

# The Impact of Culture on Entrepreneurship

By Roy Thurik and Marcus Dejardin

Entrepreneurship, measured in terms of firm creations or business ownership and self-employment rates, varies over time. These variations may be observed by entrepreneurship measurements for a given country, industry or region. For instance, the number of self-employed in the Netherlands in 2007 is nearly 30% higher than in 1987, while it increased by 20% in Germany. Variations also emerge when we compare countries or regions for a given moment of time. In 2007 one out of ten in the French working population is self-employed while this number is one out of eight in the United Kingdom. While variations over time are linked to the level of economic development, or rather to technological development and new markets coming forward, variations across countries and regions seem to be the result of institutional and cultural contexts. In other words, the relative stability in the differences observed for a group of countries or regions suggests that there are other explanatory factors than just economic factors at work (Freytag and Thurik, 2010).

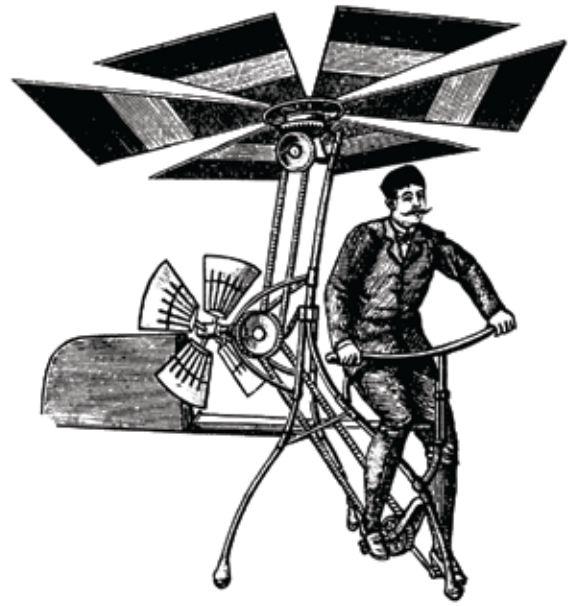
Several scholarly studies have examined the effects of culture on entrepreneurial activity. The present short article focuses on three theories that provide an analytical framework to investigate the relationship between culture and entrepreneurship. These three theories are the *aggregate psychological traits* approach, the *social legitimation* or *moral approval* approach and the dissatisfaction approach. Additionally, the results of an empirical study examining uncertainty avoidance as a proxy of the aggregate psychological traits and the dissatisfaction approach are briefly reported<sup>1</sup>. Finally, we discuss what this scholarly work may mean for the policy maker.

## The aggregate psychological traits approach

Extensive research conducted at the individual level shows that there is a link between individual values and beliefs, on the one hand, and individual behaviour on the other. Hence, it is plausible that cultural differences between countries or regions have a determining effect and influences a variety of individual behaviours, including the decision to become self-employed rather than an employee (Mueller and Thomas, 2000). An aggregative logic of this type is used in the aggregate psychological traits approach. According to this approach, for a given country, the more individuals with entrepreneurial values there are in a society, the more individuals will display entrepreneurial behaviour (Davidsson, 1995; Shane, 1993). This highly individualistic view of culture and behaviours must be distinguished from the one that is chosen in the social legitimation (or moral approval) approach.

## The social legitimation or moral approval approach

For the social legitimation approach, the focus is on the impact of social norms and institutions on the conduct of society at large. Ac-



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According to this view, a higher entrepreneurial activity is found in societies where the entrepreneur is considered to have a high social status, the education system recognizes and supports entrepreneurship, and tax incentives encourage business start-ups (Etzioni, 1987). Thus, for the social legitimation or moral approval approach, higher entrepreneurial activity within some countries can be explained by the general incidence of culture and institutions favourable to entrepreneurship; while for the aggregate psychological traits approach, higher entrepreneurial activity is explained by aggregate effects of individual characteristics.

Both the aggregate psychological traits and social legitimation (or moral approval) approaches contribute to a “pull” explanation of entrepreneurial behaviours. Pull factors account for the entrepreneurial choice of individuals as the result of their expectation of being better off as an entrepreneur, whatever the material and/or nonmaterial benefits. “Pull” factors are distinguished from “push” factors (Stanworth and Curran, 1973). The latter take into account the conflict between the individual current and desired state. They are often associated with some level of dissatisfaction.



## The dissatisfaction approach

The dissatisfaction approach is fundamentally different when compared to the first two approaches. Here, the explanation of different entrepreneurial activity across nations and regions is linked to differences in values and beliefs between potential entrepreneurs and populations as a whole. It suggests that in a predominantly non-entrepreneurial culture, a clash of values between groups may drive potential self-employed into actual self-employment (Baum et al., 1993). The expected relationship between cultural indicators and entrepreneurship described in the dissatisfaction approach may be opposite to the expected relationship referred to in the social legitimization or moral approval approach (Noorderhaven et al., 2004).

## Empirical tests and evidence

The theories provide an analytical framework for the explanation of differences in entrepreneurship across countries and regions. In such an analytical framework explanatory factors may be identified and articulated. Among potential explanatory factors that have been tested, uncertainty avoidance (Hofstede, 2001) is a prominent one. Uncertainty avoidance is a cultural trait closely linked to attitudes of risk and uncertainty and, consequently, to the entrepreneurial propensity within a country according to the aggregate psychological traits approach. Uncertainty avoidance can be interpreted in relation to the extent which societies tolerate ambiguity?. The higher uncertainty avoidance is, the less society is inclined to be entrepreneurial. But this statement, in accordance with the aggregate psychological traits view, would lead to neglect what the expected result could be according to the dissatisfaction approach: simply the reverse! Wennekers et al. (2007) have tested the direct and indirect effects of uncertainty avoidance on a panel dataset (1976-2004) for 21 OECD countries. Results tend to support the dissatisfaction explanation, though this support seems to vanish for the more recent periods.

In spite of several scholarly contributions, research on the relations between culture and entrepreneurship is relatively new. This is particularly the case in regards to empirical research. Results are to be

interpreted with caution since measurement on the aggregate level is open for debate while the number of data points is usually low. This makes statistical testing difficult. This is frustrating given the richness of ideas about cultural influences on entrepreneurial activity. And, unfortunately, frustration appears to last for two reasons. First, cultural shifts happen but generally take a long period to emerge. Second, conceptual approaches are typically relatively autonomous and difficult to integrate in an analytical framework.

## Suggestions for the policy maker

At first sight results reported in the scholarly literature have only limited significance. This is particularly true if the intention is to help the policy maker in making decisions with the aim to nurture entrepreneurship. Indeed, promoting dissatisfaction appears hardly a feasible policy option. However, some suggestions for the policy maker emerge once the results are linked to complementary considerations and evidence. An example can be drawn by, first, listing factors according to the usual distinction between 'pull' and 'push' factors (Stanworth and Curran, 1973). 'Pull' factors make entrepreneurship (and self-employment) more attractive. For individuals, they can mean more autonomy or higher relative pay-offs by being an entrepreneur, or the opportunity to evade taxes.

'Push' factors make wage-employment and/or unemployment relatively less attractive than self-employment. Examples of push factors are uncompetitive compensation schemes, limited autonomy associated with employee status, weak social insurance benefits, or the lack of attractive alternative occupational choice. The importance of bundles of 'push' and 'pull' factors has been shown by Parker and Robson (2004) exploiting a dataset referring to 12 OECD countries for the 1972-1996 period. Considering the determinants of aggregate self-employment rates, they find a positive effect of personal income tax rates, and negative effects of employers' contributions to the employee social security system and of unemployment benefit replacement rate.

The above considerations may urge the policy makers to reconsider the incentives' structure toward entrepreneurship within the economic system, in addition to other supporting measures such as measures to improve market information, in favour of better regulation, administrative simplification and entrepreneurial education, to develop loan guarantee schemes or specific tax rules for young enterprises.

In several European Union Member States, the unemployment 'push' effect toward self-employment seems rather weak and can be explained among other factors by the social security system biased towards insuring the wage-employed in comparison with the self-employed. In the meanwhile, the 'push' effect embodied in wage-employment is limited by labour market regulation, ensuring labour

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protection rather than insurance against unemployment.

Policy effectiveness may be limited partially by cultural factors beyond the control of policy makers. Alternatively, policies to stimulate entrepreneurship in the long run may be customized towards the cultural biases present in a particular society. For instance, it may be important to emphasize the nonmaterial benefits of launching one's own firm (autonomy, creativity, etc.) rather than the economic benefits. This is generally referred to as a post-materialist attitude, yet another analytical framework to investigate the relations between culture and entrepreneurship.

Other policy implications arise by combining macro- and micro-results. Some studies have compared traits and motives of self-employed with those of wage-employed individuals. They suggest that self-employed are more focused on individual responsibility and effort, and more attached to an ethic of 'working hard' (Beugelsdijk and Noorderhaven, 2005). In accordance with the dissatisfaction approach, it follows that some individuals have a high propensity to create his/her own business. Hence, it may be wise to consider how the educational system contributes to the development of entrepreneurial abilities and skills among the population (Van der Kuip and Verheul, 2004). In this way, dissatisfaction could reveal to be an engine of economic progress rather than a cause of inertia.

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## Notes

1. A fourth theory, using the concept of postmaterialism, is not presented here. The interested reader can refer to Thurik and Dejardin (2011) for more information. Evidence of the social legitimization or moral approval approach has been collected as well, in a vast literature on institutions and entrepreneurship. For the sake of brevity, this evidence is not reported here. Please, see Freytag and Thurik, 2010.

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