The effect of social, cultural, and economic factors on entrepreneurship

Maria-Soledad Castaño a,⁎, María-Teresa Méndez b, Miguel-Ángel Galindo c

a Facultad de CC. Económicas y Empresariales, Plaza de la Universidad, 1, 02071 Albacete, Spain
b Facultad de CC. Económicas y Empresariales, Campus de Somosaguas, 28223 Madrid, Spain
c Facultad de Derecho y Ciencias Sociales, Ronda de Toledo, s/n 13071 Ciudad Real, Spain

1. Introduction

Current economic downturn encourages extensive research into economic growth drivers. This research gains insight on how to face recession's negative effects by reducing unemployment levels in certain countries. Apart from quantitative variables constant in traditional economic growth models (e.g., investment and public spending), recent studies consider other variables for which statistical data is gradually becoming more readily available. Recently, scholars focus on variable entrepreneurship. Entrepreneurship has a positive effect on economic growth because of generating economic activity. Schumpeter and several authors assert at the beginning of the twentieth century that entrepreneurship is one of the key drivers of growth. Although crucial, determining which variables stimulate entrepreneurial activity constitutes a difficult task due to interrelated factors. This study analyzes three groups of factors affecting entrepreneurship and entrepreneurs' perceptions of opportunity: social, cultural, and economic variables. Therefore, this study employs the partial least squares method for two groups of countries: (1) European countries, and (2) Latin-American and Caribbean countries. This approach identifies how these factors' effects differ across different countries.

2. Social, cultural, and economic factors, and entrepreneurship

Many factors affect entrepreneurs' decisions to pursue a new business instead of accepting a job in paid employment. Leaving aside personal considerations, this study categorizes factors affecting entrepreneurship into three groups: Social, cultural, and economic. Although these factors interact among them, this section presents their effect entrepreneurship separately.

Socially, the structure and social development of a country is an important factor, as well as culture. Strictly focusing on social issues, literature often refers to Schumpeter's (1934) social climate. This concept involves the sociological, economic, and institutional climate of the society where entrepreneurs perform their activity. These factors include social values, training, economic freedom degree, and institutional quality. Therefore, a suitable social climate stimulates entrepreneurial activity, enhancing economic growth and job creation.

To foster such social climate a solid institutional foundation is essential. Scholars usually consider that creating institutions and improving their quality encourage market activity, avoiding economic shocks (Acemoglu et al., 2002; Nissan et al., 2012). These institutions usually comprise: (1) political environment (democracy): parliament, regulation...
Entrepreneurship scholars usually focus on economic factors. Specifically, this study will analyze economic policy, economic performance, innovation, and openness.

Firstly, two stances exist towards entrepreneurship within economic policy in the form of government spending policies. Secondly, some scholars such as Audretsch (2002) state that government support to entrepreneurship lies in correcting market failures due to external costs, external benefits, or public goods. Specifically, three market failures: network externalities, knowledge externalities, and learning externalities.

The government therefore has various ways of stimulating entrepreneurship through public spending measures (Gnyawali & Fogel, 1994; McMullen et al., 2008). These measures are the provision of capital risk funds, tax incentives, governmental purchasing programs, public contracts, protection of intellectual property rights, investment in education and R&D, and specific support for entrepreneurs from governmental agencies. Detractors also claim that spending measures may allow nonproductive entrepreneurs to continue operating in the market, which may negatively affect economic growth (Campbell & Mitchell, 2012). Economic performance is also important, since greater economic activity creates positive economic expectation and improves opportunities perception, motivating individuals to engage in entrepreneurial activity. Therefore, any initiative boosting economic activity and helping to establish a stable macroeconomic environment stimulates entrepreneurship. A low-interest monetary policy and low tax rates may produce desirable outcomes such as an increase in economic activity and greater economic stability (Bourguignon & Verdier, 2000; Galor & Zeira, 1993).

Focusing on innovation, Drucker (1998) asserts that innovation is central for entrepreneurial activity and encourages many entrepreneurs to engage in entrepreneurial activity. Summarizing, entrepreneurs' innovations encourage other entrepreneurs to enter into entrepreneurial undertakings and innovation (Duguet, 2004). Conversely, a better economic activity creates new opportunities for entrepreneurs and stimulates innovation.

Finally, openness positively affects entrepreneurship. According to De Clercq et al. (2007), this study draws on knowledge spillover literature on how a country’s level of foreign direct investment and international trade may affect entrepreneurs' export orientation (Görg & Greenaway, 2004; Greenaway et al., 2004). This export orientation may in turn affect the country’s entrepreneurial activity level. Furthermore, entrepreneur’s...
engagement in export-oriented activities affects the subsequent new businesses creation. Export entrepreneurs have preferential access to knowledge about foreign markets and technologies (Hessels & De Van Stel, 2007; Zahra et al., 2000). This knowledge may explore unexploited opportunities for domestic market (De Clercq et al., 2005; Shane & Venkataraman, 2000).

Innovation’s effect is also essential. Innovation strongly affects internationalization. Literature shows that global firms usually engage in more R&D activities than non-global enterprises do (Grossman & Helpman, 1991; Hadjimanolis, 2000; Kafouros et al., 2008). According to literature, firm internationalization increases innovation capacity, as global firms access several resources, ideas, and know-how. Internationalization also increases organizational learning. This study assumes that a feedback process is taking place, and therefore that a better economic activity creates new opportunities for entrepreneurs. Thus, economic growth positively affects this process (Galindo & Méndez, 2014). However, Drucker (1998) defines innovation as essential for entrepreneurial activity, promoting entrepreneurial businesses. Therefore, this study considers feedback effects.

**H3.** Entrepreneurial activity and economic performance have a positive correlation.

### 3. Empirical analysis

This empirical analysis tests previous hypotheses. This study analyzes two groups separately: 15 countries from Europe and 12 from Latin America and the Caribbean.

#### 3.1. Methodology and data

This empirical study analyzes 2012 data to determine whether economic, social, and cultural factors affect entrepreneurship, and whether this effect varies for different groups of countries. Data comes from the “Global Entrepreneurship Monitor” (GEM) Project (APSGLOBAL-GEM, 2012). GEM reports categorize these economies according to economic development level, namely economies that factor, efficiency, and innovation drive (Kelley & Singer, 2012). The first group of 15 European countries are innovation-driven economies (Austria, Brazil, Denmark, Finland, France, Germany, Iceland, Italy, the Netherlands, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom). The second group of 12 Latin-American and Caribbean countries are efficiency economies (Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Jamaica, Mexico, Panama, Peru, Trinidad & Tobago, and Uruguay).

PLS combines principal component analysis and multiple regressions. PLS allows to address collinearity problems (multivariate normality is not necessary) when working with several predictors in comparison with the number of observations (the method is more suitable with small samples) (Barclay et al., 1995; Tenenhaus, 1998).

Thus, the latent variables model is as follows:

$$\phi_{0} = \lambda_{0} + \lambda_{1} \xi_{0} + \lambda_{2} \eta_{0} + u_{0}$$

where $\phi_{0}$ represents entrepreneurship, $\xi_{0}$ represents economic factors, $\xi_{0}$ represents social factors, and $\eta_{0}$ represents cultural factors. Partial least squares (PLS) estimates this equation using the SmartPLS 2.0.M3 Program (www.smartpls.de), adopting the structural or multiple regression method (Path Weighting) (Tenenhaus, 1998). The following discussion explains the indicators composing the model’s latent variables.

The GEM survey item Teaopp and the indicator *New businesses registered (number)* from the World Bank’s World Development Indicators database measure the latent variable $\phi_{0}$, representing entrepreneurial activity. The GEM observatory states three reasons for creating a business: opportunity, necessity, and other reasons (Kelley & Singer, 2012). *Teaopp* captures the number of entrepreneurial initiatives whose main motivation is to benefit from an opportunity.

The latent variable $\xi_{0}$ represents economic factors. This variable’s indicators are: GDP (current US$), research and development expenditure (current US$), public spending (current US$), gross fixed capital formation (current US$), and openness. These indicators come from the World Bank’s World Development Indicators database. The latent variable $\xi_{0}$ represents social factors and comprises two indicators: *Economic Freedom Index* from The Heritage Foundation, and *Rule of Law* from the World Bank. Lastly, the latent variable $\eta_{0}$ represents cultural factors and comprises two indicators: *Corruption Perceptions*

### Table 1

<table>
<thead>
<tr>
<th>Table 1: Reliability measurements. European countries.</th>
<th>Ave</th>
<th>Composite reliability</th>
<th>R square</th>
<th>Cronbach’s alpha</th>
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</thead>
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<tr>
<td>Cultural factors</td>
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Table 2
Reliability measurements. American and Caribbean countries.

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<th></th>
<th>Ave</th>
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<th>Cronbach’s alpha</th>
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<td>Cultural factors</td>
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<td>0.472496</td>
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<tr>
<td>Economic factors</td>
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<td>Entrepreneur activity</td>
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<td>Social factors</td>
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<td>0.581755</td>
</tr>
</tbody>
</table>

4. Results and discussion

Figs. 1 and 2 show the path diagram for each group, displaying variables’ main effects and relations.

Tables 1 and 2 show the values of different tests for models’ reliability. The AVE (convergent validity or the common medium variance from all constructs) should be greater than 0.5 (Fornell & Larcker, 1981). For the structural sub-model, measuring the R² coefficients for the latent variable regressions is only possible in endogenous constructs. R² value indicates the amount of the construct’s variance that model explains. All endogenous latent variables are significant, with values greater than 0.1 (Falk & Miller, 1992). Cronbach’s alpha value measures the simple relationship between each item and its construct (Barclay et al., 1995).

Table 3 displays one variable’s total effects on the others for developed and developing countries, respectively.

The social factor positively affects results and goodness of fit is acceptable, since the AVE is greater than 0.5 in both models (Tables 1 and 2), supporting H1, which posits that adequate social structures foster entrepreneurship. Summarizing, in countries where the rule of law is more evolved and individuals enjoy high economic freedom, entrepreneurship is more prevalent. Social structures’ effect is, however, greater in European countries than in Latin-American and Caribbean countries. This finding confirms existing research’s theoretical relationship (McCloskey, 2010; Nissan et al., 2012; Powel & Rodet, 2012).

H2 involves cultural factors, which correlate positively with entrepreneurship in both groups (Barreneche, 2014; Reynolds et al., 1999). This correlation is higher in European countries than Latin-American and Caribbean countries, although this latent variable’s goodness of fit is less than 0.5 for Latin-American and Caribbean countries (Table 2).

Economic factors positively affect entrepreneurship in Europe. Latin America, and the Caribbean, although greater in Latin-American and Caribbean countries (Table 3). Results are consistent with literature review. Specifically, economic policy measures (Gnyawali & Fogel, 1994; McMullen et al., 2008), openness (De Clercq et al., 2007; Shane & Venkataraman, 2000), R&D spending (Drucker, 1998; Duguet, 2004), and economic performance (Galindo & Méndez, 2014; Galindo et al., 2010) positively affect entrepreneurship. Analysis also confirms a suitable goodness of fit of the model, as model’s AVE for this latent variable is greater than 0.5 (Tables 1 and 2). Therefore, data for both cases empirically supports H3. The correlation is higher in Latin-American and Caribbean countries (efficiency-driven according to GEM) than in European countries (innovation-driven according to GEM). According to Bosma et al. (2008) this result owes to economic factors in efficiency-driven economies explaining entrepreneurship better than social and cultural factors. The GEM observes that in countries with similar levels of entrepreneurial activity economic growth is lower and institutions or cultural factors are insufficient. According to the GEM, economic factors explain entrepreneurial activity better than social and cultural factors do in efficiency-driven economies (Bosma et al., 2008).

5. Conclusions

Previous sections describe social, cultural, and economic variables’ effects on entrepreneurship both theoretically and empirically. The analysis examines two groups of countries: The first consists of 15 European countries; and the second comprises 12 Latin-American and Caribbean countries. Results show that economic, social, and cultural factors affect entrepreneurship, differently correlating depending on the group of countries under study.

The indicators forming economic factors measure economic policy measures, openness, innovation, and economic performance. Results reveal that these variables positively affect entrepreneurship. However, the correlation between economic factors and entrepreneurship is stronger in Latin-American and Caribbean countries than in the European countries.

The social dimension comprises economic freedom degree and the rule of law. Empirical data imply that countries with high values for both variables stimulate entrepreneurial activity. The analysis suggests that social factors have a greater correlation in European countries than they have in Latin America and the Caribbean.

Finally, for the latent variable cultural factor (i.e., control of corruption and schooling), European countries have the best results. In Latin American and Caribbean countries, the correlation between cultural factors and entrepreneurship is lower than in Europe. Furthermore, the goodness of fit of the model for this latent variable is poor.

However, this study has certain limitations. The main limitation is that this study lacks a better measure for cultural factor than corruption index in 2012, for all countries. Besides, further investigation may find interesting to divide EU countries into two groups: Western Europe and Eastern Europe. The purpose is to see whether differences exist between cultural, social, and economic factors of these countries. This study also suggests a better measure for these countries’ cultural factors: the Eurobarometer database.

References


Table 3
Direct effects between latent variables.

<table>
<thead>
<tr>
<th></th>
<th>European countries</th>
<th>American and Caribbean countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural factors</td>
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<tr>
<td>Economic factors</td>
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<td>Entrepreneur activity</td>
<td>0.216673</td>
<td>0.110105</td>
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</tbody>
</table>

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