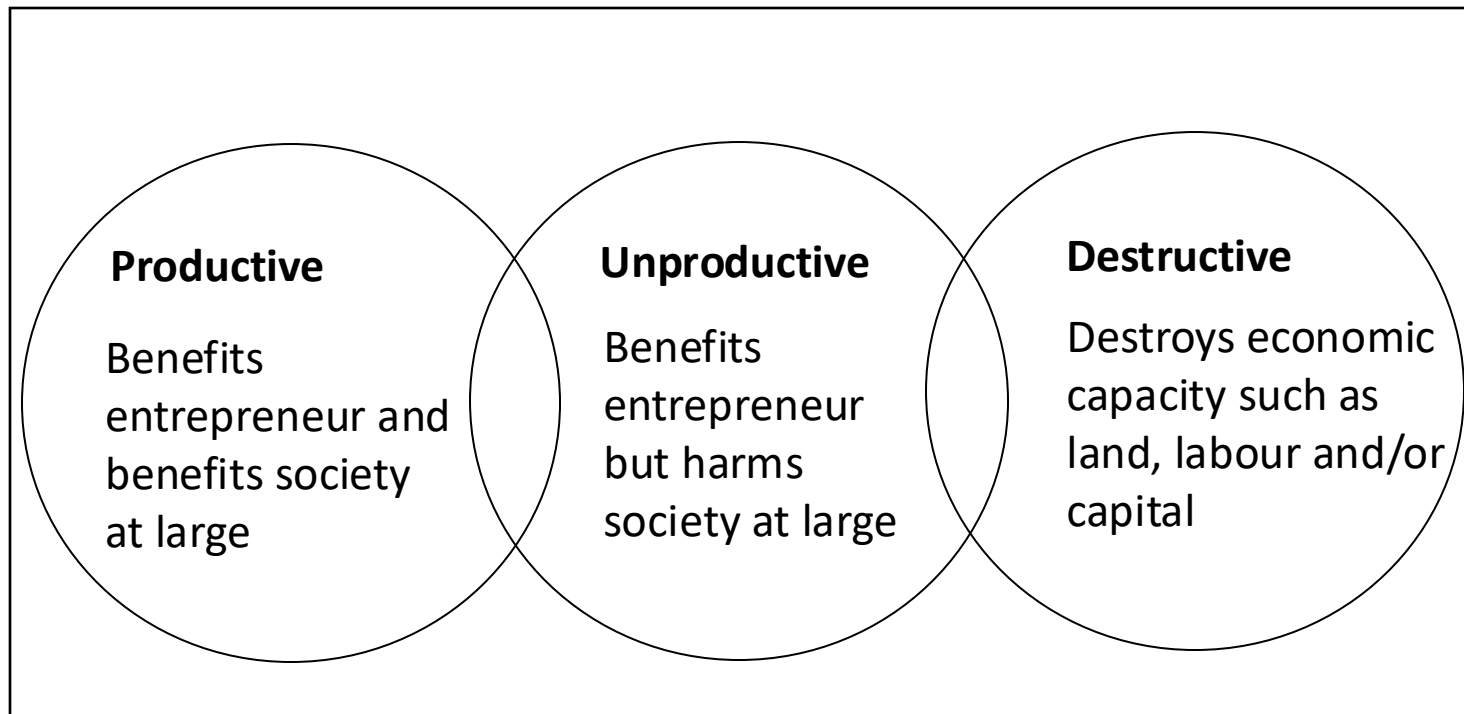
Entrepreneurship and Institutions

- No one can play tennis without rules
- Entrepreneurship cannot exist without institutions
- Whether growth occurs will depend on how entrepreneurial activity is influenced by the institutional framework



The Three Entrepreneurs

- The supply of entrepreneurship is constant
- Distribution depends on “rules of the game”



(Baumol, 1990)

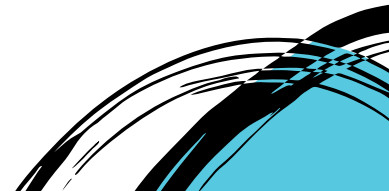
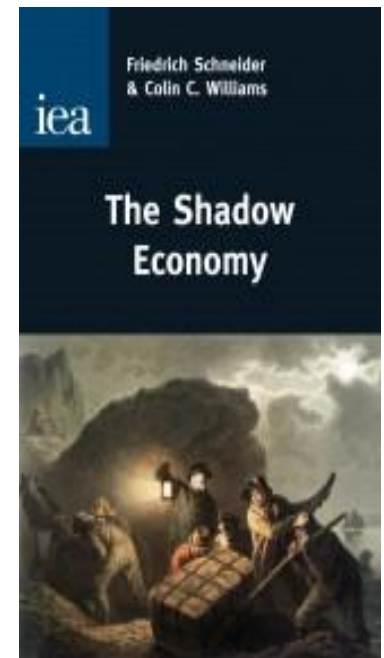
The productive entrepreneur



- genuine profit => productive entrepreneur
- productive: positive-sum games (gains from trade maximized)
- voluntary exchange based on fully defined property rights –good overlap

The unproductive entrepreneur

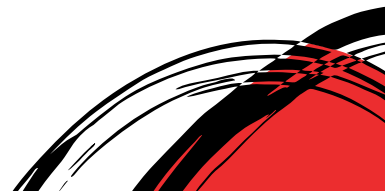
- constrained profit => evasive entrepreneur
- evasive: positive-sum games (benefits entrepreneur but not society)
- formal institutions provide incentives for entrepreneurs to ignore
- Institutions foster informal arrangements, costly to society – incomplete overlap



The destructive entrepreneur

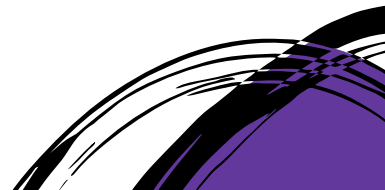


- stolen profit => destructive entrepreneur
- destructive: zero or negative-sum games
- de jure can be manipulated (rent-seeking) or favour public/private predation (expropriation, theft) – no overlap (and/or bad de facto)



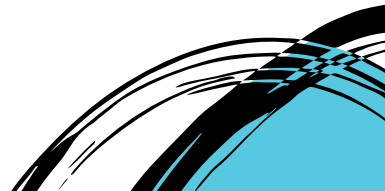
The three entrepreneurs

	Productive entrepreneur	Unproductive entrepreneur	Destructive entrepreneur
Profit	Genuine	Constrained	Stolen
Gains from trade	Positive and maximised	Reduced but positive	Zero or negative
De jure / de facto	Overlap, rules and enforcement clear, growth	Partial overlap, regulation wasteful, slower growth	No overlap, rent seeking, bad de facto, no growth



Which of the three do you get?

- Type of entrepreneurship depends on institutional framework
- Where there is an absence of productive entrepreneurship, individuals have found better ways of utilising their time and resources
 - “The policymaker's task is ... certainly not hopeless. The prevailing rules that affect the allocation of entrepreneurial activity can be observed, described, ... modified and improved.” (Baumol, 1990, p. 894)



Institutional Asymmetry



Article

Institutional asymmetry: How formal and informal institutions affect entrepreneurship in Bulgaria

International Small Business Journal

1–22

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Nick Williams and Tim Vorley

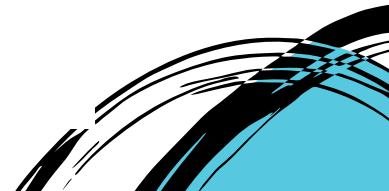
The University of Sheffield, UK

Abstract

This article critically analyses how the institutional environment influences the development of entrepreneurship in Bulgaria. Drawing on in-depth interviews with Bulgarian entrepreneurs an 'institutional asymmetry' between formal and informal institutions is identified which hampers the development of economically and socially productive entrepreneurship. Despite reforms to formal institutions in Bulgaria, the asymmetry persists as a result of informal institutions which serve to hamper entrepreneurship. In order to reduce this asymmetry, there is a need to develop and align formal and informal institutions, while recognising that such institutional reforms are, by their nature, long-term and may potentially be undermined by entrepreneurs engaging in informal and corrupt activities.

Keywords

Bulgaria, entrepreneurship, institutions, transition



Which country has the 'best' institutions?





EASE OF DOING BUSINESS IN

New Zealand

Region OECD high income

Income Category High income

Population 4,885,500

GNI Per Capita (US\$) 40,820

City Covered Auckland

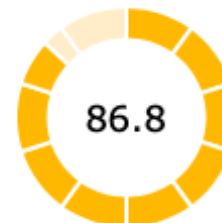
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DB Rank



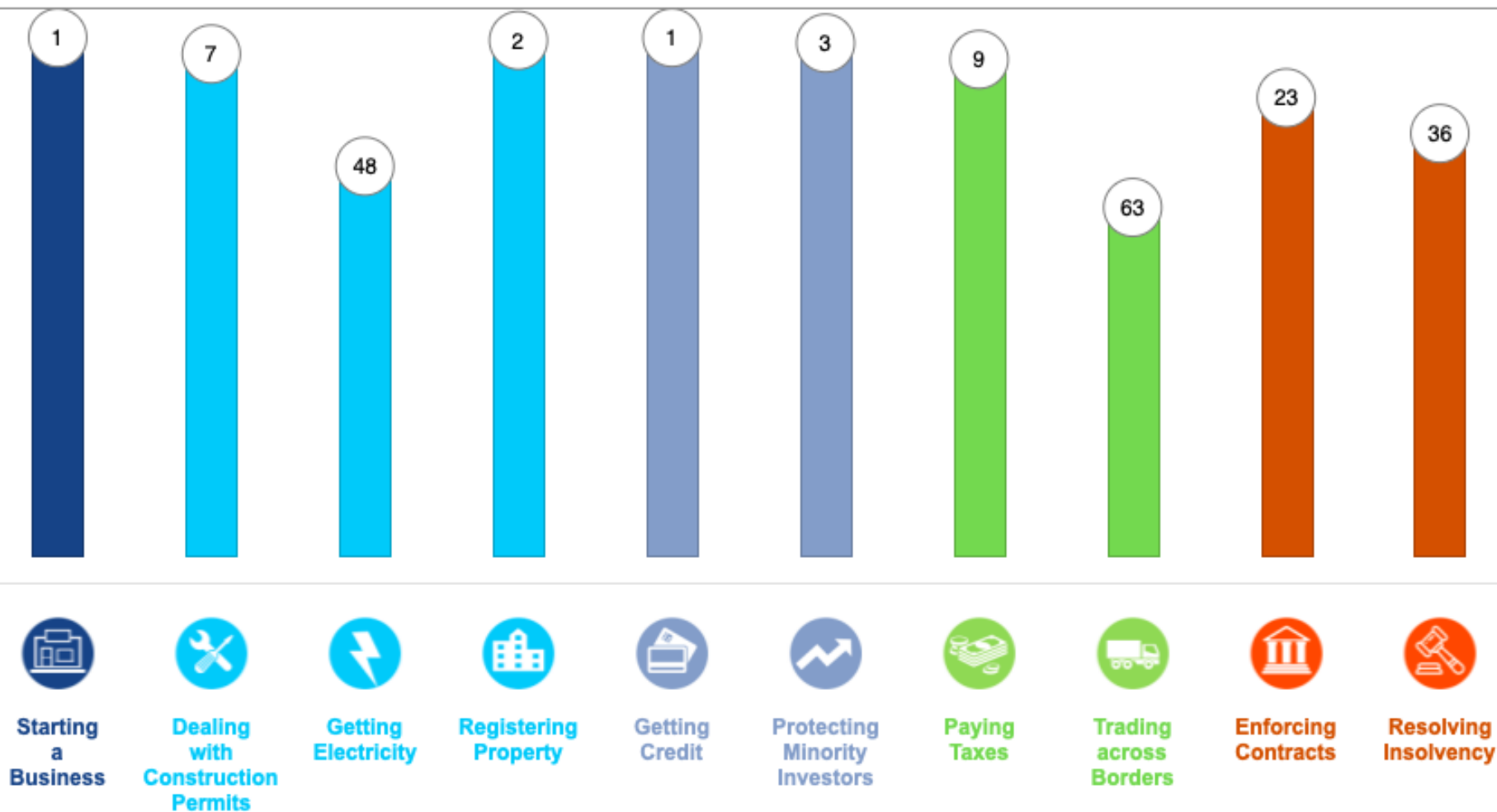
DB Score



New Zealand – Topic Scores

Topics	DB 2020 Rank	DB 2020 Score	DB 2019 Score 	Change in Score (points)
Overall	1	86.8	87.0	↓ 0.2
Starting a Business	1	100	100.0	..
Dealing with Construction Permits	7	86.5	86.5	..
Getting Electricity	48	84.0	84.0	..
Registering Property	2	94.6	94.6	..
Getting Credit	1	100	100	..
Protecting Minority Investors	3	86.0	86.0	..
Paying Taxes	9	91.0	91.1	↓ 0.1
Trading across Borders	63	84.6	84.6	..
Enforcing Contracts	23	71.5	71.5	..
Resolving Insolvency	36	69.5	71.8	↓ 2.3

Rankings on Doing Business topics (1-190) - New Zealand





EASE OF DOING BUSINESS IN

United Kingdom

Region OECD high income

Income Category High income

Population 66,488,991

GNI Per Capita (US\$) 41,330

City Covered London

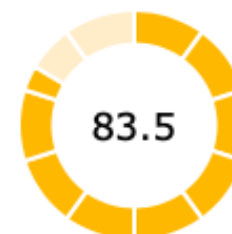
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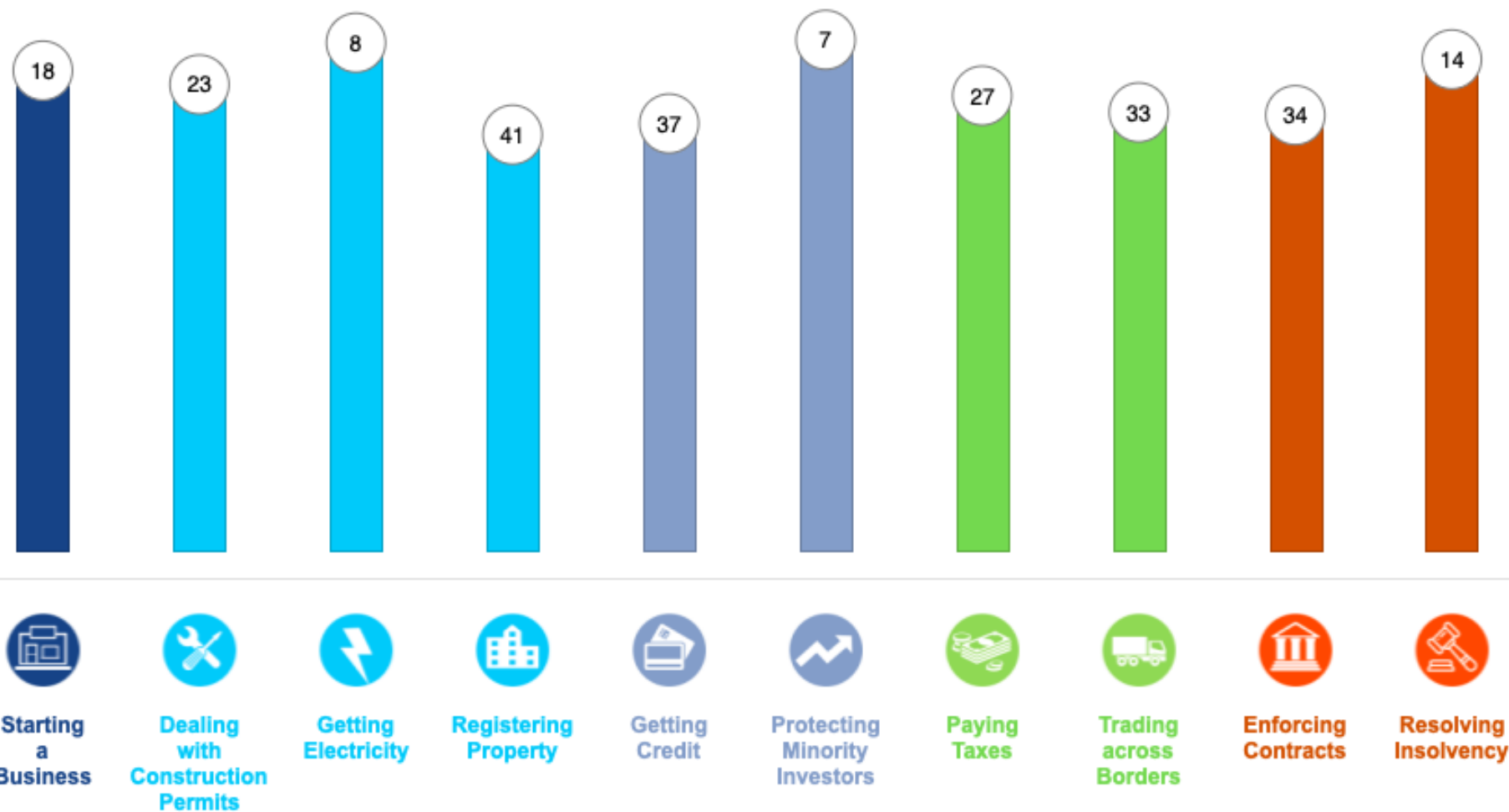
DB Score



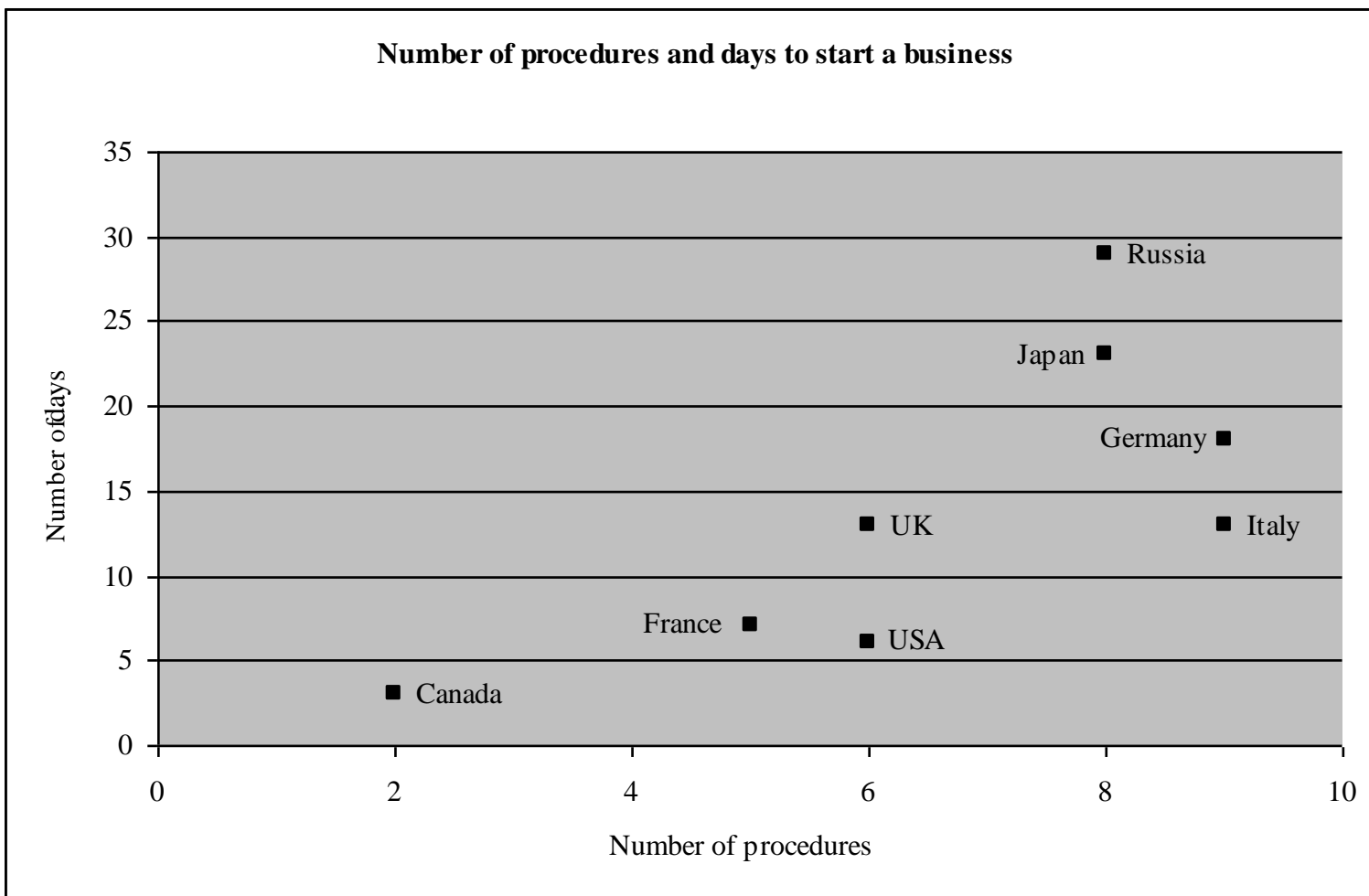
UK – Topic Scores

Topics	DB 2020 Rank	DB 2020 Score	DB 2019 Score i	Change in Score (points)
Overall	8	83.5	83.6	↓ 0.1
Starting a Business	18	94.6	94.6	..
Dealing with Construction Permits	23	80.3	80.3	..
Getting Electricity	8	96.9	96.4	↑ 0.5
Registering Property	41	75.7	75.3	↑ 0.4
Getting Credit	37	75.0	75.0	..
Protecting Minority Investors	7	84.0	84.0	..
Paying Taxes x	27	86.2	87.1	↓ 0.9
Trading across Borders	33	93.8	93.8	..
Enforcing Contracts	34	68.7	68.7	..
Resolving Insolvency	14	80.3	80.3	..

Rankings on Doing Business topics (1-190) - United Kingdom



G8 Countries Compared



Final Thoughts

- Entrepreneurship is not dependent on the natural resources in an economy
- The key is the quality of institutions that permit the exploitation of resources and opportunities
- Good policy understands formal/informal institutional differences
- Productive entrepreneurship depends on good institutions

