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## THE EFFECT OF NATIONAL INSTITUTIONAL CONTEXTS ON OPPORTUNITY FORMATION (SUMMARY)

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≈ SUMMARY ≈

**THE EFFECT OF NATIONAL INSTITUTIONAL CONTEXTS ON  
OPPORTUNITY FORMATION**

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**Principal Topic**

While discovery and creation opportunities may co-exist in the same geographical space, are there institutional environments where the formation and exploitation of one type of opportunity may be more effective than another? Institutions can define firms' wealth-maximizing opportunities, thus influencing entrepreneurial decisions. Prior literature has examined the importance of national differences in culture and social structure to entrepreneurial activity. However, less attention has been paid to how institutional differences within and across national contexts affect how entrepreneurs form opportunities. When faced with inefficient factor and product markets, entrepreneurial firms may organize operations differently than when markets function efficiently. Examining how context—especially national institutions—affects opportunity type is significant to our understanding of the phenomenon. This study therefore seeks to examine how economic freedom—or constraint—affects entrepreneurial firms' ability to make decisions regarding formation and exploitation of opportunity.

**Method**

We consider the relationship between institutional support for economic freedom and type of opportunities (discovered or created) developed, using 108,846 ventures across 60 countries taken from GEM. We explore how national differences in economic freedom, determined by aspects of a nation's regulatory environment, influence the A) likelihood of entrepreneurial activity and B) nature of opportunities developed within these environments. Specifically, that regulatory institutions reflecting the ability of entrepreneurial firms to (1) start, operate, and close a business, (2) contend with foreign competition, (3) own and protect their property, and (4) establish and fulfill their own labor requirements, affect number of startups as well as whether the opportunity being developed would more typically be considered "discovery" or "creation."

**Implications**

We theorize the more freedom associated with an institution, the greater the propensity for a discovery opportunity to develop, while the more constraining an institution (more government control) the greater the likelihood for creation. This suggests the Kirznerian view of "alert" entrepreneurs creating growth by correcting market inefficiencies may be less useful in weak institutional contexts. Policymakers may wish to consider how strong institutional support for entrepreneurship might enable discovery of opportunities that can build upon and strengthen existing markets while weak support could limit entrepreneurship to more rare and challenging opportunity creation.

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