THE EFFECT OF REGULATIONS ON OPPORTUNITY TYPE (SUMMARY)

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THE EFFECT OF REGULATIONS ON OPPORTUNITY TYPE

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Principal Topic

When institutions are heterogeneous in their support of the efficiency of markets, there are consequences for entrepreneurial opportunities developed within them. The stability and flexibility provided by establishment and enforcement of institutions will matter comparatively more for some kinds of opportunities and less for others, suggesting the question: assuming discovery and creation opportunities can co-exist in the same geographical space, are certain regulatory institutions more supportive of one type of opportunity than another? We argue that institutional arrangements that promote stability and support entrepreneurs’ ability to assess risk lead to more discovery-type opportunities relative to creation-type opportunities, while institutions that promote flexibility and support entrepreneurs’ ability to iterate and pivot will foster more creation-type opportunities relative to discovery-type opportunities.

Method

We use a sample of 43,594 entrepreneurs across 40 countries over the years 2002 to 2009 from the Global Entrepreneurship Monitor (GEM) study. To test opportunity type as a continuum, we create a unique dependent variable that utilizes market characteristics to determine what type of opportunity is being developed. We use institutional variables from the Heritage Foundation Index (HFI), an annual rating of countries’ institutional support for economic activity, for our independent variables, and control for both individual level variables such as age and family income and institutional level variables such as trade laws, foreign direct investment and political constraints (Henisz, 2002). Because of the multi-level nature of our data, we use hierarchical linear modeling.

Implications

We find institutions providing stability that allow entrepreneurs to assess risk through protection of property rights and more transparent taxation policies lead to more discovery-type opportunities, while institutions providing flexibility thus promoting entrepreneurs’ ability to iterate serially through options by allowing for flexible labor choices, access to efficient capital markets, and lower legal hurdles to adaptation and innovation will foster more creation-type opportunities. By focusing on formal institutions that are governed by fiat, our findings are more directly applicable to policy makers hoping to support entrepreneurial activity in their countries. Institutional support providing stability may enable discovery that can build upon and strengthen existing markets, while support allowing for flexibility may encourage development of new markets through creation.

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