INSTITUTIONS, ENTREPRENEURSHIP, AND ECONOMIC DEVELOPMENT IN EMERGING ECONOMIES (INTERACTIVE PAPER)

Yasuhiro Yamakawa

University of Texas at Dallas, USA, yasu@utdallas.edu

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Principal Topic

Entrepreneurship literature offers that entrepreneurship is associated with a country’s economic development (Schumpeter, 1942); yet, there has been little direct evidence on under what conditions countries actually achieve their economic development via entrepreneurship. On the other hand, the institutional framework posits that at the most fundamental level, the supply and demand of entrepreneurship is at least shaped by a country’s institutional environment, and the degree to which it encourages or discourages entrepreneurship development at the societal level determines the long-term economic performance of any society (North, 1990); however, there has also been little direct evidence on how institutions really matter.

In this paper, we attempt to fill in the gap by investigating the three pillars of the institutional environment (Scott, 1995) associated with entrepreneurship and economic development within a country. Specifically, we define entrepreneurship as new entry (Lumpkin & Dess, 1996), examine the effect of institutional factors (i.e., market incentives, availability of capital, acceptability of entrepreneurship, educational programs), and focus on emerging economies as a learning laboratory (Hitt et al., 2005; Peng & Heath, 1996). We take advantage of Kilby’s (1983) argument that an economic modeling of entrepreneurship is particularly difficult in the context of developed economies; however, the context of emerging economies may enable us to relax the assumptions and help provide a more realistic view of the economic markets. This will allow entrepreneurship to stand out as one of the leading sources of market transformation and economic growth and development.

Policy Implications

One of the most important concerns in macroeconomic policy is the fostering of entrepreneurial activity to spur innovation, productivity, and growth in the economy (Sarasvathy, 2001). Economic development of countries can be affected by factors, many of which can be difficult to control or change. Policy makers can be limited in what they can achieve in terms of non-economic factors that affect entrepreneurship. Nonetheless, the propositions developed in this paper open up our understanding of how institution and entrepreneurship matter in the context of economic development in emerging economies. The arguments point out to several important directions regarding policy implications—how governments can theoretically encourage entrepreneurship through implementing effective policies, which in turn, foster economic development.

CONTACT: Yasuhiro Yamakawa; yasu@utdallas.edu; (T): 97-883-4469; University of Texas at Dallas, Richardson, TX 75083