



# Global Diversity: Legal, Cultural, Educational, and More

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# Introduction

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- The Danish National Agency for Enterprise and Construction's Division for Research and Analysis (FORA) has proposed five main categories related to business environment indicators that affect entrepreneurial activities in a country:
  - opportunities,
  - skills,
  - capital,
  - incentives and
  - culture.

# Supply Side Perspective

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- The **supply-side** perspective of entrepreneurship focuses on the individual traits, attributes and characteristics of entrepreneurs.
- Some of the important issues examined under the supply-side include how culture , social class, and ethnic group are related to individuals' entrepreneurial behavior.
- According to this logic, differences in entrepreneurship depend on the differences in individuals. Put differently, personality or social group of an individual entrepreneur determine how, why, and where new businesses are founded.

# Demand-Side Perspective

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- The demand-side perspective of entrepreneurship focuses on
  - sources of opportunities and
  - the entrepreneurial roles that need to be filled in an economy.
- The demand-side perspective of entrepreneurship includes
  - creation of new ventures by organizational hierarchies,
  - the activity of the professions ,
  - the policy of nation-states,
  - the development of markets and
  - the advent of technological change.

# Economic Factors

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- **Economic factors** influencing entrepreneurship in an economy are related to indicators such as
  - physical and financial infrastructures,
  - access to capital,
  - gross national product,
  - balance of payment and balance of trade situation,
  - debt and servicing costs,
  - inflation rate,
  - interest rate,
  - exchange rate and exchange rate stability.

# Physical and Financial Infrastructures

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- **Physical infrastructures** such as roads, ports, water, telecommunications and power play a critical role in facilitating entrepreneurial activities.
- In the U.S., for instance, the government has played a central role in infrastructure such as roads, rural electrification and public schooling, which led to increased productivity among small businesses.
- Among developing countries, China's entrepreneurial performance has been phenomenal, which can be partly attributed to the country's investment in infrastructure. China had 78,000 kilo meters of railway track by 2007 and is estimated to spend \$42 billion in railways in 2008.
- China's success has also encouraged neighboring countries such as Vietnam and India to improve infrastructure.
- **Financial infrastructures** such as stock exchanges, credit guarantees, payment systems, insurance companies, banks and microfinance organizations and other lending institutions are equally important in promoting entrepreneurship.

# Access to Capital

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- Only a small proportion of latent entrepreneurs, or those who would prefer to be entrepreneurs rather than being paid employees, start their own businesses.
- A lack of **access to capital** is often the biggest roadblock for latent entrepreneurs to materialize the goal of starting their own business.
- For most potential entrepreneurs in many developing countries, a village loan shark is the only available source of capital, whose interest rate is 200-300 percent a year.
- Muhammad Yunus won the Nobel Prize for his development of microcredit as a way of financing small ventures.
  - <http://www.jackmwilson.net/Entrepreneurship/Cases/Case-MuhammadYunas.pdf>
- For countries where the government provides most of the venture capital, there is a significant aversion to risk compared to private sources.
  - This is true even in the US. Rhode Island made a venture investment in Curt Schilling's computer game company which Massachusetts declined to make. The company moved to Rhode Island, but eventually failed and resulted in both political and legal repercussions.
  - In the 2012 Presidential Elections certain investments in solar energy companies – especially \$536 million in Solyndra – became a huge issue.

# A Country's Credit Rating

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- Credit rating agencies (CRAs) analyze and evaluate the creditworthiness of corporate as well as sovereign issuers of debt securities. A sovereign rating is aimed at "measuring the risk that a government may default on its own obligations in either local or foreign currency. It takes into account both the ability and willingness of a government to repay its debt in a timely manner
- Standard and Poor's ratings, Moody's ratings and Fitch's ratings are among the most widely used credit ratings.
- Studies conducted by international economists for both developed and developing economies have indicated that a small number of variables explain 90% the variation in the ratings. They include GDP per capita, GDP Growth, Inflation rate, the ratio of non-gold foreign exchange reserves to imports, the ratio of the current account balance to GDP, default history and the level of economic development.
- In the mid-1990s, some European economies such as Italy and Belgium spent over 12 percent of their GDP for debt servicing. Credit rating agencies and investors perceived the situation as a symptom of major financial weakness hindering entrepreneurship. Likewise, in January 2008, the credit rating agency, Moody's warned that the U.S. was at a risk of losing its triple-A credit rating, which was held since 1917.
- In 2011 Standard and Poor's Lowered the US Credit rating from AAA to AA+
- Greece is at present (June 2015) in desperate negotiations for a credit rescue from the European Union to avoid credit default and a possible exit from the Euro.

# Institutional Factors

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- Granovetter argued that “*the anonymous market of neoclassical models is virtually nonexistent in economic life and that transactions of all kinds are rife with the social connections described, both inside the firm and in the market*”
  - “The Digital Business Ecosystem; A. Corallo, G. Passiante, and A. Prencipe editors; Edward Elgar Publishing 2007, Cheltenham, UK.
- He notes that economic actors are embedded in a network of social relations.
- Thus social and cultural factors can be important to entrepreneurship in different countries.

# Laws, policies and regulations to promote entrepreneurship

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- Countries differ significantly in their regulations related to supporting entrepreneurial development.
- For instance, in the early 2000s, to start a business, an entrepreneur in Mozambique was required to complete 19 procedures, which took more than 149 business days and cost US\$256 in fees to meet government requirements for in. This compared with 16 procedures, 62 business days, US\$3,946 in Italy; two procedures, two days and US\$280 in Canada. Likewise, to get a business license in India, it takes up to 159 days in Bhubaneswar and 522 days in Ranchi. Similarly, to register property, it takes 35 days in Hyderabad and 155 days in Calcutta.

# World Bank: Doing Business 2016

- **Doing Business 2016: Measuring Regulatory Quality and Efficiency.**

- Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0667-4. License: Creative Commons Attribution CC BY 3.0 IGO
- <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>

Here is how the World Bank Ranked countries in 2016 for their ease of doing business.

I have included the first 30 and then selected other countries.  
Procedures, time, cost and paid-in minimum capital to start a business.

Criteria:

- Procedures, time and cost to complete all formalities to build a warehouse
- Procedures, time and cost to get connected to the electrical grid
- Procedures, time and cost to transfer a property
- Movable collateral laws and credit information systems
- Minority shareholders' rights in related-party transactions and in corporate governance
- Payments, time and total tax rate for a firm to comply with all tax regulations
- Time and cost to resolve a commercial dispute
- Time, cost, outcome and recovery rate for a commercial insolvency and strength of the legal framework for insolvency
- Quality of building regulation and its implementation
- Reliability of electricity supply, transparency of tariffs and price of electricity
- Quality of the land administration system
- Quality of judicial processes

1 Singapore	16 Estonia	33 Spain
2 New Zealand	17 Ireland	34 Japan
3 Denmark	18 Malaysia	38 Mexico
4 Korea, Rep.	19 Iceland	45 Italy
5 Hong Kong	20 Lithuania	48 Chile
6 United Kingdom	21 Austria	51 Russia
7 United States	22 Latvia	53 Israel
8 Sweden	23 Portugal	60 Greece
9 Norway	24 Georgia	73 South Africa
10 Finland	25 Poland	116 Brazil
11 Taiwan,	26 Switzerland	130 India
12 Macedonia,	27 France	138 Pakistan
13 Australia	28 Netherlands	169 Nigeria
14 Canada	29 Slovak Republic	186 Venezuela
15 Germany	29 Slovenia	

## Regulatory Issues in former Soviet clients

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- Some developing countries, however, have made a considerable progress in establishing regulative institutions that are conducive to entrepreneurship development.
- The **Baltic Republics** have made the most progress. The 2016 World Bank rankings are in parentheses:
  - Estonia(16), Lithuania(20), and Latvia (22)
- The four **Visegrad** countries are remarkable examples of economies that have successfully promoted the growth of small and medium sized enterprises (SMEs). Poland(25), Slovakia(29), Czech Republic(36), Hungary (42),
- In the early years of transition programs related to SME promotion got higher priority in these countries' national strategies, which led to the development of entrepreneurship in these countries.
- Formal institutions associated with policies and regulations in areas such as science, technology, intellectual property rights (IPR) and labor mobility are linked to a country's entrepreneurial performance. In the absence of strong property rights, investment and entrepreneurship face a number of roadblocks.

## Legal structures

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- In many emerging economies, the rule of law is “often weakly developed” or sometimes “ignored with impunity”.
- Most of the wealth in these economies is in the form of “informal” ownership outside the formal legal system, and hence is not recognized or enforced in the form of legal titles.
- Because of ineffective legal enforcement of private property rights, entrepreneurs have to acquire political and administrative protection or depend on informal networks for security. The absence of institutions to protect property rights and strong judicial system thus hinders the growth of private entrepreneurship.
- For instance, insecurity of property rights hindered entrepreneurship in China and private entrepreneurs lacked legal protection in the country.

# Political Stability

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- External and internal conflicts in a country increase the costs as well as uncertainty for businesses in the country.
- Political instability hampers the implementation of coherent policy to foster entrepreneurship.
- Many foreign businesses show little interest in Africa because of political instability and corruption.
  - “Social Attributes And Economic Instability In Africa;” A. Okpala, P. Jonsson; The Journal of Applied Business Research; Volume 18, N. 1
  - <http://www.cluteinstitute.com/ojs/index.php/JABR/article/viewFile/2103/2080>
- Analysts also argue that Russia needs to gain political stability for the faster development of entrepreneurship in the country.
  - The sanctions imposed after Russia annexed Crimea, part of the Ukraine, led to great instability.
  - [https://en.wikipedia.org/wiki/International\\_sanctions\\_during\\_the\\_Ukrainian\\_crisis](https://en.wikipedia.org/wiki/International_sanctions_during_the_Ukrainian_crisis)
- On the other hand, the rapid growth of local entrepreneurship in China can be attributed to the country’s ability to maintain political stability.

# Skills

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- One of the most important barriers to entrepreneurship in developing countries centers on poorly educated and unskilled labor force.
- Educational programs are of particular importance in developing entrepreneurial skills in any society.
- For instance, in the post-socialist economies, experience and training gained under the communist system contributes very little for the management and business skills needed for free market entrepreneurship.
- This is powerfully illustrated in many Chinese entrepreneurs' lack of understanding of practical distinctions between various types of financing in the early years of Chinese economic growth.
- Likewise, "soft" concepts of management, such as marketing and consumer behavior were not integrated into Chinese thinking, which has hindered entrepreneurial development in the country.

## Values and Norms

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- A society's cultural norms and values are tightly linked to the growth of entrepreneurship.
- Prior researchers have recognized that cultural norms, beliefs and values influence attributes required for successful entrepreneurial venture such as attitude toward risk taking and hard work.
- These factors also framed as normative institutions that influence the degree to which a country's citizens admire entrepreneurship.
- A lack of modern entrepreneurial culture and anti-entrepreneurship norms and values are identified as major problems hindering the growth of entrepreneurship in the post-socialist Russia.

## Values and Norms Contd.

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- In China, entrepreneurship as an occupation was often considered for individuals not able to find other jobs (e.g., those with criminal records). Likewise, accumulating a huge amount of wealth is a “delicate subject” in China and some consider entrepreneurs as “selfish, or “avaricious peddlers”. Yet, having said this, it is apparent, too, that more entrepreneurship-friendly institutions are developing in China.
- One important aspect of societal norms and values is the fact that private businesses can take measures to change some of them.
- In Sweden, for instance, the think tank, Timbro is working to bring a long-term shift in the “public opinion in favor of free markets, entrepreneurship, private property, and an open society” . The institute is funded mostly by large Swedish corporations.

# Risk Taking Behavior

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- Entrepreneurial activities inherently involve risk taking behaviors.
- Societies across the world vary greatly in their risk-taking behavior.
- In the Arab world, for instance, large corporate bureaucracies are found to be risk averse.
- The lack of a tradition of private entrepreneurship in central and eastern European countries is also related to an underdeveloped risk taking culture in the absence of local norms and social networks providing support for such a culture. For instance, Russian managers with experience in state-owned enterprises tend to avoid risk.
- Likewise, it is suggested that Chinese tend to lack characteristics needed to be a successful entrepreneur such as risk taking.
  - I strongly disagree with the contention. I think it is exactly the opposite.
- Consider, for instance, the Chinese venture capital (VC) landscape. Most VC funds in the country are linked to the government and can be considered as a loan. Enterprises that are able to obtain VC funds feel an obligation not to lose the resources. Moreover, an incubator losing the government owned money also becomes a target of official criticism. Chinese government VC funds thus cannot accept the Western level of risk taking.

# Conclusion

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- This chapter provided an overview of environmental and contextual factors affecting entrepreneurial activities in an economy.
- We discussed how economic and institutional factors facilitate and hinder the development of entrepreneurship in an economy.
- The discussion focused both on the demand and supply side factors.
- An important point to bear in mind is that economic and institutional factors related to entrepreneurship are changing in emerging economies.
  - For instance, in a survey, about 80% of young Russians said that they have “successfully adapted to capitalism” . Likewise, China is arguably “shifting from top-down, state-directed technology policies to more flexible, market-oriented approaches that foster innovation and entrepreneurship”