

A Dynamic Relationship between Entrepreneurial Orientation and Entrepreneurial Activity

Abstract

Policymakers have shown an interest in adopting policies that promote entrepreneurial activity. Yet, one of the major questions that remain unanswered in the entrepreneurship literature is why entrepreneurial activity varies across countries. In this paper, we take an in-depth look at the dynamic relationship between the institutional environment in developing countries, resource availability and EO. We propose that despite changes in the economic wealth of a country, an entrepreneur's past experience influences risk-taking, innovativeness, and proactive behavior. Additionally, the resource endowment of an individual is a better instrument for EO in the changing environment.

Maßnahmen zur Förderung von Entrepreneurship und Unternehmertum stehen derzeit im Mittelpunkt aktueller Entwicklungsagenden. Dabei bleiben die Fragen, welche Faktoren geeignet sind und wie sich die regionalen Unterschiede hinsichtlich ihrer Gründungsaktivitäten erklären, bisher weiterhin ungeklärt. Der folgende Beitrag beschäftigt sich dabei eingehend mit dem dynamischen Wechselspiel zwischen Ressourcenverfügbarkeit, dem institutionellen Umfeld und der Wahrnehmung unternehmerischer Chancen in einem Entwicklungsland. Wir vermuten, dass trotz der wirtschaftlichen Entwicklung dieser Länder, vor allem die bisherige Erfahrung eines Unternehmers einen wesentlichen Einfluss auf seine Risikobereitschaft, Innovativität und Proaktivität hat. In einer dynamischen Umwelt ist zudem die individuelle Ressourcenausstattung ein wesentliches Instrument zur Wahrnehmung unternehmerischer Chancen.

Summary Highlight

CONTRIBUTIONS: This study contributes to the entrepreneurship literature by proposing that interaction of institutional quality and entrepreneurs' experience with the home country's institutional environment influences the level of entrepreneurial activity in a country. Using path dependence and imprinting theory, we show that the historical events and circumstances influence the current structure of the institutions that influence all aspects of entrepreneurial orientation (EO) that result in differences in the level of entrepreneurial activity across countries. This study contributes to the entrepreneurship literature by proposing that interaction of institutional quality and personal experience over time with the home country's institutional environment influence entrepreneurs' attitude toward EO that influences the level of entrepreneurial activity in a country. Using path dependence and imprinting theory, we propose that older individuals experience with the historical events that influence their view of the current or changing institutional environment in an emerging country. Combination of the past experience, the uncertainty associated with changing institutional environment influence all aspects of entrepreneurial orientation (EO) that results in differences in the level of entrepreneurial activity across countries. This study contributes to the EO literature by demonstrating the importance of a match between the external environment, resource availability and endowment, and EO in order for an entrepreneur to take on entrepreneurial activity.

RESEARCH QUESTIONS AND PURPOSE:

While past studies have shown a link between the institutional environment and entrepreneurial activity, it has largely remained unexplored is how changes in the institutional environment due to changes in the economic condition of the country impact an individual's entrepreneurial orientation. To address this gap in the literature, we address the following

questions: 1) How do the past experiences of individuals with the home country institutions influence their EO in a changing institutional environment in emerging countries? 2) How do the resources in possession of an individual influence their EO in the context of changing the institutional environments in emerging countries?

BASIC RESEARCH METHODOLOGY AND INFORMATION: To address the research questions of this paper, we develop propositions detailing the expected relationship between the resource endowment, and the changing institutional context in the emerging countries and individuals EO.

RESULTS/FINDINGS: In this conceptual paper, we develop propositions related to how individuals will respond to the changing institutional environment. Older individuals who had longer interactions with the institutional environment are more likely to be risk-averse, less innovative and proactive compared to the younger generation. Resources also play an important role, older individuals in possession of human and financial resources are more likely than the younger individuals to recognize and exploit opportunities.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS: This article is a conceptual paper. Future empirical research can build on the theoretical arguments presented in this paper. Future research can distinguish in the greater nuanced relationship among EO, entrepreneurs age, and institutional environment.

PRACTICAL IMPLICATIONS AND RECOMMENDATIONS: Policymakers have shown an interest in adopting policies that promote entrepreneurial activity. Establishing supportive programs can help entrepreneurs based on their needs such as age, experience, education level, etc.

Keyword: Entrepreneurial Orientation; Entrepreneurship; Risk, Innovativeness, Proactiveness, Emerging Countries, Age, Resources

Introduction

The impact of entrepreneurship on economic development has been well established (Audretsch, Keilbach and Lehmann 2006; Koellinger and Thurik 2012; Van Praag and Versloot 2007). Yet countries vary in their ability to create, promote, and sustain entrepreneurial activity (Acs and Audretsch 1988, Wennekers and Thurik 1999, Baumol, 1990). One of the major questions remaining unanswered in the entrepreneurship literature is why entrepreneurial activity varies across countries (Stenholm et al. 2013). Existing research has offered various explanations and a growing body of literature posits that the institutional environment is an important determinant of entrepreneurial activity at the national level (Stenholm et al., 2013; Glaeser et al. 2003; Johnson et al. 1997; Baumol 1990; Hodler 2009). While past studies have shown a link between the institutional environment and entrepreneurial activity (Hayton, George, and Zahra, 2002; Zahra, Jennings, and Kuratko, 1999), it has largely remained unexplored is how changes in the institutional environment in emerging countries impact an individual's entrepreneurial orientation. To address this gap in the literature, we address the following questions: 1) How do the past experiences of older individuals with home country institutions influence their EO in emerging countries? 2) How do the resources in possession of older individuals influence their EO in emerging countries?

Entrepreneurial Orientation (EO) is important to consider since all the components of the EO influence entrepreneurship quality and quantity in a country. In addition, all components of the EO are influenced by the institutional environment and resource availability in a country. EO has been conceptualized as consisting of three dimensions: innovativeness, risk-taking, and proactiveness (Covin and Slevin, 1989; Miller, 1983; Miller and Friesen, 1982).

Resource endowment is important to consider because without appropriate resources individuals are not willing to undertake the entrepreneurial activity. Resources such as human, financial capital, etc., give individuals their self-efficacy (Bandura, 1977, 1991) and locus of control (Mueller and Thomas, 2001) while financial resources allow them to acquire other necessary components for engaging in entrepreneurial activity.

Emerging country context is important to consider since individuals adapt their occupational strategy whether to engage in entrepreneurial activity or in wage employment based on the information they have. Additionally, context also dictates resource availability (Barney, 1991), resource investment (Maritan, 2001), resource deployment (Sirmon et al., 2007), and risk associated with the entrepreneurial activity (Welter et al. 2019).

This study contributes to the entrepreneurship literature by proposing that entrepreneurs' experience with the home country's institutional environment influences entrepreneurs' attitude toward EO that influences the level of entrepreneurial activity in a country. Using path dependence and imprinting theory, we propose that older individuals experience historical events influence their view of the current or changing institutional environment in an emerging country. Combination of the past experience, the uncertainty associated with changing institutional environment influence all aspects of entrepreneurial orientation (EO) that results in differences in the level of entrepreneurial activity across countries, as Baumol points out, institutions play an important role in producing productive EO in a country, "It is the set of rules and not the supply of entrepreneurs... that undergoes significant changes from one period to another and helps to dictate the ultimate effect on the economy via the allocation of entrepreneurial resources" (p. 894). A similar argument was advanced by Mancur Olson (1996), "only plausible explanation is

that great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies” (p. 10).

This study contributes to the EO literature by demonstrating the importance of a match between the external environment, resource endowment, and EO. Alignment between strategy and environment is a dynamic interaction process (e.g., Miller and Friesen, 1983; Venkatraman and Prescott, 1990), and the resulting fit between strategy, environmental contexts and/or organizational contingencies has important implications for EO (Venkatraman and Prescott, 1990; Ginsberg and Venkatraman, 1985; Miles and Snow, 1994). We propose that an individual’s response to the current institutional quality and EO are influenced by their resource endowment. For example, older entrepreneurs may respond differently to the current institutional quality than younger entrepreneurs. The propositions of this study shed light on decision-makers’ perspectives about how individuals experience and their assessment of resources influence their decisions as their external environment changes.

We also demonstrate the relevance and match between context and public policy. The public policies that are suitable for the developed countries may not be suitable for the emerging/transitioning countries because the resources and institutional quality are different in these countries. While the quality of the institutions may take the time to change, a combination of the quality of institutions and public entrepreneurs who form and implement public policies can help to allocate resources toward enhancing EO components that increase entrepreneurial activity in a country.

The rest of the paper is organized as follows: First, we establish the theoretical context for our argument. We then discuss our propositions related to how institutions help (hinder) with the EO properties that influence the entrepreneurial activity across countries. Then we present our

proposition related to resource endowment and EO. In conclusion, we discuss the implications of this research for future research and public policy.

Interactive Relationship between Micro, Meso, and Macro Level

We combine the *micro-macro* distinction in sociology literature (Coleman, 1987) with the three-level distinction in organizational behavior research (House et al., 1995) to distinguish between the *micro-level* of the individual, the *meso-level* of the organization, and the *macro-level* of the broader context (Appelbaum et al., 2009; McDonald and Nijhof, 1999). *Micro-level* of individual actions and decisions are influenced by *macro-level* which also influences meso-level (House et al., 1995). As the economic condition change takes place in the emerging countries, institutional changes also take place which impacts the resource endowment and industry environment in a country through various policies over the years. This dynamic nature of changes in the environment also influences an individual's EO.

Institutions in Emerging Markets Context

Institutional environment and economic performance of a country are highly interrelated as presented by North, "... institutions affect the performance of economies is hardly controversial. That the differential performance of economies over time is fundamentally influenced by the way institutions evolve is also not controversial" (North 1990: 3). The institutional environment of the emerging markets is often less developed or underdeveloped (Khanna and Palepu, 1997). These underdeveloped institutions can increase uncertainty and transaction costs of engaging in entrepreneurial activity in these countries (Khanna and Palepu, 1997) as North (1986: 236) suggested that the presence of "a well-specified legal system, an impartial judiciary, and a set of attitudes toward contracting and trading that encourage people to engage in [markets] at low cost" is important for fostering EO in a country. A well-functioning court system helps to

enforce contracts; the regulatory framework assists with the development of the new market, entry, and exit of new ventures. Overall, well-established institutions help to reduce uncertainty, risk, and transaction costs that are necessary for engaging in productive entrepreneurial activity (Baumol, 1990). Emerging countries are associated with “low-income, rapid-growth countries using liberalization as their primary engine of growth” (Hoskisson et al., 2000, p.249). This rapid growth causes a dynamic institutional environment (*macro-level*) which influences the industry environment (*meso-level*) and presents an opportunity for the entrepreneurs (*micro-level*) to search for and exploit entrepreneurial opportunities (Wennekers et al., 2005; Wennekers and Thurik, 1999).

EO as Driver of Entrepreneurship

The entrepreneurial process evolves over several stages from entrepreneurial alertness to opportunity exploitation (Bygrave and Hofer, 1991; Shane and Venkataraman, 2000). Prior to undertaking the entrepreneurial process an entrepreneur’s personal tolerance for the three dimensions of EO influences whether or not he/she engages in the entrepreneurial activity. EO dimensions include risk-taking, innovativeness, proactiveness (Miller and Friesen, 1982; Covin and Slevin, 1989; Miller, 1983). *Risk-Taking*--Risk-taking ability or risk propensity defined as, “the tendency of a decision-maker either to take or to avoid risks” (Sitkin and Pablo, 1992, p. 12), of an individual, is an important component of EO and it is well-known that risk is an integral part of the entrepreneurial activity. Institutions that reduce the cost and reward the risk-taking activity through subsidization will reap the benefit (Williamson, 2000). *Innovativeness* --- Romer’s (1990) idea-based growth model has pointed out the importance of innovation and investment in the research and development that fosters innovative activity. The institutional environment that supports new ideas, creative processes, and novel solutions to problems will

promote innovative mentality in society (Stinchcombe 1965). *Proactiveness* -- Proactive individuals take initiative, search for opportunities rather than waiting for opportunities to arrive and gain the ‘first-mover advantage’ by capitalizing on the opportunity¹ (see Lieberman and Montgomery, 1988; VanderWerf and Mahon, 1997 for a review, Lumpkin and Dess, 1996). The relationship between proactive and opportunity recognition is described by Bateman and Grant (1999) as “Proaction involves creating change, not merely anticipating it. It does not just involve the important attributes of flexibility and adaptability toward an uncertain future. To be proactive is to take the initiative in improving business. At the other extreme, behavior that is not proactive includes sitting back, letting others make things happen, and passively hoping that externally imposed change “works out okay” (Bateman and Crant, 1999, p. 63).

All the components of EO are the source of recognizing an opportunity’s potential and transitioning/ realizing into entrepreneurial activity and are influenced by the entrepreneur’s assessment and experience with the institutional environment of the home country as suggested by Miles, Snow, and Pfeffer (1974), Stinchcombe (1965), Kirzner (1973), and Schumpeter, 1934) along with resource endowment (Barney, 1991, Davidsson and Honig, 2003).

Relationship between Emerging Market Institutions and EO

According to the path dependence and imprinting theory, both short and long events affect an individual’s behavior. In this article, our view of imprinting is aligned with the following definition, “... a process whereby, during a brief period of susceptibility, a focal entity develops characteristics that reflect prominent features of the environment, and these characteristics continue to persist despite significant environmental changes in subsequent period” (Marquis and

¹ While strategy literature applies first mover advantage to firm, the same characteristics can be applied to an entrepreneur.

Tilcsik, 2013, p. 201). Path-dependence is “...small events can become magnified... dynamically lock itself in as a result of chance decisions that are neither guaranteed to be efficient, nor easily altered, nor predictable in advance” (Powell, 1991, p. 193).

Institutions of the emerging countries influence an individual's behavior through both long- and short-term incidents. Components of institutions include both the formal and informal institutions. Formal institutions are the written rules designed to reduce uncertainty and transaction costs and easier to change. During the early stages of formal institutional change, individuals are sensitive because they change and adapt their strategies and decisions to fit their environment (Marquis and Tilcsik, 2013). Informal institutions are the informal rules of society. Compared to the formal institution's, informal institutions in the emerging countries take longer to change since they are habitual (DiMaggio and Powell, 1983; North 1990) and influences individual's behavior as suggested by Vergne and Durand “unpredictable, non-purposive, and somewhat random events” (2010, p. 741-742). Informal institutions help to maintain formal institutions through incentives even if the formal institutions are inefficient, ineffective (Helmke and Levitsky, 2004) and can thrive in a relationship-based system compared to an arm-length/market-based system because laws and contracts are poorly enforced. An arm-length system is much more predictable and can be less uncertain since transactions are based on contract and contracts can/will be enforced (Ahmadjian, 2016). Therefore, enforcement of formal regulations is an important condition for creating market supporting institutions that are important for supporting innovative and proactive activity.

Institutions affect all aspects of EO (risk-taking, innovativeness, pro-activeness), and entrepreneurs adapt to the institutions they are situated in (North, 1997). Institutions at the national level can create a comparative advantage of one nation over another by creating a well-

functioning environment for the entrepreneurs where individuals are willing to be proactive and risk-taker while institutions can also create a hostile environment by placing unnecessary regulatory burdens, radical changes in industry, or promoting fierce rivalry among competitors (Covin et al., 1997; Zahra and Garvis, 2000). The combination of both, weak institutional environment and intensity of competition, can influence the risk-taking and proactive aspect of EO. Willingness to take risk has often been associated with entrepreneurial activity (Brockhaus, 1980). McClelland (1960) suggests that the "... entrepreneur involves, by definition, taking risks of some kind" (p. 210). Yet another group of scholars suggests that entrepreneurs are better skilled at managing their exposure to risk than the population at large (Herranz et al., 2015) as suggested by Paul Brown in Forbes report that "(entrepreneurs).... "don't like risk. They accept it as part of the game and then work extremely hard to reduce it to a minimum".² The intensity of competition impacts the attractiveness of an industry. An individual situated in a hostile environment and extreme competition can deter an entrepreneur from searching for opportunities and entering that industry. Good/well-functioning institutions can reduce this risk posed by the external environment and spur proactive behavior.

Innovativeness, one of the components of the EO, refers to the ability of a country to produce goods and services that generate economic value and commercialization of these products (Porter and Stern, 2002). In order for the innovative behavior to flourish, the institutional environment needs to be strong to build the confidence of the individual on the environment. Good quality Institutions also help with building trust in a society where individuals' trust that bureaucrats/government authority will not take advantage of them or their innovation (Arrow,

² See <http://www.forbes.com/sites/actiontrumpseverything/2012/04/12/are-you-risk-adverse-you-could-be-the-perfect-entrepreneur/#4835107d15dc>

1974). Many scholars argue that strong property rights are the backbone of the market economy (North and Thomas, 1973; Williamson, 2000; Rodrik, 2000; Acemoglu and Johnson, 2005).

Individual Effects and Institutional Change

Institutions have a long-lasting impact on individuals. Individuals' experience with the institutions influences how they respond to institutional change. For instance, individuals who started their careers during a recession are more conservative than individuals who started at a different economic condition (Schoar and Zuo, 2011). Similarly, Rosow suggested that “the typical response patterns of members of various cohorts to the same thing. Those in one generation react the same way, but differently from members of another” (1978, p. 72).

In an emerging economy, the institution can be volatile due to the changing nature of the environment (Child, 1972; Dess and Beard, 1984; Garg, Walters, and Priem, 2003; Li and Simerly, 1998; Simerly and Li, 2000). This environmental dynamism consists of volatility and unpredictability (Miller and Friesen, 1983; Schilke, 2014) and can influence how individuals respond to this. Individuals born during this transitioning period will acquire different sets of resources and skills than individuals born at a different time. Older individuals will rely on their previous work experience and interactions with institutions to assess their risk tolerance, innovativeness, and pro-activeness, therefore, historical events and experience become an important component of an individuals' decision-making process, as David (2001) put it path dependence is a “process that is non-ergodic, and thus unable to shake free of their history” and “asymptotic distribution evolves as a consequence the process's own history” (p. 45).

As an emerging country goes through different institutional change, there is an opportunity for entrepreneurs to take advantage of the niche created by the changing environment. Henrekson and Sanandaji (2011) identified that three ways an individual's response to a dynamic

environment---- abiding, evading, and altering. In a dynamic environment, uncertainty and risk associated with entrepreneurial activity combined with the changing/dynamic environment and past experience of older individuals with the institutions can make them either passive or find ways to evade exploiting new opportunities while younger individuals or cohorts will be willing to alter or exploit the opportunities arising from the changing environment. Therefore, we propose that:

Proposition 1: In a dynamic environment, older individuals' past experience with the home country institution will negatively impact their risk-taking, innovative, and proactive behavior more than younger individuals who had limited experience in the home country institution.

Resource Endowment and EO

The resource-based view (RBV) suggests that resources are important for entrepreneurs (Barney, 1991). Individuals and countries have resource heterogeneity (Peteraf, 1993) and possession of these resources bestows entrepreneurs' a competitive advantage. Resources such as access to financial and human capital influence all aspects of EO. Financial development level varies across countries (Ayyagari, Demirgüç-Kunt, and Maksimovic 2008; Lian, Sepehri, and Foley 2011; Rajan and Zingales, 2001) and have a low ratio of bank deposits to GDP which Paravisini (2008) and Banerjee and Duflo (2004) characterized as 'low depth', low competition (Banerjee, Duflo, and Munshi, 2003; Cole 2009) that limits access to financial resources by entrepreneurs. Entrepreneurs with a low level of financial risk tolerance, defined as "the maximum amount of uncertainty that someone is willing to accept when making a financial decision" (Grable, 2000, p. 625) would be less likely to take on entrepreneurial activity.

Entrepreneurs often use 'bootstrapping' (Daniels et al., 2016), relying on their personal finance to support the new venture. For entrepreneurs in emerging countries, the use of personal

finance is not always an option. In order for someone to be proactive and pursue an entrepreneurial activity, he/she would have to be satisfied with their personal financial situation. Financial satisfaction is associated with “being healthy, happy, and free from financial worry” (Joo and Grable, 2004; p. 27). An individual who is satisfied with their financial situation would be more likely to be proactive than who is not.

Financial risk tolerance is influenced by several factors such as gender, age, marital status, occupation, income expectations, and socioeconomic characteristics (Grable, 2000). Many countries have experienced financial development, this development did not translate to access to the financial services for everyone. This shortcoming is especially prevalent for female entrepreneurs. A study by Demirgüç-Kunt et al. (2013) found that women entrepreneurs have less access to financial services such as bank accounts, credit cards, etc. governments also provide funding for entrepreneurs, but the existing literature is skeptic about the benefit of the government funding. A study by Brander et al (2015) found that government financing helps with the exit of the new ventures that creates opportunity and space for new and (perhaps) productive ventures.

Microfinance has been an alternative source of finance for entrepreneurs, especially for women in emerging countries. While originally only NGOs provided microfinance services, currently commercial banks, state-run banks, nonbank financial institutions, and NGOs provide microfinance services (Sabin, 2016). As the sources for the financial resources continue to grow, EO will flourish in a country.

Knowledge Resources and EO:

Access to and availability of human capital, in terms of education and work experience, influence all aspects of EO. Becker (1993) distinguishes between general and specific human

capital. General human capital is related to skills and knowledge that can be transferred to the various economic setting while specific human capital is not easily transferable and applicability is narrow (Gimeno et al., 1997). Davidsson and Honig (2003) study included both the formal knowledge acquired through formal education and training as well as tacit knowledge acquired through work experience and nonformal education as a measure of human capital. Human capital prepares and influences the ability of an entrepreneur in all aspects of EO.

Formal education provides an entrepreneur with the necessary cognitive skills, knowledge, motivation, and self-confidence (Cooper et al., 1994; Hatch and Dyer, 2004). All of these help in dealing with complex problems, combine resources to exploit opportunities, and better able to deal with risk and uncertainty (Shane, 2003; Arenius and DeClercq, 2005; Ucbasaran et al., 2005). Human capital also influences “future monetary.... income by increasing the resources in people” (Becker, 1993, p.11)

Schumpeter (1934) viewed entrepreneurs as a ‘gap-filler’ who find opportunities to create new products and processes that fill an important gap in society. Therefore, entrepreneurs tend to be more ‘alert’ towards entrepreneurial opportunities than are non-entrepreneurs (Krizner, 1973; Alvarez and Barney, 2007). Entrepreneurial human capital (Davidsson and Honig, 2003) and entrepreneurial cognitions, defined as “...knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth” (Mitchell et al. 2002, p. 97), influence the ability of an entrepreneur’s perception and interpretation of unconnected information as well as making sense in their surrounding environments. This improved connect-ability is at the root of innovation (Miller, 1999).

Emerging countries experience changes in technology, consumer preferences, political and regulatory changes, social and demographic changes can create opportunities for an entrepreneur

to produce new products, processes, or services (Kirzner, 1973: 10; Shane, 2003: 23). Education provides an individual with the cognitive skills necessary to adapt to a changing environment (Hatch and Dyer, 2004). Entrepreneurs with higher levels of education will possess more knowledge and ability to recognize the process and analyze information (Capelleras and Greene, 2008). Additionally, highly educated entrepreneurs have enhanced problem-solving and decision-making skills (Westhead et al., 2001). A study conducted by Reynolds, Hay, and Camp (1999) found that a country's entrepreneurship activity is positively related to post-secondary education investment. This positive relationship suggests that education may provide individuals with a sense of autonomy, and the skills necessary, to recognize, develop and pursue entrepreneurial opportunities (Verheul, Wennekers, Audretsch, and Thurik, 2002; Davidsson and Honig, 2003; Arenius and DeClercq, 2005).

Entrepreneurs with high human capital (formal education, work experience, entrepreneurial experience) tend to have higher self-efficacy. Self-efficacy is defined as the strength of an individual's belief that he or she is capable of performing specific tasks and being persistence in the effort (Bandura, 1997). Combination of an individual's proactive characteristics, self-efficacy, and human capital can lead to entrepreneurial activity since entrepreneurs with high human capital have greater awareness about changes in their environments, which include their ability to recognize and to interpret correctly the information and undertake the proper action towards potential opportunities (Kibler et al., 2014).

Individual Effects, Resources, and Institutional Change

Changes in the economic condition force policymakers in emerging countries to change industrial policy. This change in industrial policy is often funded by the government through subsidies and protection (Rodrik, 2000; Amsden, 1989) and these changes have an impact on

resource structure and industry environment in a country (Carroll & Hannan, 1989; Stinchcombe, 1965). Porter's (1980) competitive dynamics theory suggests that the intensity of competition impacts the attractiveness of an industry. These changes in industrial policy are often funded by the government through subsidies and protection (Amsden, 1989). Beason and Weinstein (1996) argued that industrial targeting "benefits given to certain sectors that are not given to all sectors" (p. 286) helps to stimulate certain industries in certain regions. Home government support can create values for domestic firms through preferential treatment such as lighter taxation, relaxed regulatory oversight of the company in question, or stiffer regulatory oversight of its rivals. Lazzarini (2015) suggests that industrial policy supported by the government helps the local firm through global production networks, geographical specificity, and governmental capability. This cooperation signal risk-sharing and promotion of innovative activity and make these industries attractive to domestic entrepreneurs with industry-specific knowledge who are better prepared to recognize the opportunity and willing to take risks, be innovative and be proactive.

Changing the institutional environment can put the burden on an entrepreneur's knowledge because they lack the information needed to make decisions. However, an individuals' human capital and financial capital increase an individuals' absorptive capacity defined by Qian and Acs (2013, p.191) as, "the ability of an entrepreneur to understand new knowledge, recognize its value, and subsequently commercialize it by creating a firm". Similarly, tacit knowledge gained from labor market experience or management experience can give someone an advantage. These individuals are also better able to adjust to changing the environment, exploit opportunities, and engage in entrepreneurship (Lazear, 2005; Parker, 2009). Older entrepreneurs are likely to have more industry-specific knowledge than younger entrepreneurs. They are also in possession of

knowledge related to suppliers along with the social networks. Their knowledge of suppliers and social networks can help them acquire resources necessary for engaging in entrepreneurial activity.

In addition to industry-specific knowledge, older entrepreneurs are also in possession of financial resources necessary for engaging in entrepreneurial activity. They are also able to attract investment from external sources and have social capital that gives the advantage to someone with low human capital as Lazear (2012) states: “... entrepreneurs are a subset of leaders and the distinction between entrepreneurs and leaders is somewhat blurred. Most successful entrepreneurs view themselves as leaders because they had the vision that enabled them to provide a valuable good or service cost-effectively. Starting a successful business requires the ability to navigate through a vast array of potential hazards. Conversely, most leaders of large corporations think of themselves as entrepreneurial, whether they founded the company or not. High-profile CEOs include a few founders but are comprised primarily of those who improved or redesigned existing companies to produce higher profits and shareholder value” (p. 93). Therefore, we hypothesize that

Proposition 2: Older individuals with resources have a better ability to take on risks, innovate, and be proactive than younger individuals in a dynamic institutional environment in emerging countries.

Future Research Directions

Future empirical research can build on the theoretical arguments presented in this paper. Another limitation is that this study differentiated only between two distinct stages of economic development -- developed and developing countries. Future research efforts can further

distinguish between various stages of development along with providing complimentary case studies to gain in-depth knowledge related to EO.

Conclusion and Policy Implications

The existing literature related to EO and firm demonstrates the importance of EO at the firm level. However, the EO theory is not only important for firm behavior, but it is also important for the development of entrepreneurship at the society level of a country. The quantity of entrepreneurship in a country does not depend solely on the individuals' characteristics rather the level of entrepreneurship in the country depends on the unique blend of factors, such as institutions that influence the values, attitudes, and behaviors as well as resources, combined to foster (or hinder) EO. Thus, the context in terms of “social, political, and economic contexts” (Wright et al., 2005, p. 2) is important.

Policymakers have shown an interest in adopting policies that promote entrepreneurial activity. Yet, one of the major questions that remain unanswered in the entrepreneurship literature is why entrepreneurial activity varies across countries. In this paper, we explored how institutions and resources help with the EO in a country. In this paper, developed nine hypotheses. We show how the variance in institutions, resources, and industrial policies in the developed and developing countries can help to explain the difference in all aspects of EO---risk-taking, innovativeness, and proactiveness. This variance in the level of EO can help to explain the differences in the level of entrepreneurial activity.

This paper shows that the government can intervene and help with the implementation of policies that are conducive to all aspects of EO---risk-taking, innovativeness, and proactiveness. Institutions are an important component when it comes to EO. Establishing clear rules and regulations can help to reduce the exploitation of the entrepreneurs and risk and uncertainty

faced by entrepreneurs. Establishing a culture of transparency and enforcement of laws equally and consistently in every (or almost every) instance can help with the establishment of a trust in the government.

Economic development can spur an increase in demand for entrepreneurial activity that, in turn, creates demand for resources that important for innovation, such as infrastructure development, financial services, educational services, etc. Increased investment in these areas improves social welfare as well as EO. The increased demand for these services also creates an opportunity for new markets. Economic development changes cultural expectations toward personal growth and progress. Investment in education, training, and research and development increases the self-efficacy of individuals that help with EO.

Public policy can enhance EO. Through industry-specific investments, public policy can directly generate new entrepreneurial opportunities (Trobat, 1983) or else indirectly by promoting policies that encourage investments in private firms that in turn promote EO in a society (Baumol, Litan, and Schramm, 2007; Mesquita and Lazzarini, 2008).

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