

NO: 6, ISSUE: 1, 2018

Journal
of Global Politics
and Current Diplomacy

 [Center for
European Dialog
and Cultural Diplomacy]
DEDIC



Journal
of Global Politics
and Current Diplomacy

GLOBAL POLITICS AND CURRENT DIPLOMACY (JGPCD)

JGPCD is a project of the Center for European Dialogue and Cultural Diplomacy from Cluj-Napoca, Romania.

JGPCD is a biannual (June and December), peer-reviewed academic journal. The issues of the journal will include multi and interdisciplinary papers. Occasionally, individual issues may focus on a particular theme.

ISSN 2344 – 6293 ISSN–L 2344 – 6293

EDITORIAL BOARD

Editor-in-Chief:

Mihai Alexandrescu, PhD

Deputy Editor-in-Chief:

Marcela Salagean, PhD

Editors of this Issue:

Fiona Sussan, PhD

Cristina Marine, PhD

Editorial Board:

Editors: Ioana Ștefănuț, PhD

Indexing and Abstracting: Flaviu Orăștean

Design Editor: Mihai-Vlad Guță

PUBLISHER

Centrul pentru Dialog European și Diplomatie Culturală/Center for European Dialogue and Cultural Diplomacy (DEDIC)

The objectives of JGPCD are to develop, promote and coordinate research and practice in current diplomacy and its interconnection with International Relations, European studies, economy, and sociology. The JGPCD aims to help professionals working in the fields of economic diplomacy, financial diplomacy, commercial and corporate diplomacy,

intercultural studies, European Union decision-making, international communication and policy makers. The Journal aims to establish an effective channel of communication between policy-makers, diplomats, experts, government agencies, academic and research institutions and persons concerned with the complex role of diplomacy, International Relations and European Union decision-making process.

READERSHIP

The JGPCD's readership primarily consists of universities and think tanks, in particular researchers, teachers and graduate students of International Relations, together with educators and trainers on programmes in Diplomatic Studies, Cultural Diplomacy, International Relations, European Studies, and Economic Sciences. Secondly, the JGPCD is a journal for everyone with an interest or stake in first-rate and accessible articles on all aspects of diplomacy, not least the world's foreign ministries and diplomatic academies.

COPYRIGHT RULES

JGPCD will give priority to the publication of original papers which were not previously published or submitted for reviewing to other journals. Still, a new version of the original work already published, updated and improved, may be accepted if this does not raise exclusive licence matters. This issue should nevertheless be mentioned in a footnote. The DEDIC shall not be held legally responsible and shall not pay royalties in case of demands for financial compensations from third parties. In case of acceptance for publishing, JGPCD does not impose the exclusive right to publish and disseminate the paper. The article may be republished, provided the author makes reference to the first publication by JGPCD.

Content

<i>Entrepreneurial Ecosystems in Transitions: Through the Lenses of Local and Global Politics</i> Fiona SUSSAN and Cristina MARINE	5
<i>Regional Entrepreneurial Ecosystems in EU Markets: The Case of Romania</i> Cristina MARINE	17
<i>Political Parties, Municipalities Regulations, and Startups: Abenomics in Japan</i> Hideyuki NAKAGAWA, Hiroyuki SHIBUSAWA and Fiona SUSSAN	42
<i>Balancing Institutional and Agency Dominance in Entrepreneurial Ecosystems: A Conceptual Framework and A Case Study of Macao</i> Fiona SUSSAN	58
<i>On Understanding the Confluence of Recent Political Events with the Current State of Entrepreneurial Ecosystem in India</i> Subhashis NANDY	71
<i>Global Political Context in Entrepreneurial Ecosystems Building: The Case of Morocco</i> Louis DAILY and Fiona SUSSAN	84

Entrepreneurial Ecosystems in Transitions: Through the Lenses of Local and Global Politics

Fiona SUSSAN*

Cristina MARINE**

THE GLOBAL COMPETITION challenge has become a call to action for both the private and the public sector to find innovative ways to foster entrepreneurship. In this context, the concept of entrepreneurial ecosystem (EE) has become a metaphor used to foster entrepreneurship as an economic development strategy. A functioning EE will be fueled by the synergy created by leadership, governance, and institutions aimed at mobilizing capital labor and resources. Emerging and functioning entrepreneurial ecosystems alike are the result of a rather lengthy process, not necessarily structured, in which entrepreneurs take the risks of launching their ideas and make sustained efforts to disrupt the long-standing accepted norms. They are the disrupters. The 21st century confirms Schumpeter's prescient assessment that entrepreneurs are the key agents of creative destruction and provides examples showing that EEs are characterized by continued transformation and are informed by and have a direct effect on the places where they emerge. We acknowledge the substantive contribution to the still evolving understanding of entrepreneurial ecosystem development in [Isenberg's \(2010, 2014\)](#) work; [O'Connor et al. \(2018\)](#) in their research of Entrepreneurial Ecosystems: Foundations of Place-based Renewal; and input on policy development from OECD and the European Commission.

What is an Entrepreneurial Ecosystem?

In biology, an ecosystem includes diverse factors (biotic and abiotic) that function together as a unit. With its roots in biology, an entrepreneurial ecosystem consists of a number of independent stakeholders playing different roles, yet with a common focus on cooperation aimed at optimizing their own performance. EE literature suggests two alternate ontologies and challenges us to decide whether we assume the ontological perspective that an ecosystem is

* Fiona SUSSAN, School of Advanced Studies, University of Phoenix, USA, fsussan@gmail.com

** Cristina MARINE, Faculty, University of Maryland University College, MD, USA, cristina.marine@faculty.umuc.edu.

a steady condition, naturally regulated, that maintains a balance among its elements and is open to potential disruptions from the external environment. Or, a second ontological approach that assumes ecosystems are in a constant state of flux, with dynamic shifts among their diverse elements, whose survival depends on their cooperation and reaction to the external stimuli. We agree that it is this second ontological approach in biology that is appropriate for an entrepreneurial ecosystem.

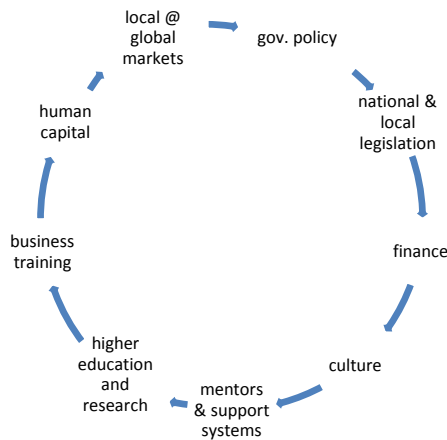
The diverse stakeholders of an entrepreneurial ecosystem have to coordinate their actions to meet their individual goals but, at the same time, they are aware that, while they are hierarchically independent, they are also interdependent. The very core of an entrepreneurial ecosystem, irrespective of its life cycle level, requires that we use a system thinking approach and identify relevant patterns in the loose organization of its actors, along with the relationships of each actor with the system. We further note that multiple uncoordinated interactions between and among the stakeholders in an entrepreneurial ecosystem may “co-produce” outputs. The entrepreneurial activity is, obviously, the first output as the result of an innovation process aimed at adding value to society; in other words, the entrepreneurial activity creates value within a social context.

Defining the entrepreneurial ecosystem also encourages us to look at some of the assumptions associated with this concept and decide which is based on fact and which is false. Isenberg challenges practitioners and researchers to take a true/false quiz and weed out the unproven myths. Of the ten entrepreneurial ecosystem related assumptions, only two can be supported with facts and evidence. These two “true” assumptions (myths) are that (1) job creation is not the primary objective of an EE and (2) the widespread challenges for entrepreneurs are access to qualified talent, multi-layered bureaucracy, and inadequate early stage capital. The other assumptions (the need for a growing number of startups, intense startup investments, the need for co-working places, intense entrepreneurial education, the negative effect of large corporations on EE, banks’ reluctance to finance startups, and the negative effect of franchises on EE) are not supported by the results of market research.

The entrepreneurs’ activity and personality will generate value by developing new products and processes needed in a social and geographical context. However, along with the entrepreneur’s personality, it is the complexity within the ecosystem that will help the entrepreneur’s venture succeed. The complexity of the entrepreneurial ecosystem is the result of the number of actors within the system and of the relationships among them. Some researchers may argue that formal institutions in the ecosystems (in the form of tangible agencies, such as laws and procedures) and informal institutions (such as values, beliefs, and culture in a given place) will facilitate

the relationships between and among the entrepreneurial ecosystem actors. The core domains of an entrepreneurial ecosystem based on Isenberg’s (2014) model will help guide our endeavor to discuss the emerging entrepreneurial ecosystems in Romania:

Figure 1 The Core Domains of an Entrepreneurial Ecosystem



Source: Adapted from Isenberg (2010); WEF (2013); Mazzarol (2014)

The global discussion on the meaning of entrepreneurial ecosystems is justified by the growing importance of fostering entrepreneurship as a key component of economic development. Entrepreneurial ecosystems evolve as dynamic communities with actors that collaborate and compete to co-create value. Mason and Brown (2013) synthesized the core elements we have discussed so far in a comprehensive definition of entrepreneurial ecosystems as

...a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, ...), institutions (universities, public sector agencies, ...) and entrepreneurial processes (...) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment. (Mason and Brown 2013: 5)

This definition includes a focus on the importance of place, the “local” environment, as noted earlier.

Entrepreneurial Ecosystems and Related Concepts

We may assume there is no need for a shared workplace for participants in an entrepreneurial ecosystem. In other words, incubators, clusters, industrial

districts, innovation systems, innovation ecosystems, and the triadic model, while sharing similarities with an entrepreneurial ecosystem also feature significant differences. This brief discussion is relevant for our research on the impact of political events on EE. Recent research work identifies key actors, key concepts, and key outcomes as critical features of these related concepts and highlight their input into the entrepreneurial ecosystem, such as networking, knowledge transfer, labor market pooling, and innovation interdependence. The main focus of industrial districts, clusters, innovation systems, and the triadic model is on the economic and social structure of the place of operation, while the innovation system's main focus is to create customer value through the independent contributions of the participating actors. The locus of action of the first group is in the private firms and state locations, and a large private firm is the main driver of an innovation ecosystem. EE observers seem to agree that startups are central to an ecosystem and embrace the idea that entrepreneurs are the core actors sustaining a functioning ecosystem.

The Relationship of Political Events and Entrepreneurial Ecosystems

Zooming out the lenses from Figure 1 and retaining the recent development of EE research, this special issue addresses the role of local and global politics in the formation of place-based entrepreneurial ecosystems. Since political happenings at both the local and global levels are not static, this issue aims to investigate the dynamic changes occurring in local or global politics that shape the development (progress, stagnation, or regress) of entrepreneurial ecosystems in any place, be it a city, a region, or a country. Major political happenings include regime change (e.g., Iran), sovereignty change (e.g., Hong Kong), war (e.g., Lebanon), social movement (e.g., the Arab Spring), new nation formation (e.g., Serbia), and many others. While happening locally, these political changes are directly or indirectly impacted by external forces beyond a nation's political decisions and control. As Figure 1 shows, research thus far in EE focuses mainly on the internal workings of a place within the boundaries of its institutions and its agents. As we know, institutions, both formal and informal, are not static. In fact, the primary antecedent relative to the dynamics of institutions and their changes are political happenings. An example that supports our positioning is the recent re-birth of entrepreneurial activities in many Eastern European countries following the collapse of the Soviet Union where communism had politicized economic life. There is a need for researchers to expand their investigation beyond static institutions to find new concepts for explaining and

understanding the influence of macro and dynamic political happenings at home and abroad in the formation of any EE.

Table 1 lists four major political events that impact EE. Beginning from the widest macro environment, global geopolitical events impact institutions and agents in any given EE. Examples are plenty. The emergence of entrepreneurial activities in many nations of Africa in recent years is not merely a result of local entrepreneurs. These entrepreneurial activities are linked to foreign aid programs and foreign policy strategies of countries such as the U.S. In other words, the growth of EE in Africa and the Middle East was not accidental or home-grown, but rather a result of global geopolitical events. The impact on institution may include local government setting up infrastructure or conducting major reforms to support EE. The impact on agents is mainly through foreign expat entrepreneurs interacting with local entrepreneurs, and, in some cases, returning migrants also play a key role in EE building.

Table 1: Political Events, Institutions, and Agents

<i>Political Events</i>	<i>Institution</i>	<i>Agents</i>
Global Geopolitical Event	Reform	Absorb knowledge spillover from expats
Regional Integration	Slow process of integration	Chase-up mindset can translate to extra effort or give up
Sovereignty Change	New constitutions, new legal systems	Political instability negatively impacts intentions, attitude, and activities
Political Parties (Change of government)	Regulations change	Enable or hinder activities depending on policies

Source: Authors' own configuration

The next level of political events is regional integration, as evidenced in EU. The impact on institutions and agents is complex. The process of institutional compliance for regional integration is long and painful. There are many advantages of regional integration in supporting EE in terms of formalizing infrastructure to enable agents' easier access to knowledge and resources, but there are also many disadvantages of regional integration to the extent that less developed countries within the region continuously fall behind. The discussion is beyond the scope of this special issue.

Another major political event is sovereignty change that will impact EE. Sovereignty changes trigger major changes in a country's system to include

constitution change and legal system change that will impact many of the tactical functions within EE infrastructure. For example, when a legal system changes, laws about property ownership and IP ownership will directly impact entrepreneurial activities. Also, sovereignty change is linked to political instability which, in turn, impacts entrepreneurial spirits to the extent that potential entrepreneurs will delay startups or delay scale-up.

The last major political event is government change. In the setting of a stable democracy, political party change in government also triggers national policy changes that will impact institutional and agency changes. A change in national policy, however, needs to be executed and implemented by local governments. The impact on agents can be positive or negative depending on national policies.

Articles in This Issue

The call for papers for this special issue has invited scholars to 1) Identify and examine the elements of local and global politics that directly and indirectly impact an entrepreneurial ecosystem. For example, how does sovereign change impact public resource allocation that, in turn, affects entrepreneurs' access to both tangible and intangible capital? 2) Explain longitudinally how these elements and the interactions of these elements make specific contributions or become obstacles to an entrepreneurial ecosystem. For example, how does regime change impact the rule of law that directly or indirectly impacts agents' capability to start, grow, or maintain a business? 3) Address the tensions between local and global politics and explain how such tensions enable/hinder entrepreneurial ecosystem development at both the institution and agent levels; 4) Compare and contrast place-based entrepreneurial ecosystems that are subject to similar political happenings. For example, how does the sovereignty 'changing hands' impact agents' entrepreneurial spirits? And, 5) Chronicle the historical impact of political happenings on the workings of institutions within an entrepreneurial ecosystem, specifically to examine the resilience of institutions and their impact on entrepreneurial agents. For example, what are some of the lasting impacts of colonialism on entrepreneurial ecosystems? We have selected five articles for in this issue that will deliver new insight into how politics enables/hinders the workings of an entrepreneurial ecosystem to include its agents, innovations, social networks, institutions, and the interactions among them.

Romania – EU Impact

The article “Regional Entrepreneurial Ecosystems in EU Markets: The Case of Romania” reviews the entrepreneurial environment in Romania. Cristina Marine’s research focuses on Romania’s diverse eight macro administrative regions and investigates the entrepreneurial activities in the Romanian market. The author reflects on features that distinguish the Romanian entrepreneurial ecosystem from the EEs in other EU markets so that she may suggest practical managerial solutions to speed up the EE development in the country’s eight macro-regions. Marine underscores the importance of Romania’s accession to the European Union in 2007, in the context of the fifth enlargement wave, and posits that the EU impact on the Romanian market has been significant, with immediate short- and long-term effects. Relying on a host of reliable sources, such as Global Entrepreneurship Monitor (GEM), the Entrepreneurship Barometer by Ernst & Young, the European Commission (EC) reports, and scholarly work providing abundant information on the uneven evolution of the entrepreneurial activities in Romania, the author notes that inherited and circumstantial conditions created challenging road blocks in Romania’s path towards a strong democracy based on a free market system. Marine opines that the political parties have not reached the maturity needed to address the challenges of a free market economy. The author looks briefly through the historic lens and argues that, despite on-going challenges, entrepreneurship is expanding its footprint in the Romanian market. The Romanian born author may be guilty of a slight bias as she makes a sustained effort to underscore the encouraging EU recorded data demonstrating the positive results of the entrepreneurs’ persistent activities. Discussing the SME growth in the Romanian market, Marine quotes the data from the EC’s Small Business Act’s most recent fact-sheets for Romania that indicate that Romanian SMEs’ value added increased by 44.6% between 2012-2016, with an 86.6% increase in value added for micro firms. The author also notes that, according to the World Bank, concerns about ineffective governance, corruption, and weak administration continue to limit the country’s competitive advantage.

Japan – Political Party Change and Its Impact on Japan’s EE

In their paper titled “Political parties, municipalities regulations, and Startups,” Nakagawa, Shibusawa, and Sussan use the political event of 2012 national election and subsequent political party change and measure its impact on EE. The authors chronicle the historical timeline of legislation related to small and medium-sized enterprises (SMEs) at the local government level, and measure their impact on startup rates. The authors begin the paper by developing a conceptual model depicting the workings from political party

change leading to policy change, trickling down to the local level, and then use multiple regression models to show the relationship among startup rates, municipalities, and regulations, over two time periods. Nakagawa and his co-authors point out that, in the wake of two decades of stagnant economic growth, the government has tried to promote a favorable entrepreneurial environment through structural reforms and expansionary macroeconomic policies. Highlighting political party dominance during two periods of time, 2009-2012 and 2012-2014, provides the necessary context to understand the impact of policies on EE under the two leading political parties. The paper underscores the positive results of the Basic Act for Promoting Small Enterprises and the Act for Assisting Small Enterprises and shows that local government entities, both prefectural and municipal, gradually realized the significance of their roles in nurturing the entrepreneurial environment. The paper records the trends in the startup rate based on the five waves of Economic Census for Business Activity since 2001 and provides a succinct discussion on the different trends in startup rate and their relations to promotion regulations supported by municipalities.

Institutional and Agency Balance in EE - Macao

In the article titled “Balancing Institutional and Agency Dominance in EE: A Conceptual Framework and a Case Study of Macao,” Fiona Sussan introduces a new lens to conceptualize the study of EE. Extending organizational stakeholder theory, the article proposes a new 2 (institutional dominance: high, low) x 2 (agency dominance: high, low) conceptual framework to depict EE that are inertia, top-down, bottom-up, and co-creation. The author then applies this new conceptual framework to track the evolution of EE in Macao for the past 50 years. Using the periodization method, the author selects critical political events and identifies them as turning points that have transformational effect on EE development. Sussan argues that the turning points in Macao’s history (1961- designating gambling monopoly, 1999 -handover from Portuguese rule to China, and 2003-ending of gambling monopoly) have a significant impact on the institutions and agents that shape Macao’s EE in those years. The 1960s and 1970s were classified under the high agency-dominance/low institution-dominance cell in the conceptual framework; the 1980s and 1990s were classified as inertia with low activities of both institutions and agents in EE; and the 2000s onwards belong to high institutional-dominance and low agency-dominance. Sussan concludes that Macao has the potential to enter co-creation EE stage in the near future, as Macao is already endowed with high institutional-dominance.

India – Political Leadership and EE

India holds a special place in the global markets: it is the largest democracy, with a population of 1.2 billion and, according to the World Bank, India boasted the world's sixth largest gross domestic product (GDP) in 2016. Subhashis Nandy's research traces the links between recent political events in India and the subsequent development of a healthy entrepreneurial ecosystems. The author builds his findings on extensive literature research with rich examples showing that the strong performances of entrepreneurial companies in the Information Technology (IT) industry that were prevalent in the southern regions have been complemented with new entrepreneurial centers in other regions of the country. The author highlights the success of entrepreneurial communities in Bangalore and Hyderabad which have benefited from institutional support, the agents' positive attitude, and culture.

Nandy underscores the positive influence on regime change in India following the election results of 2014. Narendra Modi, a successful entrepreneur himself, has also served as an effective chief minister (chief executive) of one of the most entrepreneurial and economically successful states of India and was promoted as the top leader of the BJP before the 2014 national elections. Modi was extremely popular among the electoral masses in the populated northern and central states of India. The author use data from multiple sources and include many informative tables that highlight the main business categories in which India has made significant progress in 2018, illustrate the ranking of India's states in the category of 'ease of doing business', and include a selective inventory of newly registered private companies in the top ten entrepreneurial states in India. Based on the latest positive developments in India's entrepreneurial environments, Nandy opines that the societal value toward "Entrepreneurship as a Good Career Choice" in India has increased between 2015 and 2016 as a result of national and local government support.

Morocco – Geopolitical Impact

Louis Daily and Fiona Sussan use geo-political lens to investigate the EE of the Kingdom of Morocco. The authors discuss the significance of foreign assistance as a soft policy tool in a target region or country and point out that Morocco is a good example since the US foreign policy interests have been translated in significant foreign assistance programs. The research offers an insightful background of Morocco, with a brief literature review, and analyzes the US influence on the Moroccan indigenous EE development. Daily and Sussan posit that the US efforts to influence MENA EE could fall under the dependency theory or under neo-colonialism. Morocco's foreign relations and the Kingdom's strong economic ties to the West play a part in the upsurge in

entrepreneurial activity in Morocco and generate economic and political benefits. The authors note that, as one of the 16 partner countries in the EU’s European Neighborhood Policy, Morocco is engaged in bilateral and regional cooperation. The sustained, *albeit* slow, growth of Morocco’s EE has benefited from the support of USAID’s programs and, despite excessive regulations and corruption, foreign investment has been increasing. The authors use data from Global Entrepreneurship Monitor results showing that, at the societal level, Morocco ranks 7th out of 65 countries surveyed that view entrepreneurship as a good career choice. The authors provide an extensive list of active current entrepreneurs and their firms in Morocco and highlight that Morocco is considered a *startup heaven*. The authors conclude that Morocco’s EEs are expanding and show significant growth potential.

Conclusion

The articles in this special issue provide examples of our conceptualization of how political events impact institution and agents. Daily and Sussan’s article on Morocco addresses the impact of geopolitical activities on Morocco’s EE, addressing the second row of Table 3. As there is evidence of returning migrants in Moroccan’s EE, it will be interesting to further investigate the sustainability of these returnees in continuing developing Morocco’s EE. Marine’s article on Romania addresses regional integration and its impact on institutions and agents in Romania’s EE, addressing the third row of Table 3. Sussan’s article on the sovereignty change in Macao captured the low entrepreneurial spirit when the handover of sovereignty was being negotiated. Finally, the two articles on Japan (Nakagawa, Shibusawa, and Sussan) and India (Nandy) highlighted the impact of national election results (political party change) and their impact on EE in Japan and India. Entrepreneurial activities increase in both countries with positive policy changes favoring entrepreneurship.

Table 3: Political Events and Their Impact on EE in This Issue

<i>Political Events</i>	<i>Institution</i>	<i>Agents</i>
Global Geopolitical Event (Daily and Sussan – Morocco)	Reform	Absorb knowledge spillover from expat
Regional Integration (Marine – Romania)	Slow process of integration	Chase-up mindset can translate to extra effort or give up
Sovereignty Change (Sussan – Macao)	New constitutions, new legal systems	Political instability negatively impacts intentions, attitude, and activities

Political Parties (Change of government) (Nakagawa, Shibusawa, and Sussan; Nandy)	Regulations change	Enable or hinder activities depending on policies
--	--------------------	---

Source: Authors' Own Configuration

The articles in this special issue demonstrate that political events, local or global, have significant impact on the ecosystem of institutions and agents that are engaging in entrepreneurial activities. Substantial data from a variety of sources were collected from Morocco, India, Romania, Macao, and Japan to illustrate the impact of political events on entrepreneurship. Both quantitative and qualitative methods were used to analyze the impact of political changes on EE within a shorter time window (e.g., 3 years per period in Japan) and a longer time window (e.g., 50 years in Japan). Future research should continue to investigate current political events such as Brexit, the Arab Spring and their impact on EE.

References

- Ács ZJ, Szerb L and Autio E (2016) Global Entrepreneurship Index. Available at <http://ifuturo.org/documentacion/Global-Entrepreneurship-Index-2016.pdf>. (accessed 15 August 2018)
- Autio E and Thomas DW (2013) Innovation ecosystems: Implications for innovation management. Available at <http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199694945.001.0001/oxfordhb-9780199694945-e-012>. (accessed 15 August 2018)
- Hwang H and Powell WW (2005) Institutions and entrepreneurship. In: Alvarez SA, Agarwal R Sorenson O (eds) *Handbook of Entrepreneurship Research*. International Handbook Series on Entrepreneurship 2. Springer, Boston, MA
- Iserberg D (2014) What an EE actually is. Available at <https://hbr.org/2014/what-an-entrepreneurial-ecosystem-actually-is> ((accessed 15 August 2018)
- Mack E and Mayer H (2016) The evolutionary dynamics of entrepreneurial ecosystems. *Urban Studies* 53(10) pp.2118-2133. (accessed 15 August 2018)
- Mason C and Brown R (2013) Entrepreneurial ecosystems and growth-oriented entrepreneurship. Available at <https://www.oecd.org/cfe/leed/Entrepreneurial-ecosystems.pdf> (accessed 15 August 2018)
- McKenzie B and Sud M (2009) Prolegomena to a new ecological perspective in entrepreneurship. *DigitalCommons@Fairfield*. Available at

Entrepreneurial Ecosystems in Transitions

<http://digitalcommons.fairfield.edu/business-facultypubs/86/> (accessed 15 August 2018)

O'Connor A, Stam E Sussan F and Audretsch DB (2018) Entrepreneurial ecosystems: The foundations of place-based renewal. In: O'Connor A, Stam E Sussan F and Audretsch D (eds) *Entrepreneurial Ecosystems. International Studies in Entrepreneurship* 38. Springer.

Regional Entrepreneurial Ecosystems in EU Markets: The Case of Romania

Cristina MARINE*

Abstract: Entrepreneurial ecosystem (EE) research has been mainly focused on regional country performance and seems to have missed the historical and contextual background of each region (O'Connor, Stam, Sussan, and Audretsch, 2017). To fill this gap of knowledge, I include topical information on Romania's eight macro-administrative regions to identify their longitudinal roads towards regional entrepreneurial ecosystems. I also analyze data from the Global Entrepreneurship Monitor (GEM), the Entrepreneurship Barometer by Ernst & Young, the European Commission (EC) reports, and scholarly work. This investigation traces relevant historical events in Romania with a view to adding context to a broader understanding of the entrepreneurial agents' spirit and of the institutions that enable or hinder entrepreneurship development. The paper analyzes regional data of entrepreneurial activities, regulations, financing, coordinated support, and culture. Research results have managerial implications, highlighting opportunities and challenges entrepreneurs face in Romania and informing policy makers at local, regional, and national level.

Key words: Administrative Regions, EU, European Commission, Entrepreneurship Barometer, Global Entrepreneurship Monitor (GEM)

Introduction

ENTREPRENEURIAL ACTIVITIES HAVE BEEN BOOMING in the Romanian market over the past decade. According to the [Romanian Entrepreneurship Barometer \(2015\)](#), 99.6% of the total number of active companies in Romania are small and medium size enterprises (SMEs) that

* Cristina MARINE, Professor, University of Maryland University College, MD, USA, Cristina.marine@faculty.umuc.edu

represent 44% of the total gross added value in the national economy. In Romania, a European Union (EU) country with a population below 20 million, the IT sector boasts a workforce of 64,000 (“L’*écosystème...roumanie*,” 2016). The current literature points out and comments on the sustained progress of entrepreneurship in Romania, promotes events aimed at stimulating entrepreneurial initiative, and records compare and contrast analyses of entrepreneurship in Romania and in the other EU member countries. However, researchers would need to understand what distinguishes the Romanian entrepreneurial ecosystem from the EEs in other EU markets so that they may suggest practical managerial solutions to speed up the EE development in the country’s eight macro-regions. This paper aims at filling this knowledge gap.

Romania’s eight macro administrative regions are quite diverse, with abundant *albeit* unequal resources, have both exclusive and shared decision-making competencies, and are run by regional councils that manage a multiannual budget. A brief discussion on the eight regions highlights the value of local endowments and notes the differences in fostering local entrepreneurial initiatives. Each region’s contribution to Romania’s gross domestic product (GDP) reflects the strengths and weaknesses of the business environment, with Bucharest-Ilfov (the most developed macro-region) contributing 27.3% to the national GDP and with the South-West region counting only 7.5% in the national GDP in 2017 (CNSP 2018).

Background and Literature Review

The fifth wave of the European Union (EU) enlargement (2004-2007) was considered a success. On May 1, 2004, eight former communist countries and two Mediterranean nations joined the EU, enlarging it to 25 members and creating a 450 million people market. The EU considered the enlargement process an opportunity to promote stability on the continent and to foster the integration of the Union members. The ten new member countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) were joined by Bulgaria and Romania in January 2007 (Marine, 2011). During the pre-accession period (1995-2006), Romania aligned its legislation with the EU body of law; it was during that period (July 2004) that the Parliament passed Law No. 346 on the establishment and development of small and medium size enterprises.

EU impact on the Romanian market cannot be overstated. The process of Romania’s accession to the European Union (EU) helped the country stimulate

its growth potential and gradually improve its economic performance in the 2000s and beyond. Here is a timeline of Romania's EU accession progress.

Table 1: Timetable of Romania's EU Accession

Date	Romania's EU Accession Progress
February 1993	Signing of the Agreement for Romania's Association to the European Union
February 1995	Coming into force of the EU Association Agreement
June 1995	Romania submits the official EU membership application
July 1997	The European Commission (EC) presents the Opinion on Romania's Official Application for Membership
November 1998	EC presents the first Report on Romania's progress towards the fulfillment of the accession criteria
December 1999	The European Council decides to open accession negotiations with Romania
February 2000	The start of the negotiation process of Romania's accession to the EU is officially launched at the Romania-EU Intergovernmental Conference
December 2002	The European Council in Copenhagen supports the objective of Romania's EU accession in 2007
December 2003	The European Council in Brussels establishes the schedule for Romania's EU accession
December 2004	The accession negotiations from a technical point of view conclude
April 2005	Signing in Luxemburg of the Accession Treaty to the European Union of Romania and Bulgaria
September 2006	EC issues its last Monitoring Report on Romania and Bulgaria, confirming January 1 st , 2007, as the accession date for the two countries.
January 2007	Romania joins the EU

Source: European Commission

At the beginning of the accession process (February 2000), the GDP per capita (in PPP) was six times lower than in the EU markets. The challenges of complying with the EU *acquis communautaire* produced gradually positive results. The positive trend started in 2000, with 1.8% growth and \$1,166.16 GDP per capita, and reached 6.9% GDP growth in 2007 when Romania joined the European Union and posted \$10,136.47 GDP per capita in 2008 (Eurostat, 2008). In 2016, Romania's GDP was \$187.806 billion, with a GDP/per capita of \$9,486 (World Bank 2017). Although the World Bank's forecast for GDP growth in 2018 is 5.1%, the same source anticipates a decline to 4.1% by 2020 (World Bank 2017). As of 2016, the total EU spending in Romania was € 7.360 billion

(\$8.606 billion), with 4.47% of country's gross national income (GNI) representing total EU spending in Romania (EC 2018).

The EC 2017 Report on Romania highlights the country's sustained efforts to adjust its policies to the Single Market (EC 2018: 22) and to improve the framework conditions necessary to start new businesses and stimulate skilled workforce growth and access to finance. The 2016 Barometer of Romanian Entrepreneurship conducted by Ernst & Young and Raiffeisen Bank points out the increased confidence in the business environment in Romania, while mentioning that experienced entrepreneurs argue that the main obstacles to sustained entrepreneurial activities are the instability and bureaucracy of fiscal and legal framework, obstacles to financing, and unsatisfactory entrepreneurship education. Media reports on the SMEs in Romania find that most of the enterprises established in 2016 are microenterprises, of which 29.04% are in Bucharest-Ilfov, the country's most developed macro-region. Despite sustained economic progress, results could have been much better if the ruling parties had understood the objectives of European Union integration after the 2007 accession to the trade bloc. Vasile Pușcaș, Romania's chief negotiator for EU accession, opined that, absent a coherent economic post-accession policy, during the decade following Romania's accession to the EU, the entrepreneurs themselves "strived to transform the opportunities [offered by the EU market] into the reality of a better life" (Pușcaș 2017: 2).

An Overview of the Romanian Context

In 2018, Romania celebrates the centennial of the Great Union of the provinces of Transylvania, Banat, Bessarabia, and Bucovina with the Old Kingdom of Romania. The modern Romanian state is the result of the Great Union declared on December 1, 1918. With an accelerated industrialization process in the 1920s and the 1930s (boasting a leading European oil industry), and with the modernization of its infrastructure, Romania's capitalist economy was a notable regional player in the interwar period. We look at Romania through historical lens to understand the country's successes and failures after the developments of 1989 when, with the overthrow of the communist regime, the country engaged on the uphill road of democratic transformation and economic reform.

Inherited and circumstantial conditions created challenging road blocks in Romania's path towards a strong democracy based on a free market system. The events of 1989 allowed the country to start the process of dismantling the command economy system, to liberalize economic activity, and, most importantly, to try to create a stable legal and institutional framework needed

to implement comprehensive reform programs. The rather rapid succession of moderate successes and failures was both facilitated and affected by the political cycle of power-grabbing competition among different political parties and political factions. A gradual rather than an aggressive approach to economic reform was one of the major reasons leading to sluggish macroeconomic indicators, uneven structural adjustments, porous privatizations, and poor corporate governance. Populist promises of economic growth failed to materialize; the political players, be they former communists wearing new hats or center-right coalitions, produced unsustainable economic policies.

Romania's historical political parties, the Liberal Party and the National Peasant Party, made significant but unsuccessful attempts after 1989 to regain political standing in the new environment. A crowded political scene with over 200 parties with opportunistic leaders raised huge obstacles to the implementation of coherent economic reforms. Successive governments ruled mostly by "emergency ordinances" catering to the ruling political party *du jour* and to its clientele. Between 1997 and 2000, 43% of the laws passed during that period consisted of 684 emergency ordinances (Saudet 2005). The path to democracy was fraught with intense political and, sometimes, bloody confrontations (1990) that left scarring dents in the country's social fabric. The recurrent changes in the country's formal institutions' structure and in the regulatory framework were not conducive to a smooth transition to the market economy system (Saudet 2005). In this context, the emerging entrepreneurs in the transition economy could hardly engage in reasonable planning activities. As Saudet (2005) argued in his lucid discussion on institutions, entrepreneurship, and resources, "entrepreneurship is not dependent on the resources in an economy. Rather the key is the quality of the institutions that permit the exploitation of resources and opportunities" (Saudet 2005: 12).

Notes on Romania's Economic and Business Environment

In their analysis of *Entrepreneurial Ecosystems: The Foundation of Place-based Renewal*, O'Connor et al. (2018) underscore the importance of "anchoring the point of departure" so that we may understand the dynamics of "place-based transitions and transformations" (O'Connor et al. 2018: 1). In Romania, certain aspects of the national culture and a volatile business environment may have had a strong negative impact that inhibited a steady development of sustainable entrepreneurial ecosystems. Between the two World Wars, Romania's economy became an important factor in the European and global markets as a key producer and exporter of oil, as well as an exporter of timber, coal, metals, and minerals. Romania was also a preferred East European target for foreign investors who owned over 80% of the economic

facilities before World War II (Walters 1988). While the industrial base was quite strong, agriculture was in a dismal state although over 72% of the population depended on agriculture. Small entrepreneurs in urban areas that developed in the interwar period did not bring a significant contribution to the export focused economy.

After WWII, the communist regime did not allow private ownership and, with some exceptions (cobblers, seamstresses, mountain farms), private entrepreneurial endeavors were banned. After decades of command economy, most people were quite confused with the new concepts of *entrepreneur* and *entrepreneurship*; there were no models to emulate. The value system of the country's national culture includes a strong element of "honor and shame" (similar to other nations). Neither individuals nor organizations would want to experience failure that is associated with shame. In the 1990s, the prospect of failing in activities they did not fully understand prevented the young and the not-so-young alike to start on the entrepreneurial path and hindered the development of a strong group of entrepreneurs and the gradual formation of entrepreneurial ecosystems.

The transition to dynamic entrepreneurial activities that could be gradually creating entrepreneurial ecosystems in Romania has been uneven but has produced promising results. The European Commission (2017b) announced that the European Investment Fund (EIF) signed three new agreements aimed to facilitate access to financing for around 300 Romanian SMEs and startups. The €75 m (\$87.7 m) intermediating lending to the European Investment Bank's (EIB) partner financing institutions in Romania aims at improving access of Romanian SMEs to EU financing. EIB's vice-president noted that "SMEs are the backbone of the Romanian economy when it comes to jobs and economic growth" ("[Investment Boost in Romania...](#)," 2017, para. 6). EIF's € 50 m (\$58 m) first bank loan for a Romanian commercial bank in Romania will finance innovative projects promoted by SMEs and startups (EIB, 2018). The EIF has also partnered with eight Romanian banks to provide SME initiative guarantees, thus opening financing access to over 4,000 SMEs and startups.

Foreign investors' increased interest in the Romanian market has contributed significantly to the country's economic growth. Although still at a low level compared with the other EU member countries, foreign direct investment (FDI) in Romania reached \$5.6 billion in 2016, showing a 20% increase compared with 2015. Regarding the ease of doing business, Romania ranks 36th out of 190 economies, according to World Bank's 2017 Doing Business Report. The European Bank for Reconstruction and Development (EBRD), a major investor in the Romanian market, targets diverse sectors: banking and insurance, energy, wholesale and retail, construction and telecommunications. Evidence of EBRD's confidence in the Romanian market is

the recently announced \$18.5 million loan to one of the Romanian local banks to support SME development. As of 2017, the EBRD invested over \$9.8 billion in over 415 projects in energy, financial institutions, industry, commerce, agribusiness, and infrastructure (EBRD 2018).

The European Commission (EC) uses the SME Performance Review as the main tool to assess the EU member countries' yearly progress in implementing the Small Business Act (SBA) launched in 2011. The SBA's main objective is to improve entrepreneurship in Europe, simplify the regulatory environment for SMEs, and eliminate barriers to SME development (EC 2018c). SBA's most recent fact-sheets for Romania indicate that Romanian SMEs' value added increased by 44.6% between 2012-2016, with an 86.6% increase in value added for micro firms. The 2017 report shows that, during 2012-2016, the SMEs in the information and communication sector posted a value-added increase of 65.6% and an employment growth of 12.3% (SBA Fact Sheet 2017). The accommodation and food service sector and transport and storage sector also posted significant value-added growth by 72.1% and 62.5% respectively. SME value-added in the subsector of postal and courier services grew by 80.6%. The EC report indicates a positive outlook for Romanian SMEs in non-financial sectors, anticipating a value-added growth of 16.5% for SMEs in all sectors but a modest 2.2% growth of SME employment for the same period (SBA Fact Sheet 2017).

Data

European Union reports, consultancy studies, the media, entrepreneurs, and government sources provide abundant information on the entrepreneurial activities in Romania over the past decade. This research investigates what factors have spurred the entrepreneurial initiatives in Romania's macro-regions and to what extent "the local context can have a significant impact on the entrepreneurship process" (O'Connor et al. 2018: 2).

Romania's Administrative Macro-regions

To understand contemporaneous developments (both success and failure) in Romania's evolving entrepreneurship, I review briefly the eight macro-regions, each including pockets of active or potential entrepreneurial activity: Bucharest – Ilfov, Center, North-East, North-Vest, South-East, South-Muntenia, South-West, West. Each of the eight regions includes between four to seven counties ("județe") of the 41 counties on Romania's map.

The **Bucharest-Ilfov Region**, located in the south of the country, is by far the most developed of the eight regions, with Bucharest the country's main economic, financial, and cultural center. Romania's capital offers an attractive business environment, a strong institutional network, a consolidated communication system, and abundant, highly educated skilled workforce. With strong higher education institutions and research infrastructure, over 50% of the total R&D expenditures are spent in the capital's public and private R&D institutions. In Bucharest-Ilfov, we find the largest volume of small and medium size enterprises and, according to the National Bank reports of 2016, the region attracts some 60% of the total FDI in Romania ([National Bank of Romania and INS 2016](#)). In Bucharest-Ilfov, we find diverse demographics where the local talent cooperate with a growing expatriate business community. In 2015, the GDP/per capita in this region was around \$20,792 ([INS 2016](#)). This year (2018), the GDP/per capita in the Bucharest-Ilfov region is 136% higher than the average GDP/per capita in the European Union ([Eurostat 2018](#)).

The **South-East Region** is bordered by the Danube and the Black Sea, is the second largest of the eight regions, and has international borders with the Republic of Moldova, Ukraine, and Bulgaria. Uneven local conditions have created significant discrepancies among the six South-East counties. The ethnic diversity in South-East reflects the region's history and includes Greeks, Russians, Tartars, and Turks. The region's geographic location elevates its geopolitical and geostrategic importance both for the European Union and for NATO. The Port of Constanța is the largest port on the Black Sea and the fourth largest port in Europe, an important oil transport center, and a major grain transport hub in the global wheat trade. After a significant decline in the 1990s, the South-East Region has been gradually developing its textile, wood, glass, and oil refinery industries, although sustained economic growth continues to be slow. In 2015, the GDP/per capita in this region was around \$7,537 ([INS 2016](#)).

The **South-Muntenia Region** comprises seven counties and shares the southern border with Bulgaria. The Prahova county (with Ploiești, its main city) holds a top place in Romania's industrial production, while the region's southern counties are still facing development challenges as a result of the industrial restructuring of the 1990s. The chemical and petro-chemical machinery and products, the auto industry, machinery equipment and transport devices, construction materials, the textile and food industries bring a significant contribution to the region's GDP. Although the southern part of this region accounts for 80.2% of the country's arable land, the agricultural sector does not produce to its full potential and there continues to be a significant difference between the industrialized north of the region and the less developed south. The Danube and the southern part of the Carpathian

Mountains in the South-Muntenia Region account for about 33% of Romania's touristic potential (EC 2016). In 2015, the GDP/per capita in this region was around \$7,537 (INS 2016).

The **South-West Region** (Oltenia), with six counties, boasts over 72% of Romania's hydroelectric production as it draws from the power of three major rivers: the Olt, the Jiu, and the Danube. This region shares borders with Bulgaria and Serbia, to the south and to the west respectively. Craiova is the major city in this region. Coal mine closings, the economic restructuring of the 1990s, and the economic and financial crisis of 2008 seriously affected the employment levels of the South-West, with lingering social and economic consequences. A high percentage of the urban population migrated to the rural areas to practice subsistence agriculture. This region is not a strong FDI attractor, with only 3% of the FDI inflow in 2013 (National Bank of Romania, 2014). Two industrial parks, five business incubators, and 26 research centers are encouraging factors likely to contribute to the region's gradual economic progress. Tourism has high potential for specialization featuring natural parks, mountain areas, mineral springs, and spas. In 2015, the GDP/per capita in this region was around \$6,351 (INS 2016).

The **West Region** (Banat), with four counties, shares international borders with Hungary and Serbia to the west. Since 1997, Banat is also part of the Euro-region of the Danube, the Criş, and the Tisa rivers, along with three counties in Hungary and Voivodina, an autonomous province of Serbia. Workforce concentration in urban areas that represent over 63% of the region's territory and the multicultural diversity are key factors contributing to the significant, *albeit* uneven, economic progress. In some areas, the decline of the mining, steel, machine building, and metallurgical industries in the 1990s followed by unsuccessful restructuring programs generated destabilizing social distress. However, the favorable geographic position of the region with access to the three Pan-European transport corridors crossing Romania, the local natural resources, and the skilled workforce with diverse ethnic groups of Romanian, Hungarian, German, and Serbian origin have attracted a significant volume of foreign direct investment. This region has become the second fastest growing region after Bucharest, generating some 9.2% of the national GDP, according to 2015 data (EC 2018). Favorable economic conditions have also offered growth opportunities for entrepreneurial initiatives; the number of the SMEs in the West Region represents almost 10% of the total number of SMEs in Romania (EC 2018). In 2015, the GDP/per capita in this region was around \$9,129 (INS 2016).

The **North-West Region** includes six counties covering 14.3% of the Romania's territory. This multi-ethnic region shares borders with Hungary to the West and with Ukraine to the north. Cluj-Napoca and Oradea are two of the major cities in this region. Diverse minority groups, such as Hungarians and

Germans, together with the Romanian majority, have created a dynamic labor market and a thriving economy featuring a strong Information and Communications Technologies (ITC) sector. A strong entrepreneurial sector featured over 74,000 SMEs in 2014, with a density of 25 SMEs/1,000 inhabitants. According to Eurostat (2017) data, the West Region ranks third among the eight Romanian development regions and contributes 11.4% of the national GDP. The economic recovery following the 2008 recession has been stronger in the large urban areas, while small towns have experienced rising unemployment rates. Despite a highly skilled workforce and considerable natural resources, the region has attracted only a moderate volume of FDI. In 2015, the GDP/per capita in this region was around \$7,754 (INS 2016).

The six counties of the **Center Region** cover 14.31% of Romania's territory, with significant resources of natural gas, minerals (gold, silver, non-metals, salt), mineral springs, and forests. The region benefits from a diversified economy, a well-developed transport system, and skilled workforce. The historic traditions of the region's three ethnic nationalities (Romanians, Germans, and Hungarians) have contributed to the gradual development of a strong business environment, with a focus on industrial production, trade, and services. The Center Region's entrepreneurial activities date as far back as the 15th and 16th centuries around the cities of Braşov and Sibiu, that became important economic and trade centers. Closer to our time, the growing number of startups and small and medium size enterprises has been the direct result of long-standing tradition of the multicultural population of the region. Over 58,000 SMEs are spread throughout this region, with a concentration in the Braşov, Sibiu, and Mureş counties. The 11 industrial parks and four business incubators have contributed to sustained, *albeit* uneven, economic growth. The Center Region ranked second as an FDI attractor, accounting for 9% of the FDI inflow in 2015 (National Bank of Romania 2016). In 2015, the GDP/per capita in this region was around \$8,216 (INS 2016).

The **North-East Region** comprises six counties and is home to 17.3% of Romania's population. The region shares the northern border with Ukraine and the eastern border with the Republic of Moldova. With a diversified and attractive geography, the North-East counties offer major attractions for tourism and have the highest population density after Bucharest. The region's potential has been underutilized; weak infrastructure and the constant migration of population towards more attractive zones have contributed to the uneven progress. The closings of old state enterprises in the chemical and petrochemical industries, in the light industry, machine building, and furniture have affected the whole region. Weak infrastructure, improvable public utilities, and the (surprising) decision to continue production in the *lohn* system have not allowed this region to develop its full potential. The unfavorable macroeconomic conditions seem to have provided good opportunities for

entrepreneurial initiatives; SMEs and micro-enterprises represent an important segment of the region's economy and absorbed around 79.4% of the workforce in the early 2000s (EC 2012). Iași and Suceava are the main cities in the region. The stupendous geography of the North-East Region and the eight monasteries of the 15th-16th centuries, part of UNESCO's World Heritage, offer plenty of business opportunities for tourism, crafts, and services that could be successfully provided through entrepreneurial initiatives. In 2015, the GDP/per capita in this region was around \$5,356 (INS 2016).

The Entrepreneurial Business Environment in Romania

In its Country Report on Romania, the European Commission (2017) points out the two-year upswing trend of the Romanian economy as a result of pro-cyclical fiscal policies that have spurred sustained domestic demand. Robust economic growth during 2016-2017 featured a stronger labor market and sustained wage growth. However, a widening deficit and foreseeable challenges in the banking system, along with frequent legislative changes may affect the country's financial stability in the near future, according to the European Commission (2017).

The World Bank underscores the direct strong link between political events in Romania and developments in the country's economy and mentions the government change in January 2018 when the governing coalition of the Social Democratic Party and the Liberal-Democratic Alliance (ALDE) appointed a new government to replace the previous seven-month cabinet. The new government's program seems focused on facilitating improved absorption of EU funds, on the pension system reform, and on tax reform; effective implementation of such programs has yet to materialize. The World Bank acknowledges the improvements of the macro-fiscal imbalances since 2008 but it, nevertheless, underscores the challenges of removing the structural obstacles to the economy. Concerns about ineffective governance, corruption, and weak administration continue to limit the country's competitive advantage (World Bank 2018).

Diverse sources underscore the strengths of Romania's emerging entrepreneurial activities such as specialized workforce, superior IT resources, improved perception of entrepreneurial initiatives, and a wide network of support organizations. Eurostat data have been consistently favorable highlighting positive trends in the Romanian business environment since 2010, although the country's economy has not fully recovered from the decade old global crisis. While, according to EC (2016), new enterprise formation accelerated (450,000 SMEs as of 2015), the survival rate of these new ventures has been volatile. According to European Commission data, survival rates of new enterprises peaked in 2011 only to decline abruptly in 2013. During 2014-

2016, the number of the small and medium size enterprises increased by 6 percent and added over 190,000 jobs, according to Eurostat.

Increased entrepreneurial activity has been stimulated by positive, although still timid, macroeconomic indicators. According to Eurostat data, in 2017, Romania posted the highest GDP growth among the EU countries, at 6.9%. Industrial production increased to 3.8 in December 2017 from -0.3 in January 2017; the unemployment rate declined to 4.6 in December 2017 from 5.2 in January 2017; GDP peaked at 2.4 in the second quarter of 2017, but it dropped to 0.6 in the third quarter of 2017, matching the GDP growth of the European Union for the same period (Eurostat 2017).

According to GEM's most recent data (2015), Romania has improved its rates on self-perceptions, entrepreneurial activity motivations, and impact, although they are still below the regional average. Fear of failure rate continued to be high in 2015 at 40.49, compared with the global average of 35.67 and the regional average of 39.12 (GEM 2015/2016). The high job creation expectation rate was at 39.80, compared with the regional average of 20.70 and the global average of 20.11 (GEM 2015/2016).

Increased investors' interest in Romania's entrepreneurs is also a measure of gradual success. In the first two quarters of 2017, investment in Romanian startups was three times higher than in the same period of 2016, increasing from \$13.5 million to \$47.3 million (Ceobanu 2017). The EC reports indicate that, in 2015, total investment in Romania reached 24.8% of GDP, above the EU average of 19.7%. However, the Commission is cautious in its assessment and notes that public investment continues to be hindered by management deficiencies, changing policies, and chronic difficulties in absorbing EU funds (EC 2016). The dynamics of the entrepreneurial activity is likely to morph into strong entrepreneurial ecosystems centered in the most developed urban hubs.

Entrepreneurial Legislation

In the uphill transition period from the post-WWII command economy to the free market economy that started in 1990, the reform of the legislative system has been a challenging and elusive goal. Successive Romanian administrations strived to promote, implement, and monitor effective legislative initiatives for startups, and small and medium size enterprises. After a series of public institutions tasked with creating an even playing field for SME development in Romania, we find now the Ministry for the Business Environment, Trade, and Entrepreneurship in charge of implementing SME legislation, together with the Agency for the Implementation of the Projects and Programs for Small and Medium Size Enterprises. During 2004 -2017, at least seven pieces of legislation and emergency ordinances targeted diverse

objectives, such as to encourage the establishment and development of small and medium size enterprises; to encourage the establishment of new small and medium size enterprises; and to implement the Swiss-Romanian cooperation program (AIPPIMM 2017).

At the national level, starting with the Law No. 346 of 2004 on establishing small and medium size enterprises to the 2017 Law No. 112 on Emergency Decision to Foster the Establishment of New Small and Medium Size Enterprises, and the activity of the Department for the Business Environment, Trade and Entrepreneurship, we see sustained effort to support entrepreneurial initiatives. Startup Nation, a government program launched in 2017, provides startups \$5,300 grants (in domestic currency) and plans to finance 10,000 startups annually. The program anticipates these startups will create 100,000 jobs in the next four years and the government will be able to recuperate 30% of the program cost through taxes.

These legislative acts / programs are complemented with wordy rules, regulations, and amendments that create a somewhat blurry environment likely to confuse rather than stimulate dynamic entrepreneurial activities. Low administrative capacity, fragmentation, frequent legislative, staff and institutional changes, lack of human resources with adequate expertise have hindered the smooth effective implementation of most legislative initiatives (Rio Country Report 2016).

Romanian entrepreneurs also align with the Small Business Act for Europe of 2011 and comply with all the conditionalities associated with European Union funding. The Entrepreneurship 2020 Action Plan's main objective is to remove obstacles to dynamic entrepreneurial activities and to improve the entrepreneurial culture throughout the EU. An SME envoy appointed by the national government is responsible for the implementation of the action plan (EC 2018).

What has been the Romanian entrepreneurs' response the challenging legislative framework? According to EY Entrepreneurship Barometer of 2015, 49% of the 386 entrepreneurs surveyed think that fiscal unpredictability, the confusing maize of legislation and regulations governing taxes create the most significant obstacles for the entrepreneurs who want to start and grow a private business in Romania (EY 2015). The same percentage applies when entrepreneurs critique the deteriorating fiscal policy, while 45% of the entrepreneurs anticipate that lower taxes and improved fiscal facilitates will have a strong positive impact on entrepreneurial activity (EY, 2015). Romanian entrepreneurs agree that lack of fiscal predictability, lack of qualified human resources, the local and national administrations' perceived lack of interest for entrepreneurs, and a lack of entrepreneurial vision in public policies continue to create significant hurdles. In this context, according to the EY Barometer (2015), 65% of the Romanian entrepreneurs opine that improved tax

regulations and bureaucracy streamlining will have the strongest positive impact on the entrepreneurial environment in Romania. Romanian entrepreneurs ask for lower VAT levels, an improved tax collection system, fiscal facilities for startups, a stable fiscal code, a simplification of SME accounting rules, a reduction of number of fiscal audits, an effective entrepreneurship law, coherent normative acts, and a functioning e-government system.

Most entrepreneurs (37%) have gained confidence in the coordinated support offered by local and foreign entrepreneurial organizations, such as entrepreneurial clubs and associations, and entrepreneurial networks. With the notable exception of the IT sector, entrepreneurial ecosystems are still in the early development stage; most entrepreneurs speak about the strong nation-wide entrepreneurial support of business incubators and accelerators present in all the administrative macro-regions ([Barometer 2017](#)). As the EU markets recovered from the 2008 global recession, most member states saw SME value added increase; the 5% increase in Romania in 2014 was higher than the EU average. However, only 3% of Romania's startups and scale-ups were high growth firms during 2016-2017, compared with the 9.2% average of the EU-28 business economy ([EC 2017](#)). According to Eurostat data ([2017](#)), only the ITC sector accounts consistently for increased enterprise births in Romania.

Financing Entrepreneurial Activities

A considerable percentage of Romania's entrepreneurs (82%) consider access to finance a difficult or a very difficult process. Government programs, European Union financing through programs such as Horizon 2020, COSME, Creative Europe, Erasmus, Social Change and Innovation, the European Structural and Investment Funds are some of the financing sources, along with EBRD and EIB noted earlier. In 2015, the Bucharest Stock Exchange established AeRO, a special exchange aimed at financing startups and SMEs. Crowd-financing, angel investors, and microfinance are financing options for entrepreneurs with limited access to traditional bank services. However, although entrepreneurs have the possibility to use quite a strong funding ecosystem, access to finance continues to be a problem.

European Union provides financing for SME initiatives in all sectors of activity ([EU Finance 2018](#)). While the share of micro-enterprises is 5.1% lower than the EU average, the share of small and medium size enterprises is above the EU average by 4.2% and 0.8% respectively (EC, 2016). Although in 2015 the SME sector provided 67.5% of employment in the private sector and accounted for 50% of the value added, the SME contribution was 7% below the EU average (EC, 2016). However, GEM's job creation projections include Romania

among the countries with the highest rates of medium-to-high growth entrepreneurs (GEM 2015/2016).

According to the Romanian Executive Agency for Higher Education, Research, Development and Innovation Funding (UEFISCDI), most funds do not cover all the stages of the innovation process of a startup. High cost of debt financing and collateral guarantees are also significant obstacles quite difficult to overcome. Romanian bankers note that local banks will make individual assessments and decide to support only projects with “reasonable existing or future cash flow” (Oțel, personal communication May 2017). Since it takes 2-3 years for startups to show sustainable cash flow, access of startups to bank financing is lower than mature companies’ access. Entrepreneurs themselves seem to share part of the blame; they are reluctant to provide collaterals or to comply with bank conditions related to future financial indicators. EC reports indicate that, in 2016, over 71% of SMEs were financing their activities from their own sources and 81% of the surveyed companies had no plans to access European Structural Funds given the low rate of success in obtaining funding approval (EC 2016).

Crowd-financing has also become an attractive financing source. The Startarium platform launched a crowdfunding feature inviting ecosystem builders (ImpactHub) and financial corporations (ING Bank) to join efforts to stimulate entrepreneurship (Ceobanu, 2017). Local and foreign investors are now attracted to the Romanian opportunities. Catalyst Romania, Gecad Ventures, and 3TS Capital Partners are just some of the equity investors that stimulate a new wave of startups entering the fintech, healthcare, agritech, consumer apps, big data, HR, and artificial intelligence industries (Ceobanu 2017).

Analysis

The significant discrepancies between the GDP/per capita of the Bucharest-Ilfov region and most of the other seven administrative regions, as well as among the regions themselves, speak for significant imbalances at the national level, and about the gradual formation of stronger economic centers in the west of the country. While Bucharest’s GDP/per capita is higher than the rest of the country, the North-East regional is one of the least developed regions in the European Union. Even a cursory review of the eight regions show quite an unequal access to infrastructure (be it transport, education, or health) that becomes a major obstacle to the potential development of that region and to the emergence of entrepreneurial initiatives.

Analyses and reports focus mainly on countries/regions with already established EEs and less attention is given to countries like Romania, where ecosystems are still in the developing stage. Romania's entrepreneurial activity concentrates in large urban areas (Bucharest, Brasov, Cluj-Napoca, Constanta, Sibiu, Iași, Oradea, Târgu Mureș, and Timișoara) in the eight administrative regions. A 2014 Forbes report spoke about Europe's hidden entrepreneurial hotbed and highlighted the Romania's "wealth of technical talent" (Coleman 2014, para. 6). However, when we attempt to apply the definition of entrepreneurial ecosystems, we have a hard time identifying sustained activities across most of the regions that meet the entrepreneurial ecosystem criteria. We do find, however, numerous examples of related concepts, such as incubators, clusters, hubs, and business accelerator centers. Diverse sources underscore some of the strengths of Romania's entrepreneurial activities such as specialized workforce, superior IT resources, improved perception of entrepreneurial initiatives, and a wide network of support organizations.

The 2017 EY Barometer of Romania's startups describes the Romanian entrepreneur as young and enthusiastic, willing to work hard, and to assume risks to reach the company's goals. Over 78% of the respondents started their business with personal funds and almost 30% are seeking more efficient financing from public sources. Most of the young entrepreneurs feel that failure is penalized by society and think that taxes and regulations, along with the activity of the public institutions have the strongest impact on the entrepreneurship development in Romania. The list of obstacles to successful activities features prominently insufficient entrepreneurial education and access to finance. The young entrepreneurs feel that mentorships and constant interaction with experienced practitioners will add value to their activity. Over the past decade, Romania's entrepreneurs have developed an improved attitude towards entrepreneurial activities, have enhanced their abilities to manage their companies, and have set high bars for successful business aspirations (EY Barometer 2017).

Despite these positive attitudes, abilities, and aspirations, my endeavor to identify major entrepreneurial ecosystems in Romania's eight administrative regions has not produced the expected results. The 2016 EC's Background Report on Romania provides insight into some of the entrepreneurial environment weaknesses that are deemed to be significant obstacles to the creation of ecosystems: (1) low birth rate of new firms; (2) low survival rate of startups in the employer category; with higher survival rate only in individual entrepreneur's sector (to over 80% from 40%); (3) low innovation performance that deteriorated from 50% of the EU average to 34.4% in 2015; (4) low level of high-growth enterprises (the 24th place among EU member countries) (EC 2016).

The strengths of Romania's entrepreneurial environment, as highlighted by the European Innovation Scoreboard, the World Economic Forum Competitiveness Report, and by the World Bank Doing Business could offset the weaknesses and move the entrepreneurial activities in the right direction. Youth and upper-secondary education, exports of medium and high-tech products, growing employment in high-tech companies and the 53rd position in the list of efficiency driven economies are strong points. These positive signals are completed with the data in the 2016 Startup Nation Scoreboard that ranks Romania on the first place for skills and education, on the second place for institutional framework, and on the fifth place for access to talent.

Discussion

This incomplete analysis raises several intriguing questions. Are there major structural dysfunctions that have created strong obstacles to a sustainable development of entrepreneurial ecosystems in Romania over the past three decades? Has the national legislation created bureaucratic obstacles that delayed timely progress? Should local administrations have provided incentives and sustained support for entrepreneurial initiatives in the lagging macro-regions? Schillo et al. (2016) underscored "the importance of institutional conditions in fostering entrepreneurship" (2016: 619) and discussed the significance of developing the concept of entrepreneurial readiness by considering the symbiotic relationship among the entrepreneur's skills, fear of failure, social connectedness, and opportunity perception (2016: 619).

According to the survey "The Barometer of Digitization 2018," (Badea: 2018), 59% of the companies in Romania concede that lack of "knowledge and expertise for top managers to assess and develop a model digital business" (para. 1) is a major obstacle to digital transformation of companies, and, in consequence, to improved business performance. Proactive local administrations in Romania (in the eight macro-regions), along with entrepreneurship associations, and NGOs, could become the conduit facilitating knowledge transfer from the companies that have built their business strategy on digitalization to those organizations that are either unaware of the digitalization business benefits or are facing financial constraints. Some of the companies that participated in Innoteque 2106 could take the lead and, building on the EC Support in Lagging Regions (2018), reach out to the North-East region in Romania, assess the local conditions, and develop practical tools to improve the local companies' performance.

Local and national decision makers need to pay attention to the entrepreneurs' input. Support for a more active business environment to increase pressure on the political scene to support entrepreneurship and stimulate initiatives, creating an interactive platform to share success stories, failures, and lessons learned, and facilitating competition are just some of the entrepreneurs' opinions recorded in EY's *The Entrepreneurs' Book* (2015). Isenberg (2011) discussed the six general domains of the entrepreneurship ecosystem: "conducive culture, enabling policies, and leadership, availability of appropriate finance, quality human capital, venture-friendly markets for products, and a range of institutional and infrastructural supports" (Isenberg 2011: para. 2). Practitioners and official decision makers in Romania need to embrace the idea that each entrepreneurship ecosystem is unique (Isenberg: 2011) and use the six general domains as a blueprint to foster local entrepreneurial activities.

Conclusions and Recommendations

Our endeavor to understand the evolution of Romania's entrepreneurial environment has identified positive and negative trends recorded by the Global Entrepreneurship Monitor, Eurostat, European Commission, Eurostat, the World Bank, and a host of local and European sources. The national legislation, with subsequent amendments, seems to have constantly supported and encouraged the entrepreneurial initiatives. Emergency ordinances proclaim the importance of "establishing, organizing, and empowering agencies for small and medium size enterprises to stimulate investment and promote exports" ("*Ordonanța de urgență nr. 43/2017...*" , 2017: para. 1). However, entrepreneurs note the continued challenges to effective implementation.

The European Union Small Business Act of 2008, as reviewed in 2011, emphasized the need for the EU member states to intensify their efforts to promote entrepreneurship and support entrepreneurial initiatives. The Action Plan for the Development of Entrepreneurship in the EU in 2020 aims at boosting entrepreneurship in all EU member countries. OECD and Eurostat produced the Entrepreneurship Indicators Programme aimed at developing complex measurements of entrepreneurship. Financing for startups and SMEs continues to be challenging and is considered a major obstacle to sustained entrepreneurial activities. An EC report indicates that, according to an EU-wide survey published in late 2016, access to finance is the most important concern for 9% of EU SMEs (EC 2017). This percentage is much higher in Romania, where, according to the *EY Entrepreneurship Barometer* (2015), 88% of entrepreneurs indicate that access to funding is difficult or very difficult; still,

the EC indicates in its 2016 Background Report on Romania that, with a score of 6.1 (on a scale of 1 to 10), “access to finance is not considered the most important problem facing Romanian SMEs” (EY 2015: 18). The EC report points out that an increasing number of Romanian institutions and organizations, along with banking sources, crowdfunding, VC funds, private equity, and European funds are viable financing sources. However, since these sources will not cover all the stages in the startup development, and debt financing is expensive and requires significant collateral guarantees, access to financing does remain a significant obstacle.

Culture, mentors, and support systems play a critical role toward creating and consolidating successful entrepreneurial ecosystems. The successful example in the IT&C sector could be gradually replicated in some of the industries of the administrative regions. We note significant positive developments: widespread improved perception of entrepreneurial activities, the growing number of SME success stories, promising partnerships between large companies and local entrepreneurs (see Orange and Innovation Labs project), yearly entrepreneurship events, mentorship programs, and the sustained involvement of universities in entrepreneurial education.

To see how these positive developments could create a significant momentum for entrepreneurial ecosystems throughout Romania, we recall O’Connor et al. (2017) focus on the importance of place in entrepreneurial activities. How could local authorities, NGOs, entrepreneurial associations, and financing sources work together to develop a competitive advantage culture and improve on the data published in the Global Competitiveness Index (see Figure 2 below)? Rather than trying to imitate existing models, the subdivisions of the macro-regions (or of any other administrative structure) need to promote and support value creation at the local level. When taxes and administrative barriers create challenges for the entrepreneurial activities, the local decision makers could promote incentives to offset these barriers. A sustained focus on the World Economic Forum’s (WEF) basic requirements, efficiency enhancers, and the innovation and sophistication factors could gradually create a stimulating entrepreneurial environment that will improve Romania’s national ranks and scores.

Table 2 Romania and WEF’s The Global Competitive Index 2017-2018 Rankings

	Romania		
		Rank	Score [(1-7)]
Basic requirements		72	4.57
	Institutions	86	3.70
	Infrastructure	83	3.82
	Macroeconomic	38	5.25

	environment		
	Health and education	92	5.49
Efficiency enhancers		58	4.28
	Higher education and training	70	4.41
	Goods market efficiency	92	4.14
	Labor market efficiency	89	3.97
	Financial market development	88	3.74
	Technological readiness	51	4.78
	Market size	41	4.61
Innovation and sophistication factors		107	3.28
	Business sophistication	116	3.47
	Innovation	96	3.08

Source: www.wef.org

Local coherent efforts should enhance the measures taken at the national level to improve the physical infrastructure, to stimulate investments and create incentive packages for local and foreign investors, to ensure fiscal reform coherence (AmCham Romania 2018), to take advantage of local opportunities and encourage innovation, and to engage local entrepreneurs in the process of developing entrepreneurial policy. Initiatives to balance the map of business incubators and accelerators through the eight macro-regions will have a significant positive impact on entrepreneurship. At the local level, in six regions, the county authorities, along with profit and non-profit organizations, should learn from the experience of the 15 incubators/accelerators in Bucharest and the nine accelerators in Cluj-Napoca. The accelerators' stimulating business environment will also address the fear of failure that is still a strong obstacle to developing entrepreneurial initiatives, with 26 % of the respondents in the EY 2017 Startups Barometer indicating that business failure is perceived as a career failure difficult to recover from (EY 2017).

Harvesting the lessons learned and opinions formulated at annual events will create a rich database of actionable recommendations. Innoteque 2016 focused on the IT&C sector but their substantive recommendations could be adapted to apply to other industries. The practitioners gathered in Cluj-Napoca suggested it is necessary to develop a national platform aggregating public data for current and past projects, to stimulate a political consensus on a long-term vision for innovation-based entrepreneurship in Romania, to create a central simplified flexible funding structure, to strengthen

multidisciplinary cooperation through public-private partnerships, and to create a streamlined process for long-term integration of foreign researchers in public and private facilities (Innoteque 2016). Equally important are initiatives to nurture a failure-is-part-of-the-process entrepreneurial mentality, to create a framework for increasing technology transfers from research institutes and universities to the market, and to increase awareness of IP regulations at national, European, and international level (Innoteque 2016).

Both the public and the private sector need to pool resources and human capital to develop microfinance services for startups so that these services may have a direct economic and social impact. Entrepreneurs themselves need to develop the awareness that, to be funded, they have to accept the financing source conditionalities. GEM (2015) includes Romania, an efficiency-driven country, in the cluster of high-ambition economies, along with China, Japan, Israel, and the US. Romania's entrepreneurs and policy makers need to raise awareness of the important growth and job creation role of entrepreneurs and should stimulate cross-border cooperation of startup ecosystems in the EU to benefit from their neighbors' experience. Building on the improved perception of entrepreneurship, acknowledging success at national and local level, encouraging creative experimentation, and designing policies to build and consolidate an entrepreneurial culture will further contribute to developing sustainable entrepreneurial ecosystems in Romania's industries.

References

Ács ZJ, Szerb L and Autio E (2016) Global Entrepreneurship Index. Available at: <http://ifuturo.org/documentacion/Global-Entrepreneurship-Index-2016.pdf> (accessed 10 August 2018)

AmCham Romania (2016) Competitiveness report. Available at: <https://www.amcham.ro/> (accessed 30 July 2018)

Aparicio S, Urbano D and Audretsch DB (April 2015) Institutional factors, opportunity entrepreneurship and economic growth: Panel data evidence. *Technological Forecasting and Social Change* DOI: 10.1016/j.techfore.2015.04.006 (accessed 30 June 2018)

Aspen Network of Development Entrepreneurs (December 2013) Entrepreneurial ecosystem diagnostic toolkit. Available at:

<https://www.aspeninstitute.org/publications/entrepreneurial-ecosystem-diagnostic-toolkit/> (accessed 30 July 2018)

Autio E and Thomas L (2013) Emergent equifinality: An empirical analysis of ecosystem creation processes. 35th DRUID Celebration Conference 2013, Barcelona, Spain, June 17-19. Available at: https://www.researchgate.net/profile/Llewellyn_Thomas/publication/282122941_Emergent_equifinality_An_empirical_analysis_of_ecosystem_emergence_processes/links/5603b5c708ae596d2591fc2e.pdf (accessed 30 August 2018)

Badea E (2018) The barometer of digitalization 2018. Valoria. Available at: <https://www.slideshare.net/ElenaBadea8/survey-by-valoria-the-barometer-of-digitalization-2018-selection> (accessed 15 August 2018)

Biz Braşov (14 Feb 2018) Coca-cola vrea să facă antreprenori la Braşov şi oferă educaţie financiară. Available at: <http://www.bizbrasov.ro/2018/02/14/coca-cola-vrea-sa-faca-antreprenori-la-brasov-si-ofera-educatie-financiara/> (accessed 30 July 2018)

Ceobanu BL (Aug 28, 2017) 2017 is the best year yet for Romanian tech. Thinkgrowth.org. Available at: <https://thinkgrowth.org/2017-is-the-best-year-yet-for-romanian-tech-8fcc28a21f4> (accessed 30 July 2018)

Ceobanu B L (Mar 9, 2017) The startup scene in Romania. Available at: <https://medium.com/@studios/the-startup-scene-in-romania-11-3m-raised-72m-in-exits-in-2016-alone-1c9872bf9512> (accessed 30 July 2018)

Clark D, McKneown T and Battisti M (Eds) (2006) *Rhetoric and reality: Building vibrant and sustainable entrepreneurial ecosystems (TUP Research)*. SEANZ Research Book Series. Prahran, Australia: Tilde Publishing and Distribution

Coleman A (2014) Lessons in entrepreneurship. *Forbes* Available at: <https://www.forbes.com/sites/alisoncoleman/2014/08/17/lessons-in-entrepreneurship-think-globally-use-your-own-cash-and-learn-by-doing/#480b5ee1329a> (accessed 4 August 2018)

Comisia Naţională de Strategie şi Prognoză (CNSP) (2018) Convergenţa reală. Available at: http://www.cnp.ro/user/repository/ConsiliulProgramareEconomica/convergenta_real_a.pdf (accessed 20 August 2018)

EBRD (2015) Strategy for Romania. Available at: <http://www.ebrd.com/news/2015/ebrds-new-strategy-for-romania-sets-out-investment-priorities-.html> (accessed 30 August 2018)

Ernst & Young (2016) Cartea antreprenorilor. Available at: <https://www.slideshare.net/GabrielaStreza/ey-carte-antreprenorilor-2016> (accessed 30 July 2018)

Ernst & Young (2017) Barometrul startupurilor din Romania. Available at: <https://www.slideshare.net/adriangeorgescu4/ey-barometrul-startupurilor-din-romania> (accessed 30 July 2018)

European Commission (2016a) The Romanian entrepreneurial ecosystem. Background report. Available at: <https://rio.jrc.ec.europa.eu/en/library/romanian-entrepreneurial-ecosystem-background-report> (accessed 30 June 2018)

European Commission (2017b) Investment boost in Romania; circular economy project under Juncker plan, three agreements under SME initiative. Available at: https://ec.europa.eu/commission/news/investment-boost-romania-circular-economy-project-under-juncker-plan-three-agreements-under-sme-initiative-2017-oct-19_en (accessed 30 July 2018)

European Commission (2018c) Annual report- EU SMEs 2016-2017. Available at: https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed 30 July 2018)

European Innovation Scoreboard (2017) Available at: https://www.rvo.nl/sites/default/files/2017/06/European_Innovation_Scoreboard_2017.pdf (accessed 30 July 2018)

European Investment Bank (2017) Romania implements SME initiative: Eur 540 million available for SMEs. Available at: <http://www.eib.org/infocentre/press/releases/all/2017/2017-158-romania-implements-sme-initiative-eur-540-million-available-for-smes.htm> (accessed 30 August 2018)

Eurostat (2017) Economic forecast Romania. Available at: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/romania/economic-forecast-romania_en (accessed 10 August 2018)

FACE Entrepreneurship (2016) L'écosystème entrepreneurial en roumanie. Available at: <http://www.face-entrepreneurship.eu/fr/blog/articulos/l-ecosysteme-entrepreneurial-en-roumanie> (accessed 19 August 2018)

Innoteque (2016) Innoteque Report – 2016. Available at: <http://innoteque.com/wp-content/uploads/2016/12/Whitepaper-Innoteque-2016.pdf> (accessed 10 August 2018)

Marine C (2011) *European Union enlargement and the redefining of Transatlanticism*. EIKON: Cluj-Napoca, Romania

Mediafax (Nov 2016). Fostul negociator șef al României cu UE, Vasile Pușcaș: Am aderat, dar nu ne-am integrat. *Ziarul Financiar Romania*. Available at: <http://www.zf.ro/politica/fostul-negociator-sef-al-romaniei-cu-ue-vasile-puscas-am-aderat-dar-nu-ne-am-integrat-16002442> (accessed 10 August 2018)

National Institute of Statistics (INS) (2016) Romanian Statistical Review Available at: <http://www.revistadestatistica.ro/index.php/romanian-statistical-review-12016/> (accessed 19 August 2018)

O'Connor A, Stam E, Sussan F and Audrestsch D (Eds.) (2018) *Entrepreneurial ecosystems: Place-based transformations and transitions*. New York: Springer

Ro Insider (26 Jan 2018) Accelerated growth: Where start-ups in Romania go to develop. Available at: <https://www.romania-insider.com/accelerators-incubators-romania-2018/> (accessed 10 August 2018)

Saudet F (February 2005) The role of institutions in entrepreneurship: Implications for development policy. *Mercatus Policy Primer No. 1*. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1264033 (accessed 10 August 2018)

SeeNews (n.d.) GapMinder to finance Romanian tech start-ups with 26 mln euro. Available at: <https://seenews.com/news/gapminder-to-finance-romanian-tech-start-ups-with-26-mln-euro-599063> (accessed 18 August 2018)

Schillo RS, Persaud A and Jin M (2016) Entrepreneurial readiness in the context of national systems of entrepreneurship. pp. 619-636. Available at: DOI: 10.1007/s11187-016-9709-x (accessed 10 August 2018)

Schumpeter JA (1989) *Essays: on entrepreneurs, innovations, business cycles, and the evolution of capitalism*. New Brunswick, NJ:Transaction Publishers

Waddell N (Sep. 26, 2017) Romania emerges as one of Europe's most promising startup hubs. Available at: <https://150sec.com/romania-startup-europe/> (accessed 10 August 2018)

Walters EG (1988) *The other Europe: Eastern Europe to 1945*. Syracuse: Syracuse University Press. Available at: <http://www.foreignaffairs.com/reviews> (accessed 10 August 2018)

World Bank (2017) Economy rankings. Available at: http://www.doingbusiness.org/rankings?lien_externe_oui=Continue (accessed 30 August 2018)

World Bank (2018) From uneven growth to inclusive development: Romania's path to Shared prosperity. Available at:

<https://openknowledge.worldbank.org/handle/10986/29864> (accessed 10 August 2018)

World Economic Forum (2016) Europe's hidden entrepreneurs. Available at: http://www3.weforum.org/docs/WEF_Entrepreneurship_in_Europe.pdf (accessed 10 August 2018)

Political Parties, Municipalities Regulations, and Startups: Abenomics in Japan

Hideyuki NAKAGAWA*
Hiroyuki SHIBUSAWA**
Fiona SUSSAN***

Abstract: *Research on entrepreneurial ecosystems (EE) needs to be more contextual; the change of political party dominance is one such contextual situation. Political party dominance impacts national policies that directly influence the actions of regional and local government. Using Abe’s win in Japan’s December 2012 election as the main political event, this paper investigates the relationship between local regulations and entrepreneurial activities and proposes that Abenomics is more favorable to EE. Specifically, startup rates for more than 1900 municipalities for two time periods, 2009 to 2012, and 2012 to 2014, were collected alongside with data from each municipality passing a promotional regulation for small and medium-sized enterprises (SMEs). Multiple regression results support the hypothesis that the Abenomics period (2012–2014) experienced better EE. The findings of this study shed light on the relationship between political party dominance and EE.*

Key Words: *Entrepreneurial ecosystem, election, municipal government, regulations, Japan.*

Introduction

THE ADVENT OF THE DIGITAL ECONOMY and the rise of “unicorns” has put Japan in a peculiar position as Japan has not produced many unicorns per se. Unicorns are often viewed by practitioners and industry experts as trendy indicators to measure the pulse of entrepreneurship. In 2016, there were 174 unicorns, with the US claiming 96, China 37, India 8, the UK 7, and Germany 4 while Switzerland, Indonesia, Japan, Nigeria, and the UAE each gave

* Hideyuki NAKAGAWA, Akita International University, Yuwa, Akita-city 010-1292, Japan, hnakagawa@aiu.ac.jp

** Hiroyuki SHIBUSAWA, Toyohashi University of Technology, 1-1 Hibarigaoka, Tempaku-cho, Toyohashi, Aichi, 441-8580, Japan, hiro-shibu@tut.jp

*** Fiona SUSSAN, Corresponding author: School of Advanced Studies, University of Phoenix, USA, fsussan@gmail.com

birth to their first unicorn (CB Insights, 2016). One argument for why Japan did not have as many unicorns is that companies in Japan tend to go to initial private offer (IPO) before they reach \$1 billion in value, the *de facto* value of a unicorn. In other words, Japanese startups or scaleups tend to go public before their value reaches one billion dollars.

Although it is debatable why Japanese startups do not choose to be unicorns from a global perspective, it is obvious that Japan has its own unique institutional practice; thus, the study of entrepreneurial ecosystems (EE) in Japan needs a contextual approach. This paper examines the impact of a new government on EE. Specifically, in Japan, the dominant political party, the Liberal Democratic Party of Japan (LDP), ruled for more than 50 years, from 1955 to 2009 (except 1993–1994). In 2009, the Democratic Party of Japan (DPJ) ruled for three years and, by the end of December 2012, LDP's Abe returned to power.

This paper begins with a brief background of EE, followed by an overview of Japan's EE. Next, the political event of 2012 and subsequent political party change is described, together with the historical timeline of legislation related to small and medium-sized enterprises (SMEs) at the local government level. A conceptual model follows, depicting the workings from political party change leading to policy change trickling down to the local level. Data from Japanese sources on startup rates and legislation in more than 1,900 municipalities are collected for two periods: 2009 to 2012 and 2012 to 2014. Multiple regression models are used to show the relationship among startup rates, municipalities, regulations, and the two time periods. Results are reported, with discussions followed by a conclusion with managerial implications.

Background Literature

Research on the role of geography and institutions is an important agenda for economic development (Acemoglu et al. 2001; Acemoglu et al. 2002). Institutions and geography affect the speed of economic development through multiple channels, including labor productivity (Hall and Jones 1999) and endowments (Easterly and Levine 2003; Engerman and Sokoloff 1997; 2004). As Isenberg (2010) highlighted, in the case of Rwanda, the entrepreneurs' development of innovative ideas accelerated the speed of growth in the country. Researchers have extensively examined the relationship between innovation, geography, and institutions (Boschma and Martin 2010; Cooke et al. 2011). One approach has been through the lens of an entrepreneurial ecosystem, which is defined as "a set of interdependent actors

and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory” (Stam and Spigel 2018). An entrepreneurial ecosystem is geographic in the sense that each ecosystem reflects the specificity of local conditions. In addition, an entrepreneurial ecosystem is institutional and “focuses on the cultures and networks that build up within a region over time” (Stam and Spigel 2018). Isenberg (2010) suggested six domains of ecosystems: policy, finance, culture, support, human capital, and markets. Research on the entrepreneurial ecosystem has increased over the past few years, but most of this research has involved stationary analysis rather than an evolutionary approach, with the exception of some case studies (Rice et al. 2014; Schaeffer and Matt 2016; Sussan et al. 2017). Indeed, with few exceptions (Mack and Mayer 2016), not many studies have examined how the dynamic changes in formal institutions have taken place.

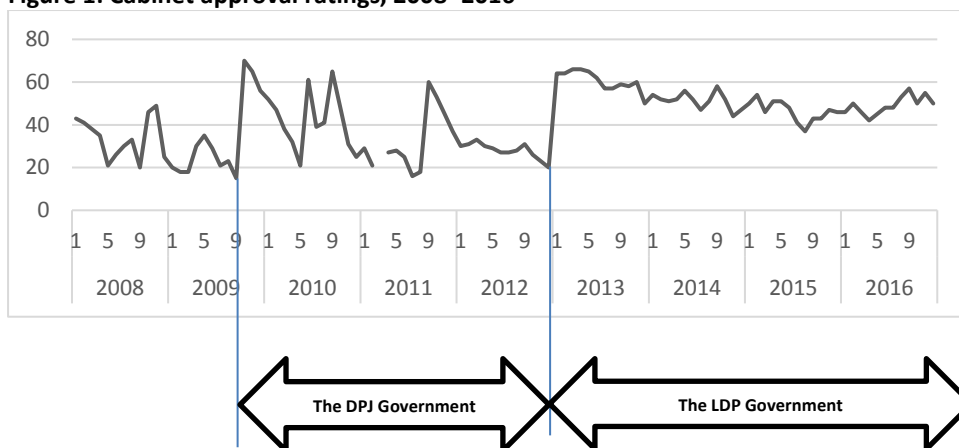
Japan played a significant role in creating innovative ideas in industries throughout the 1980s. However, after the stock market bubble burst in 1989, the country suffered an economic downturn, and the private sector lost its momentum, yielding its relative importance in innovation to other Asian countries, while the United States kept up the momentum of its vibrant entrepreneurial environment. After two decades of stagnant economic growth in Japan, the government has tried to promote a favorable entrepreneurial environment through structural reforms and expansionary macroeconomic policies. Some of its efforts have positively influenced ecosystems whereas others have failed. We analyze how the entrepreneurial ecosystem has evolved through the change in government by examining how the entrepreneurial environment has changed, measured by the geographic and time differences in the startup rate, which indicate the change in the output of entrepreneurial ecosystems.

Political Party Dominance: 2009 and 2012

After the LDP’s founding in 1955, the party kept control of the Diet (Japan’s bicameral legislature) until 2009, except for ten months between 1993 and 1994. In 2009, the LDP lost significant political support and eventually lost the election for the House of Representatives to the DPJ. Citizens initially welcomed the DPJ’s rule, with a support rate of 70 percent, as measured by the NHK Broadcasting Culture Research Institute, an organization affiliated with the national public broadcasting organization (NHK Broadcasting Culture Research Institute 2018). The DPJ had an ambitious reform agenda to break the long legacy of the LDP’s rule in the political sphere, but the DPJ could not carry out most of these reforms, partly because it had three prime ministers in three years due to multiple scandals related to corruption and dissatisfaction over poor management after the earthquake and the Fukushima nuclear

disaster (Kushida and Lipsky 2013). Legislative activity in the DPJ became stagnant in 2012, and the LDP regained control over the House of Representatives in the December 2012 elections, which led to Shinzo Abe's second administration. Abe's administration enjoyed relatively stable support for at least the first four years, which enabled his government to pursue his "three arrows for economic growth" policy agenda, focusing on monetary easing, fiscal stimulus, and structural reforms. Figure 1 shows the trends in political support for the Cabinet.

Figure 1: Cabinet approval ratings, 2008–2016



Source: NHK Hoso Bunka Kenkyujo (2018). *Seiji Ishiki Getsurei Chosa* [Monthly Survey on Political Consciousness], (<https://www.nhk.or.jp/bunken/research/yoron/political/2018.html>)

Structural Reforms under the DPJ and the LDP

When the DPJ won the majority in the Diet, it attempted to formulate its identifiable growth strategies, but the prime ministers were forced out before the party's growth strategy was fully implemented (Haidar and Hoshi 2015). In this subsection, we discuss some of the DPJ's legislation results related to entrepreneurship. In 2009, the Diet first legislated the Moratorium Act for SMEs to alleviate the impact of the Lehman Brothers' bankruptcy shock. In June 2010, the Cabinet approved the Small and Medium Enterprise Charter, recognizing that SMEs were the driving force behind the Japanese economy and expressing a commitment to support them (Muramoto 2013). This Charter was inspired by the European Charter for Small Enterprises in June 2000 and follows its main idess (Watanabe 2015). In June 2012, Congress passed the Small and Medium-sized Enterprises Business Enhancement Act, under which the national government certified third-party organizations with the expertise to support SMEs. This was done to establish an enforced support system. Although the DPJ intended to further promote entrepreneurship and SMEs, its

limited overall legislative ability, reflected by the passage rate of its proposed legislation and the public's rising discontent with its policies, resulted in the turnover of the DPJ's rule before it could implement many of the initiatives it had promised in its 2009 Manifesto pledges ([Kushida and Lipsky 2013](#)).

After the LDP took over the Diet, Abe's second administration tried to express the stark difference in policy making related to SMEs between its policies and those the DPJ had introduced in trying to break the legacy the LDP had left ([Obayashi 2015](#)). The Abe administration formulated economic growth strategies based on monetary easing, fiscal stimulus, and structural reforms. Structural reform related to entrepreneurship was part of the third arrow of Abenomics, and subsequent legislation was accordingly introduced. In February 2013, the LDP instructed the Small and Medium Enterprise Agency to launch a team to promote the growth of small enterprises. The team focused on four basic principles: more effectively leveraging the resources of local small enterprises in the community; stimulating the metabolism of the small enterprise sector; strengthening the autonomy of small enterprises by softening the subcontract structure and dominance of upstream contractors, which has long been prevalent in Japan; and facilitating small enterprises' overseas expansion ([Small and Medium Enterprise Agency 2013](#)). In June 2013, the Diet legislated the amendment of eight laws and abolished one act related to small businesses. The amendments were introduced to define the important policy agenda supporting small businesses—namely, to enhance the flexibility of local government definitions of SMEs to better reflect local conditions; to enhance the credit mobilization of small businesses; to establish a certification system for those introducing various professionals and experts to small business owners; to define exemptions from the Small Business Credit Insurance Act in cases where small enterprises jointly seek credit; and to add a debt–equity swap function to public financing banks (i.e., Japan Finance Corporation and The Okinawa Development Finance Corporation).

Meanwhile, the Act on Equipment Installation Support for Small Enterprises, whose function was substantiated by the above measures, was abolished. The government tried to promote a favorable entrepreneurial environment through structural reforms and expansionary macroeconomic policies June 2014; the government enacted the Basic Act for Promoting Small Enterprises and the Act for Assisting Small Enterprises. The Basic Act for Promoting Small Enterprises made “the sustainable development of business” a basic principle to go along with “the growth and development of business” that had already been stipulated under the Small and Medium-sized Enterprise Basic Act ([National Association of Trade Promotion for Small and Medium Enterprises 2017](#)). The Act for Assisting Small Enterprises strengthened the assistance system provided by the Chambers of Commerce in local cities and

towns. In October 2014, the Cabinet formulated the Basic Plan for Promoting Small Enterprises, a measure for planning the five-year PDCA cycle of policy implementation based on the Small and Medium-sized Enterprise Basic Act. In summary, these measures under the Abe administration emphasized the sustainability of small enterprises in addition to the ethos of the amended Small and Medium-sized Enterprise Basic Act in 1999, which emphasized the creative destruction and revolution in the management of SMEs (Obayashi 2015).

Increasing Local Governments' Support for SMEs

The central government and local governments have to play important roles in creating and sustaining a successful entrepreneurial ecosystem that suits local economic conditions (Isenberg 2010). Local government entities, both prefectural and municipal, gradually realized the significance of their roles in nurturing the entrepreneurial environment. The first action they took was to explicitly define their roles in promoting the growth of SMEs in their regions, as successful policies to foster an ecosystem cannot be implemented ad hoc (Ueda 2007). Another aim of the local regulations is to share the vision of local economic development and growth of SMEs with the relevant players (Ueda 2007). The characteristics of such regulations by local governments resemble the Small and Medium Enterprise Charter in nature, but there is a variety in the contents of regulations across municipalities. For example, some municipalities explicitly stated the need for regular investigations of the economic conditions of local SMEs. They also established committees consisting of entrepreneurs, public administration officers, related NPO members, and academic researchers. The established committees usually drafted all local regulations and subsidy policies related to SMEs (Wada 2014). Once a municipality sets the regulations, its SME promotion policies should align with the ethos of the regulations.

The regulations do not contain specific programs; they are essentially the ideas the local governments represent. However, establishing the regulations is highly correlated with the degree of support provided by local governments. In July 2013, the Small and Medium Enterprise Agency created an online platform, Mirasapo, to provide useful information and tools for SMEs. A list of available subsidy programs identifies those registered by local governments for starting a business in their communities (Small and Medium Enterprise Agency 2013). As of June 30, 2018, 81 municipalities had registered their subsidy programs or preferential taxation systems for startups. Many of these subsidies are provided to prepare new businesses. For example, the city of Hikone in Shiga prefecture provides a subsidy of 50,000 yen to compensate for monthly office rents for six months. If a startup acquires land in Hikone, the

fixed property tax will be exempt for three years up to the amount equivalent to the acquisition cost of the asset. Komaki in Aichi prefecture provides a subsidy for registering a new business or for payment to a judicial scrivener, with a maximum of 200,000 yen. Takasaki sends contracted incubation managers to startup companies to provide detailed support, such as revising business plans and bridging between startup companies and credit sources. In addition, support programs help existing small enterprises scale up. The subsidy program in Hekinan in Aichi prefecture covers interest for investing capital to a maximum amount of one million yen. Fuchu provides a subsidy for startups within two years of foundation to cover advertising costs.

Conceptual Model

Based on the relationship between the policy agenda by the central government and the local governments toward EE discussed in the previous section, we propose a hierarchical model in Figure 2 that depicts from left to right the step-by-step influence of political party change to EE change. As the change of a new political party takes place, new national policy changes take place, which will then trickle down to lower level of government such as municipal governments to change regulations. It is the changes of regulation within these lower levels of formal institutions that impact entrepreneurial activities. In other words, in Figure 2, the municipal governments follow and interpret national policies and translate them to local regulations based on local economic and social conditions. These regulatory changes at the municipal levels influence entrepreneurial actions.

Figure 2: Conceptual model

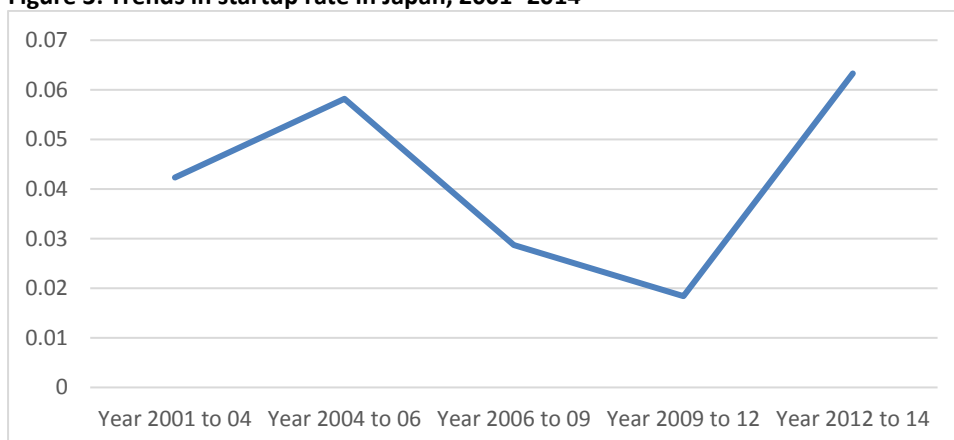


Measuring the Entrepreneurial Ecosystem

An entrepreneurial ecosystem can also be measured by entrepreneurial activities (Stam 2017). The ideal proxies for entrepreneurial activities would be the startup rate for high-growth firms, such as gazelle firms (Henrekson and Johansson 2010). However, such a measurement is not available in Japan, so this paper uses a general startup rate. Figure 3 shows the

trends in the startup rate based on the five waves of Economic Census for Business Activity since 2001, obtained through the Regional Economy Society Analyzing System (Cabinet Office, Government of Japan 2018). The Economic Census for Business Activity is conducted at two to three-year intervals, and startup rates are measured for the period between two waves of the census. We observed a drop in the rate starting in 2004–2006 for two rounds of the census, then an increase for the period between 2012 and 2014. The increase in the startup rate is partly explained by the favorable macroeconomic conditions Japan experienced during that period. In particular, the drop in the startup rate in the 2006–2009 and 2009–2012 periods can be partly explained by the 2009 financial crisis. However, the analysis at a more disaggregate level reveals that the rise in the startup rate is correlated with the degree of local governments' support for SMEs.

Figure 3: Trends in startup rate in Japan, 2001–2014

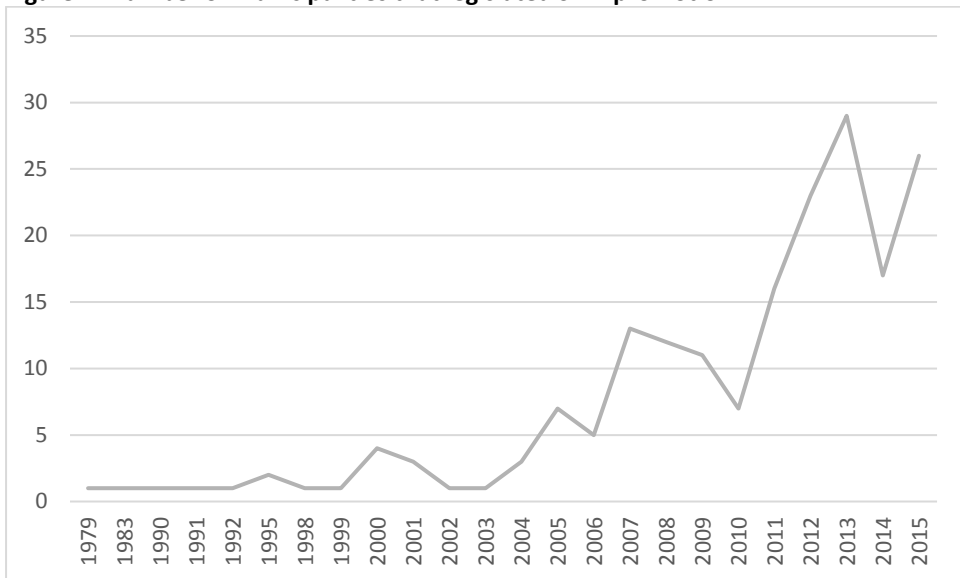


Source: Economic Census for Business Activity, multiple waves (Cabinet Office, Government of Japan 2018)

Among the 81 municipalities that have put their support programs on Mirasapo, 32 follow the SME promotion regulations as of June 2018. At the same time, 248 out of 1,718 municipalities established SME promotion regulations. Thus, although only about 14% of municipalities have SME promotion regulations, these municipalities represent 40% of those that put SME support programs on Mirasapo. It may be true that some municipalities have not registered their subsidy programs for startups on the Small and Medium Enterprise Agency's platform and that the list on Mirasapo is not an exhaustive list of available support programs. Even so, local governments are applying more efforts to disseminate relevant information for startups through the SME promotion regulations, thereby contributing to a more effective entrepreneurial ecosystem.

Figure 4 shows the trends in municipalities that have established SME promotion regulations (Zenkokushokojigyokyodokumiairengokai 2018). After Sumida-Ku (ward) in Tokyo first enacted the regulations in 1979, the number of following municipalities did not increase until 2000. There was a slight increase in the 2000s, but a significant increase was evident only after 2011. By the end of 2012, when the government change occurred, 74 municipalities had legislated the SME promotion. Since 2012, the number of municipalities enacting such regulations has increased by between 20% and 30%. Obayashi (2015) predicted that more municipalities will establish such regulations in the future. This trend is not necessarily the byproduct of the change in government; rather, it is a long process triggered by the amendment to the Small and Medium-sized Enterprise Basic Act in 1999. However, the role of local governments in promoting entrepreneurship can be a moderator that enhances the quality of the entrepreneurial ecosystem.

Figure 4: Number of municipalities that legislated SME promotion



Source: *The National Chamber of Commerce and Industry Federation (2018)*

Identification Strategy

The empirical model examines whether the establishment of the regulation of promoting SME activities functions as a moderator of the entrepreneurial ecosystem. In essence, the model examines the change of startup rate before and after a new government at the municipal level by

identifying the characteristics of municipalities that have affected the change in the startup rate. First, consider the following equation:

$$y_{it} = \alpha + \beta T_t + \gamma_i + \varepsilon_{it} \quad (1)$$

where y_{it} is the startup rate of municipality i during period t , based on the Economic Census for Business Activity. Startup rates for two periods—between 2009 and 2012 and between 2012 and 2014—were extracted from a sample of 1,904 municipalities. T_t represents a dummy variable for the second period. γ_i is a municipality dummy variable to eliminate the time-invariant fixed effects through the transformation within. ε_{it} is the time-varying unobservable characteristics of municipality i at time t . β is being interpreted as a change in the startup rate between the two periods. Equation (2) identifies the differential effect of government change across municipalities by adding the interaction variable of the period dummy and municipality characteristics. Demonstrating the conceptual model of the importance of local government, this empirical model shows that municipalities that registered SME promotion regulation are associated with a higher change in the startup rate.

$$y_{it} = \alpha + \beta_1 T_t + \beta_2 x_{it} + \beta_3 T_t \times x_{it} + \gamma_i + \varepsilon_{it} \quad (2)$$

where x_{it} is a dummy variable of whether municipality i has established the SME promotion regulation at time t , as obtained from Zenkokushokojigyokyodokumiarengokai (2018). In this context, β_3 represents the effect of the legislation in the second period relative to the first period (2009 for period 1 and 2012 for period 2). The estimation results from equation (1) and (2) are shown in Table 1.

Table 1: Change in Startup Rate after Government Change in 2012

	(1)	(2)	(3)
Constant	0.0143*** (0.000437)	0.0146*** (0.000380)	0.0148*** (0.000399)
Period 2 dummy	0.0359*** (0.000617)	0.0359*** (0.000543)	0.0356*** (0.000546)
SME promotion regulation dummy	0.0123*** (0.00178)	0.00595 (0.00431)	-0.00974* (0.00552)
Interaction of period 2 dummy and SME promotion regulation dummy			0.0161*** (0.00356)
Fixed effects	No	Municipality	Municipality
Observations	3,808	3,808	3,808
R-squared	0.478	0.802	0.804

Note: The dependent variable is the startup rate for municipality i at time t . Standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Column (1) shows the simplest specification without the fixed effects or interaction terms. The model in column (2) adds the municipality fixed effects. The specification in column (3) adds the moderation effect of support level provided by the local governments. Regarding the increase in the startup rate from the first period to the second period, all models have consistent results: on average, the startup rate rose about 3.6 percentage points between 2009–2012 and 2012–2014, which is significantly different from zero (at the 1 percent significance level). The coefficient for the dummy variable of municipalities with SME promotion regulation is sensitive to the model specification and challenging to interpret.

The results depicted in column (3) confirm that the municipalities with SME promotion regulation raised the startup rate more than those municipalities without the legislation: The coefficient for the interaction term for the dummy for period two and the dummy for legislating SME promotion is 1.6 percentage point, which is also significantly positive. Combined with the findings in the previous subsection, conditions for entrepreneurs to start a business were more favorable during the 2012–2014 period relative to the 2009–2012 period, and municipalities with a local government that supported entrepreneurship made the most of this opportunity.

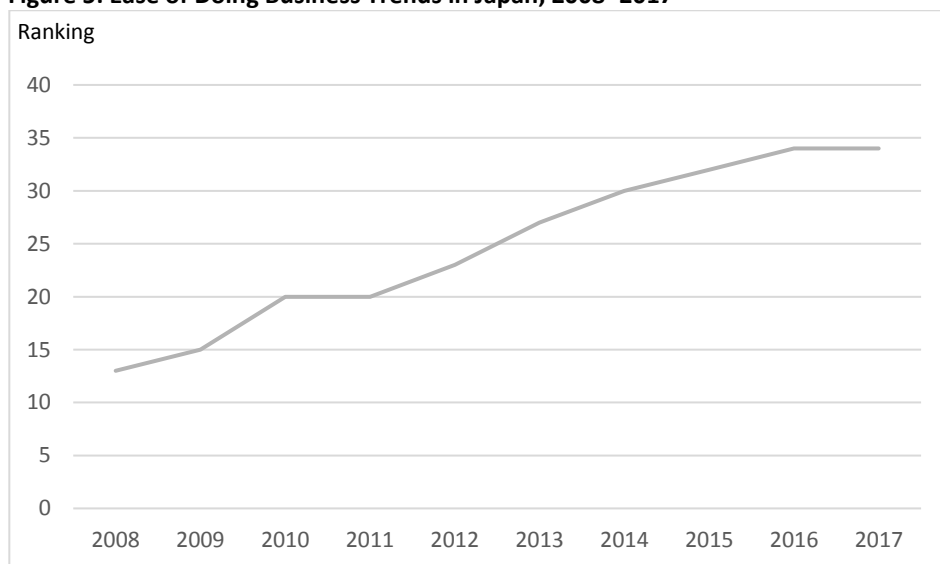
Discussion

The empirical model and its results confirmed the proposed conceptual model that political party change impacts local municipalities regulatory practices which in turn impact EE in startup rates. This local institutional level impact on EE contrasts with prior studies that investigate Japan as it compares to other nations. For example, a very common measurement of Japan's EE relies on national ranking as compared with other countries. One such common measurement is the World Bank's (2018) Doing Business ranking, which was first published in 2003 with five sets of indicators for 133 economies to measure the business climate of economies (Besley 2015). The latest report in 2018 covers 11 areas of business regulations for 190 economies (World Bank 2017): starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts; resolving insolvency; and labor market regulation. These indexes have been used in numerous

academic studies to measure the business climate (Besely 2015). Policy makers also take the ranking seriously; the Abe administration used this measure as a benchmark of the quality of government support and, in 2013, aimed to ensure Japan ranked third by 2020 in its growth strategies for the country (Prime Minister of Japan and His Cabinet 2013).

Figure 5 shows the trends in Japan's ranking. The change in ranking represents the business climate relative to other economies, but it does not show the actual change in the business climate. Having said that, Japan's position has worsened throughout under both the DPJ and LDP rules. These ranking reports do not suggest Japan has improved as a place to do business since Abe took over in 2012.

Figure 5: Ease of Doing Business Trends in Japan, 2008–2017



Source: World Bank (2017)

Another indicator of EE is the ease of starting a business in a nation as compared with other nations. Table 2 shows the trends of Japan in its ranking of starting a business as compared to other countries. Again, these numbers presented in Table 2 do not flatter the Abe administration. Haidar and Hoshi (2015) scrutinized possible improvements in each indicator that the Japanese government can make to improve its rank, based on the criteria used in the 2014 report. The authors claimed that completing reforms that did not encounter big obstacles would improve the ranking from 27th in 2014 to 13th. However, such reforms have not yet been realized, and the outcome of criteria, such as the cost of starting a business or the required minimum capital, has not changed (see Table 2).

Table 2: Ease of Doing Business Ranking and Starting Business Ranking

Year	Ease of Doing Business	Starting Business
2008	12	44
2009	12	64
2010	15	91
2011	18	98
2012	20	107
2013	24	114
2014	27	120
2015	29	83
2016	34	81
2017	34	89
2018	34	106

Source: World Bank (2017)

As these World Bank-based rankings reflect nation-to-nation comparison, they are useful for understanding global EE in a broadstroke. The empirical results from the model presented in this paper provided a contextual approach to understand EE evolution within Japan, thus serve a different purpose than the global ranking presented in World Bank data. It is possible to interpret from the World Bank data that Japan has not improved its business environment for firms, both large and small, since Abenomics, when compared to other countries. However, the empirical results of this study show that Abenomics is doing something to increase entrepreneurial activities via municipal institutional support.

Conclusion

This paper investigated the impact of government change that occurred at the end of 2012 in Japan, the turnover of the DPJ administration, and the advent of the second Abe administration on the change of quality in the entrepreneurial ecosystem measured by the changes in the startup rate. A new conceptual model is proposed to depict the step-by-step workings from political party change leading to national policy changes which in turn direct local government regulatory actions that positively impact EE. The role of the local government in promoting entrepreneurship is empirically tested as a moderator that enhances the quality of an entrepreneurial ecosystem. The

empirical results confirmed that, within 1,900 municipalities, their relevant acts that aimed to promote an environment for SMEs contributed to the recovery of the startup rate during 2012 and 2014. Such recovery was found larger for municipalities that had registered an SME charter or relevant regulations to promote SMEs.

The findings of this paper have two implications for policy makers in Japan. First, as national policy changes need buy-in by local municipal governments, a continuous and intense dialogue is necessary to encourage healthy EE building. Second, municipalities' action matters. Local government should pass more regulations to support EE. The focus on municipalities in this research can be improved further by including involvement at the prefectural level, in particular the interactions between prefectural and municipal governments in building EE.

References

Acemoglu D, Johnson S and Robinson J (2001) The Colonial Origins of Comparative Development: An Empirical Investigation. *The American Economic Review* 91(5): 1369-1401.

Acemoglu D, Johnson S and Robinson JA (2002) Reversal of fortune: Geography and institutions in the making of the modern world income distribution. *The Quarterly journal of economics* 117(4): 1231-1294.

Besley T (2015) Law, regulation, and the business climate: the nature and influence of the World Bank Doing Business project. *Journal of Economic Perspectives* 29(3): 99-120.

Boschma R and Martin R (2010) *The Handbook of Evolutionary Economic Geography*. Edward Elgar: Cheltenham.

Cabinet Office, Government of Japan (2018) Regional Economy Society Analyzing System. Available at: <https://resas.go.jp/#/5/05201> (accessed 30 June 2018).

CB insights (2016) The Global Unicorn Club. Available at: <https://www.cbinsights.com/research-unicorn-companies> (accessed 30 June 2018).

Cooke P (2011) Regional Services Innovation. In: Cooke P, Asheim B, Boschma R, Martin R, Schwartz D and Tödtling F (eds) *Handbook of Regional Innovation and Growth*. Edward Elgar: Cheltenham.

Easterly W and Levine R (2003) Tropics, germs, and crops: how endowments influence economic development. *Journal of Monetary Economics* 50(1): 3-39.

Engerman SL and Sokoloff KL (1997) Factor endowments, institutions, and differential paths of growth among new world economies. *How Latin America Fell Behind*, 260-304.

Political Parties, Municipalities Regulations, and Startups: Abenomics in Japan

Engerman SL and Sokoloff KL (2004) Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States. *National Bureau of Economic Research Working Paper* No. H0066.

Haidar JI and Hoshi T (2015) Implementing structural reforms in Abenomics: How to reduce the cost of doing business in Japan. *National Bureau of Economic Research Working Paper* No. 21507.

Hall R and Jones CI (1999) Why Do Some Countries Produce So Much More Output per Worker than Others? *The Quarterly Journal of Economics* 114(1):83-116.

Henrekson M and Johansson D (2010) Gazelles as job creators: a survey and interpretation of the evidence. *Small Business Economics* 35(2): 227-244.

Isenberg D (2010) How to Start an Entrepreneurial Revolution, *Harvard Business Review*, June, 2010.

Klapper L, Laeven L and Rajan R (2006) Entry regulation as a barrier to entrepreneurship. *Journal of Financial Economics* 82(3): 591-629.

Kushida K and Lipsky P (2013) The Rise and Fall of the Democratic Party of Japan. In: Kushida K and Lipsky P (eds) *Japan Under the DPJ: The Politics of Transition and Governance*. Shorenstein APARC/Brookings Institution Press.

Mack E and Mayer H (2016) The Evolutionary Dynamics of Entrepreneurial Ecosystems. *Urban Studies* 53(10): 2118-2133.

Malecki EJ (2018) Entrepreneurship and Entrepreneurial Ecosystems. *Geography Compass*, 12(3): e12359.

Muramoto T (2013) The Small and Medium Enterprise Charter as the financial innovation. *The Institute for Economic Studies Green Paper* No. 65.

National Association of Trade Promotion for Small and Medium Enterprises (2017) White Paper on Small Enterprises in Japan Conveying the Buds of Growth to the Next Generation. Available at: http://www.chusho.meti.go.jp/pamflet/hakusyo/H29/PDF/2017shohaku_eng.pdf (accessed 30 June 2018).

National Chamber of Commerce and Industry Federation (2018) Available at: <http://www.zenshoren.or.jp/chiiki/shoukibo/ichiran201806.xlsx> (accessed 30 June 2018).

NHK Broadcasting Culture Research Institute (2018) *Seiji Ishiki Getsurei Chosa* [Monthly Survey on Political Consciousness]. Available at: <https://www.nhk.or.jp/bunken/research/yoron/political/2018.html> (accessed 30 June 2018).

Obayashi H (2015) Policies to Promote Small Enterprises and Growth Strategy of Abe Administration. *Kigyo Kankyo Nenpo* 19(1): 31-45.

Prime Minister of Japan and His Cabinet (2013) New Growth Strategy. Available at: https://www.kantei.go.jp/jp/headline/seicho_senryaku2013_plan1.html (accessed 30 June 2018).

Rice M, Feters M and Greene PG (2010) University-based Entrepreneurship Ecosystems: Key Success Factors and Recommendations. *International Journal of Entrepreneurship and Innovation Management* 18(5): 177-196.

Schaeffer V and Matt M (2016) Development of academic entrepreneurship in a non-mature context: The role of the university as a hub-organisation. *Entrepreneurship and Regional Development* (28): 724-745.

Small and Medium Enterprise Agency (2013) Promoting for Growth of Small Enterprises Action Plan. Available at: <http://www.chusho.meti.go.jp/seicho/2013/130604koudou.pdf> (accessed 30 June 2018).

Small and Medium Enterprise Agency (2013) Mirasapo. Available at: <https://map.mirasapo.jp/> (accessed 30 June 2018).

Stam E (2017) Measuring Entrepreneurial Ecosystems. In: O'Connor A, Stam E, Sussan F and Audretsch D (eds) *Entrepreneurial Ecosystems: Place-based transformations and transitions*. New York City: Springer, pp.173-197.

Stam E and Spigel B (2018) Entrepreneurial Ecosystems. In: Blackburn R, De Clercq D and Heinonen J (eds) *The SAGE Handbook of Small Business and Entrepreneurship*. London: SAGE, pp.407-422.

Sussan F, Sloboda B and Hall R (2017) Is there a Path from Sin City to Tech City? The Case for Las Vegas. In: O'Connor A, Stam E, Sussan F and Audretsch D (eds) *Entrepreneurial Ecosystems: Place-based transformations and transitions*. New York City: Springer, pp. 153-171.

Ueda H (2007) Regional Policies on Industrial Development and the Basic Codes on the SME Promotion. Tokyo: Jichitai-Kenkyusha.

Wada T (2014) On the SME's Promotion Regulation in Toon City and Matsuyama City in 2013-2014. *Ehime Keizai Ronshu* 34(1): 25-50.

Watanabe S (2015) Small and Medium-sized Enterprises Business Enhancement Act and Evolution of Policies toward SMEs. *Meijo-Ronso* 15(4): 75-85.

World Bank (2017) Doing Business Report. Washington DC: World Bank.

Balancing Institutional and Agency Dominance in Entrepreneurial Ecosystems: A Conceptual Framework and A Case Study of Macao

Fiona SUSSAN*

Abstract: A longitudinal study of entrepreneurial ecosystems (hereafter EE) and its evolution is important. Extending organizational-based ecosystem as a relationship building phenomenon in which all stakeholders continuously negotiate power (Pfeffer, 1992), this paper proposes a new conceptual framework to study EE longitudinally through the lens of the balance of power between institutional and agency dominance. The new conceptual framework has a 2 (Institutional dominance: high, low) x 2 (Agency dominance: high, low) configuration resulting in four scenarios of EE that are labeled as inertia, top-down, bottom-up, and co-creation. To illustrate the conceptual framework, five decades of historical and political events of Macao, to include change of sovereignty, are highlighted to depict the evolution of its EE in stages that can be labeled as inertia, bottom-up, and top-down. The new conceptual framework and the case study of Macao have managerial implications for policy makers and researchers.

Keyword: China, Sovereignty, Stakeholder Theory, Macao, Entrepreneurial Ecosystems

Introduction

IN PUTTING A POLITICAL LENS on this social-psychology approach to entrepreneurship (Jennings et al. 2013; Mack and Mayer 2015), researchers have informed us that whenever there are social interactions among people, there is a struggle for power or there is social influence in the making in order

* Fiona SUSSAN, School of Advanced Studies, University of Phoenix, USA, fsussan@gmail.com

to establish legitimacy, expertise, or obedience (French and Raven 1959). Within even the most seemingly naïve, small group of people with a few members who volunteer to bake cookies for the homeless, there exists a negotiation of power among its members. Power negotiation is related to stakeholder theory. According to stakeholder theory, within the settings of any organization, there is always a need to identify who matters and who does not (Mitchell, Agle, and Wood 1997). Stakeholder theory mainly has three components: power, legitimacy, and urgency.

An entrepreneurial ecosystem (EE) is similar to an organization in a sense that its stakeholders continuously negotiate power. In fact, an ecosystem and the relationship building within it is a process for establishing, exercising, or exerting power (Pfeffer 1992). EE is defined as “...set of interconnected entrepreneurial actors, organizations, institutions, and processes” (Mason and Brown, 2014). Essentially, EE becomes a network of multiple organizations and individuals who are all stakeholders (Autio and Levie 2015). Especially within EE, there are two major forces of institutions and agents that function within a complex socio-economic structure. Within this complex structure, stakeholders need, similar to what French and Raven (1959) suggested, to exercise influence in order to establish legitimacy, expertise, or obedience. As EE researchers (e.g., Autio and Levie 2015; O’Connor, Stam, Sussan, and Audretsch 2017) have increasingly focused on the importance of individual actions, this paper argues that the study of EE needs to put agents parallel to institutions in order to simultaneously understand the interactions of the two forces. As an EE requires individual actions to extract the value from it (Autio and Levie 2015), this paper suggests that understanding the balance of power between agents and institutions will bring new knowledge to the workings of an EE.

To parsimoniously address the balance of power between two major groups of stakeholders: agents and institutions, this paper develops a new conceptual 2 (institutional dominance: high, low) x 2 (agency dominance: high, low) framework that depicts four scenarios of an EE. In order to validate the conceptual framework, the history of Macao and its EE development are used to illustrate the four scenarios of an EE. The stakeholder approach to investigate EE fills the urgent need to study EE from a social-psychology approach to entrepreneurship (Jennings et al. 2013; Mack and Mayer 2015) and, at the same time, fulfil the need for a longitudinal approach to study EE.

The rest of the paper begins with a brief review of EE literature and stakeholder theories leading to a new 2 (institutional dominance: high, low) x 2 (agency dominance: high, low) conceptual framework. Longitudinal data of agency activities and government policies in the past five decades in Macao follow to illustrate the framework. Finally, the paper concludes with managerial implications.

Literature Review

Institutional Dominance

In an EE, the power of institutions can be too much or too little. From an institution theory of entrepreneurship perspective, institutions are there to 'enable' agents. In other words, this is a top-down approach in which institutions are the gatekeepers of many of the resources to include economic policies that favor entrepreneurs (e.g., subsidies to startup, tax breaks to small businesses), providing education and training for entrepreneurial skills, establishing rules and regulations, creating technology and industrial parks to foster entrepreneurial activities, establishing joint efforts among university, industry, and government to develop innovations (Chinta and Sussan 2018). In this setting, the roles of the agents are to extract resources from institutions. While many of these top down institutional efforts have been successful, there are also examples that have not been successful (see a list of examples in Ács et al. 2016). In other words, this might be a classic failure example of the assumption of 'We build them, and they will come'.

In fact, some institutional actions have an adverse effect on entrepreneurship. In investigating eighteen Asian economies over a span of ten years, institutionalization was found to have an inverted relationship with informal (unregistered business) entrepreneurship (Autio and Fu 2015). In a 54-country longitudinal study, Levie and Autio (2011) found that labor entry and exit regulations reduce strategic entrepreneurial entry in countries where the rule of law is strong, suggesting that red tape and bureaucracy burden entrepreneurs (initially small size firms) with high compliance costs hampering entrepreneurial activities. A debate about the motivation for and effectiveness of public policies to encourage individuals to become entrepreneurs concluded that most Western public policies for entrepreneurship failed (Ács et al. 2016). The debate further illustrated how public policies aimed at stimulating entrepreneurship in order to create jobs and economic growth can backfire and end up wasting taxpayers' money. Altogether, this suggests that a top-down institutional dominance approach in an EE may not be optimal.

Agent Dominance

An emerging stream of literature that favors organic growth of EE focuses on agents and views them as the fulcrum of EE (e.g., O'Connor et al. 2018). Essentially, it is the agents who possess know-how, network, and knowledge and who undertake entrepreneurial activities and become major actors in EE. These actors become a necessary condition within an EE framework.

Agents or talents that contribute to an EE can come from all directions. Agents can play a dominant role by convincing stakeholders (e.g., government, customers) to legitimize their new venture and establish new industry standards. The entrepreneur of Wakefield Seafood in Alaska initiated many of the industry regulations on technology innovation adoption (e.g., radar fishing), crafted standards on quality control (king crab), and assisted in negotiating international fishing agreements between the U.S. and other countries (Alvarez, Young and Wolley 2015). Wakefield Seafood was able to co-create with institutional players successfully because they built shared industry beliefs and meanings with competitors and stakeholders who do not benefit financially in the process (Alvarez et al. 2015: 108).

Increasingly in the digital economy, Sussan and Ács (2017) argued that digital entrepreneurs have the capability and play a dominant role to shape institutions so that new industry standards, government regulations, and even policies are being shaped by agents in the digital entrepreneurial ecosystem. These authors cited examples such as Uber that has been challenging local regulations worldwide and, to some extent, rewriting some of the labor laws globally.

Interactions, Community, and Co-creation

Institutions and agents interact. In investigating the evolution of a US city as an EE, Mack and Mayer (2016) interviewed various stakeholders (i.e., government officials, entrepreneurs, and others) about their perceptions of government infrastructure, networks, resources, and culture. The results of their study found that potential entrepreneurs in Phoenix were unable to find appropriate mentors or locate the invisible networks that support entrepreneurs. A sociological approach that views entrepreneurs and institutional actors as residing in a community may be a better context to capture more detailed interactions among stakeholders. A community is defined as “enduring, but not explicitly instrumental, relationships among actors, often with geographic bounds...in the current era...communities include not only local and regional units....as well as transnational and global communities” (Jennings et al. 2013: 2).

In a vibrant entrepreneurial community, co-creation, a process that emphasizes the involvement of and interaction among multiple actors, such as business, government, academia, and entrepreneurs who work collaboratively to achieve a certain goal (Saravathy and Venkataraman 2011), can take place. In fact, entrepreneurial opportunities are often co-created by entrepreneurs and their stakeholders (Read, Dew, Saravathy, Song, and Wiltbank 2009) and such a co-creation process is explicitly implemented by the most experienced

entrepreneurs (Sarasvathy 2008). Furthermore, markets and EE can be co-created to foster cluster emergence (Pitelis 2012).

Conceptual framework

Power relations are pervasive in an ecosystem. In EE building, both institution-driven and agent-driven approaches are valid. From the policy makers' perspective, EE is about how institutions can be deployed to correct market failure and system failure. In other words, policy makers are constantly trying to solve the problem of 'you build them, and they don't come'. From a practitioner/entrepreneur perspective, EE is about how entrepreneurs find opportunities and leverage their network to interact with institutions to disrupt *status quo* and create a new market for their products or services. As institutions and agents, the two major stakeholders in EE, co-exist in a dynamic ecosystem, there is a continual need to balance their power relations. Sometimes, institutions dominate the EE building process, whereas, sometimes, agents dominate. Figure 1 presented below suggests that there is a combination of institutional dominance and agency dominance resulting in four EE scenarios. Each of the cells in Figure 1 can be applicable to a town/city/region/nation or can be used to describe the evolution of the EE of a place over time.

Figure 1. Typology of Entrepreneurial Ecosystems



Source: Author's Own Configuration

Cell 1 represents an EE that is in the state of inertia. In this cell, entrepreneurship is both low in institutional support and lacks agents' presence. In other words, no knowledge, no money, no talent, no vision, and nothing happens. Examples include many rural places or ghost towns in the U.S.

Cell 2 represents an EE that is mainly top-down institution dominant. This EE usually has rules already set up, with relatively high formal establishment

but with low agents' energy. Some of the entrepreneurs in this cell may have been 'employed' entrepreneurs who are temporarily benefiting from fixed salaries from some projects from government bodies or NGOs. An example of this type of EE will be Phoenix, AZ, (Mack and Mayer 2015), that is already endowed with many policies, rules and regulations in place, but it fails to attract agents because of the lack of entrepreneurial network and mentors in the city.

Cell 3 represents an EE that focuses on the bottom-up effort to build entrepreneurship with little guidance from the government or rules. In a sense, this is like the Wild West. It has a vibrant entrepreneur community with energetic and forceful entrepreneurs but lacks institutional support. In this situation, entrepreneurs rely on private resources and are not able to obtain formal financing for their ventures. Examples include many Latin American countries that have high entrepreneurial aspirations and attitudes but lack institutional support (Sussan, Autio, and Kosturik 2016).

Cell 4 represents an EE that has both high institutional support and high agency capabilities and activities. In order to reach this state, both institutions and agents are required to be endowed with knowledge, have a sense of community that share beliefs and meanings, and have balanced power between institutions and agents. In other words, this EE has the enabling conditions of institution support, balance of power between institution bodies and individual agents who are outside of institutions, and thus is an ideal platform for co-creation. Examples include EEs with vibrant startup and scale-up activities with abundant institutional support in cities like Boulder, U.S.; Gothenburg, Sweden; and Silicon Valley, U.S.

Case Study of Macao

The above conceptual framework can be used to track the evolution of EE as, at any given place, EE building is not static. For example, at the national level, in some years, institutions are dominant and subject to political evolution, and, in other years, the agency is dominant depending on the economy and other factors. To illustrate the conceptual framework proposed above, this section follows a 50-year historical development of the economic policies of Macao and trace the evolution of EE development. A research method of periodization is used here to select critical political events and identify them as turning points that have transformational effects on EE development. These turning points in Macao history are 1961 designating gambling monopoly, 1999 hand over from Portuguese rule to China, and 2003 ending of gambling monopoly. These critical events have impact on the economy and are directly related to SME policies. Very briefly, in 1980, there were 1,391 SMEs, in 1990

*Balancing Institutional and Agency Dominance in Entrepreneurial Ecosystems:
A Conceptual Framework and A Case Study of Macao*

there were 2,463, in 2004, there were 34,152, and, by 2012, the number of SMEs soared to 57,188 (Sit et al. 1991; White Paper 2013).

In Figure 2, the bottom row represents major political events in Macao's history – 1887, 1988, and 1999. The top row of the text represents institution-initiated specific SME policies or support at various points of the timeline. The middle row of the text represents the more macro-business environmental events that indirectly impact entrepreneurial activities.

1887 marks the official date of Portugal controlling of Macao. Very briefly, in the wake of the Opium War in 1840, Portugal was able to seize two islands in Macao – Coloane and Taipa. A few decades later, in 1887, Portugal and the Chinese government (Qing Dynasty) signed the “Sino-Portuguese Treaty of Peking” formalizing Portuguese perpetual administrative control of Macao (Dana 1999). In 1999, the sovereignty of Macao was transferred back to China. Between 1887 and 1999, there were a number of developments with direct and indirect impact on Macao's entrepreneurial activities. The most notable ones are the granting of gambling monopoly, in 1937, to Tai Heng Company, and, in 1962, the government granted Sociedade de Turismo e Diversoes de Macao (STDM), a syndicate of Macao and Hong Kong businessmen, the monopoly rights to all forms of gambling¹. This monopoly license was renewed in 1986 for 15 years. While the 1960s and 1970s are mainly about the growth of Western-styled gambling businesses in Macao that have attracted millions of Hong Kong gamblers, there are a few political events that are worth mentioning. First, in 1966, there was the Cultural Revolution in Mainland China and the outbreak of riots in Macao and Hong Kong. Second, in 1974, there was an anti-colonialist Carnation Revolution that resulted in Portugal considering relinquishing all claims of Macao and proposed to return the colony to China. Given the emphasis on the gambling business, the entrepreneurs emerging during this period are mainly from gambling businesses – Fok Chi Ting of Hou Heng Company, Fan Chi Pang of Greyhound gambling, Fu Tak Long and Kou Ho Neng of Tai Heng Company, Stanley Ho of Casino Lisboa, Yip Hon, and Ho Tin from importing photovoltaic products. Some of these entrepreneurs will continue to build family empires that will later become dominant players in EE in the new millennium.

The second major political event in Macao's recent history is the transfer of its sovereignty from Portugal to China. Although in 1974 the Portuguese

¹ In 1961, Governor Jaime Silverio Marques designated Macao as a “permanent gaming region” and declared Macao a low taxation region and regarded gaming and tourism as its major economic activities. Marques defined gaming as “Any game with results that are unpredictably and randomly generated and win purely by one's luck is called games of fortune.” The gambling monopoly to Tai Heng ended on December 31, 1961.

government has already planted the seed to return the colony to China, it is not until the 1980s that formal negotiation began to take place. The timeline of this negotiation process parallels that of the negotiation of the transfer of British sovereignty of Hong Kong to China. The mentioning of Hong Kong here is important as Macao followed the *laissez faire* policy of Hong Kong and had extensive economic policies² drawn up in 1984 (Sit et al. 1991). During this period of negotiation of transfer of sovereignty, sustained efforts and government policies had a direct impact on small and medium enterprises (SMEs) which are the fulcrum of entrepreneurship. Large scale infrastructure projects were approved during this period to include a deep-water Macaoport in Coloane Island, several bridges connecting the islands, and a brand-new international airport. A legislature allowing the import of foreign workers was passed in 1988. A six-year universal compulsory education law was also passed in the same year. These events lay the foundations for an EE. However, political uncertainties shadowed entrepreneurial growth during this period (Santos, Khong, Trigo, Kong, and Vong 1994). For the decade of 2003 to 2013, there were 7,800 SME applications for the SME aid program with 6,500 of these applications being approved. After the formal handover of sovereignty in 1999, more institutional efforts will emerge.

The post-1999 Macao sees a lot of reforms and new initiatives from the institutional side. First, directly relevant to entrepreneurship, a Macao New Tech Incubator Center was formed in 2001. Second, the monopolistic gambling license to the syndicate of Macao and Hong Kong businessmen expired in 2001, and, as a result, the new government calls for the opening up of the market by granting a total of six new licenses (previously three) in 2003. In 2003, a “Closer Economic Partnership Agreement” (CEPA) was made to foster better economic relationship with Mainland China. In 2003, the SME Aid Scheme is also implemented. 2003 became a year of major policy changes and regulatory initiatives that impacted the EE. A white paper (2013) also uses 2003 as the demarcation year for Macao’s

² According to the Sectorial Policies, Investment Plan 1984, there are four major policy packages to promote industrial development, spatial distribution of industrial activities, and the diversification of industries to suit changing international market situations: 1) economic incentives: incentives will be granted to activities or enterprises which contribute to the modernization and diversification of Macao industries, or whose opening, relocation, and site for new expansion would improve the regional distribution pattern of industries. 2) Regulating and control of industrial activities to meet requirements of international trade agreements. It is generally free to export goods from Macao. (3) Factory registration. The Industrial Law specifies that factory registration should only be given or rejected for reasons of social order, environmental and other public interest considerations and not on economic grounds. (4) Protection of industrial properties. All registered trademarks and patents under Portuguese laws will be similarly protected in Macao. There are other initiatives that include manpower training, dissemination of information, technical consultancy, and export promotion through foreign exhibitions, with participation from associations of industries and commerce (Sit et al., 1991).

Balancing Institutional and Agency Dominance in Entrepreneurial Ecosystems: A Conceptual Framework and A Case Study of Macao

economic landscape with large foreign companies contrasting smaller local companies. The same white paper traced Macao’s SMEs becoming smaller after 2003 when compared to the period before 2003 and attributed to larger foreign companies (mainly new casino operators) cannibalizing SMEs in Macao. The decade from 2003 to 2013 saw many institution-initiated efforts. An SME Center is established in 2007 to provide knowledge for startups and to provide consulting services for entrepreneurs. A series of trade related conferences and fairs was promoted to stimulate small businesses: e.g., annual franchise expo in 2009, E-commerce promotion incentive measure, InnoICT Business Plan Competition in 2010, and others. In 2011, Hengqin-Macao Cooperation is drawn to strengthen the economic ties between Guangdong, a contiguous neighbor in China, and Macao.

Institutional support for startup and entrepreneurship galvanizes in 2013 when the government launched the Young Entrepreneurs Aid Scheme for young entrepreneurs, ages 21 to 44. Later, in 2015, Hengqin Youth Entrepreneur Valley, in collaboration with Macao University of Science and Technology, also started. In the same year, the Center for Entrepreneurship and Innovation was established in the same university. In 2016, private efforts by Galaxy also started to establish entrepreneur funds for local entrepreneurs.

Figure 2: Timeline of Critical Political Events in Macao’s History



Source: Author’s compilation of historical events

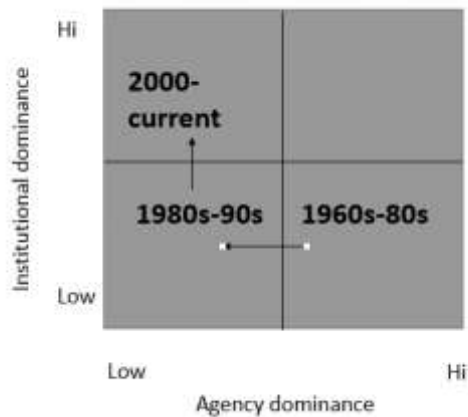
However, a white paper (2013) suggested there is a tradeoff from opening the market to foreign gambling enterprises at the expense of small local companies. The white paper reported that the post-2003 businesses

became smaller in size and their growth shadowed that of Macao’s average overall economic growth, resulting in an imbalance of large foreign companies versus small local companies.

Analysis

Tracing the efforts of institutions in promoting entrepreneurship or small medium sized enterprises, combined with the actual private entrepreneurial activities, Figure 3 is drawn in alignment with the conceptual framework presented in Figure 1. Beginning chronologically from the 1960s, evidence from the data showed that Macao’s government gave a gambling concession to STDM, a consortium of businessmen from Macao and Hong Kong. During the 1960s and 1970s, Macao benefited from the new legitimized gambling industry that brought in millions of tourists from Hong Kong, resulting in an active EE with small businesses feeding the tourist and gambling industries. Indeed, many of the owners of these gambling companies became major Asian tycoons decades later. With little government support, this era can be classified as high entrepreneurial activities and low institutional support, fitting into Cell 3 at the bottom right of Figure 3.

Figure 3. The Evolution of Entrepreneurial Ecosystems in Macao



Source: Author’s Own Configuration

In the 1980s and 1990s, Macao’s government was busy negotiating handover of its sovereignty to China. During this process, entrepreneurial spirits and activities are low due to political uncertainty (Santos et al. 1994), as evidence from the data showed that most of the institutional efforts are on

planning the roadmap to prepare for handover. The preparation included mostly large-scale infrastructure projects (Macaoport, airport, bridge) with some major drafts of economic policies which, however, did not seem to specifically target SMEs to support EE growth. This era benefited the already established STDM, the major casino operators. In fact, STDM were able to extend their monopoly for another 15 years till 2001. The two decades before the formal handover to China in 1999 were, thus, low in both entrepreneurial activities and institutional support, placing them in the lower left corner in Cell 1 of Figure 3.

The handover of sovereignty in 1999 resulted in many additional and positive institutional efforts to support EE. Although 2003, the year gambling monopoly to STDM was opened to foreign enterprises, was marked as the watershed dividing large foreign firms and small local firms (Sit et al. 1991), Macao's government launched a series of SME-focused policies and infrastructure projects to support the growth of EE. Some of these activities included SME Aid Scheme, CEPA, SME Center, Hengqin-Macao Cooperation, InnoICT Business Plan, and the Annual Franchise Expo. This era of strong institutional support can be classified as Cell 2 in Figure 3. Although with high institutional support, there does not seem to be too many traceable activities by entrepreneurial actors during this period, other than increasing investment from large casino operators, both foreign and local, and local entrepreneurs who are family members of the large casino operators. Macao maybe on its path toward Cell 4 of Figure 4 in the near future as government-sponsored Startup incubators began to emerge in 2015. More entrepreneurial activities are still needed to bring them toward EE of a co-creation nature.

Conclusion

This paper used the two major components of institutions and agents within an EE and proposed a new conceptual framework of institutional- versus agency-dominance dimensions to examine an EE. Fifty or so years of history of Macao was used to illustrate the new conceptual framework. The results of the study showed that Macao's EE was in agency-dominance in the 1960s and 1970s, moved to inertia in low institutional- and low agency-dominance in the 1980s and 1990s, and became institutional-dominance in the 2000s and onwards.

The various stages of Macao's EE, as analyzed historically and then categorized in the conceptual framework, provide insights for EE researchers and policy makers. For researchers, the findings confirmed that an EE is not static (O'Connor et al., 2018) and is indeed evolutionary. Researchers can use the empirically tested new conceptual framework to trace other EEs at a place, be it a nation, a town, a city, or within an industry. The conceptualization of

agency - versus institutional-dominance adds toward the need for theorizing EE research (Autio et al. 2018). The case study of Macao adds to the inventory of longitudinal investigation of EE (Mack and Mayer 2015).

For policy makers, the slogan of 'we build them, they will come' is unfortunately not always correct. Most of the policies that are aimed to support SMEs are ultimately rarely used (White Paper 2013) or ineffective (Ács et al. 2017). A top-down approach to build EE is suspect. A more stakeholder-focused ecosystem building approach has been suggested (Autio and Levie 2015) and, possibly, a co-creation route maybe more effective. Future research should investigate the process of building EE from a co-creation perspective to identify the changing roles of institution and agents. One such idea was proposed in Sussan and Ács (2017) in the digital economy environment where digital entrepreneurs will dominate in the rewriting of governance for their industry. If that's the case, it will become necessary for policy makers to rethink when and what roles they should assume in the development of EE, specifically related to digital entrepreneurship.

Reference

- Acs ZJ, Åstebro T, Audretsch D and Robinson DT (2016). Public policy to promote entrepreneurship: a call to arms. *Small Business Economics* 47(1): pp.35-51.
- Alvarez SA, Young SL and Woolley JL (2015). Opportunities and institutions: A co-creation story of the king crab industry. *Journal of Business Venturing* 30(1): pp.95-112.
- Autio E and Fu K (2015). Economic and political institutions and entry into formal and informal entrepreneurship. *Asia Pacific Journal of Management* 32(1): pp.67-94.
- Autio E and Levie J (2015). *Management of entrepreneurial ecosystems*. Imperial college Business School. Mimeo.
- Chinta R and Sussan F (2018) A Triple-Helix Ecosystem for Entrepreneurship: A Case Review. In: O'Connor A, Stam E, Sussan F and Audretsch D (eds) *Entrepreneurial Ecosystems. International Studies in Entrepreneurship* 38. Springer, Cham.
- Dana, LP (1999). The Development of Entrepreneurship in Macao and Hong Kong: A Comparative Study. *Public Administration and Policy* 8(1): 61-71.
- French, JR and Raven B (1959). The bases of social power. Cartwright, D. (Ed.) *Studies in Social Power*. Ann Arbor, Mich: Institute for Social Research.
- Jennings PD, Greenwood R, Lounsbury MD and Suddaby R (2013). Institutions, entrepreneurs, and communities: A special issue on entrepreneurship. *Journal of Business Venturing* 28(1): pp.1-9.

Balancing Institutional and Agency Dominance in Entrepreneurial Ecosystems: A Conceptual Framework and A Case Study of Macao

Levie J and Autio E (2011). Regulatory burden, rule of law, and entry of strategic entrepreneurs: An international panel study. *Journal of Management Studies* 48(6): pp.1392-1419.

Mack, E and Mayer H (2015). The evolutionary dynamics of entrepreneurial ecosystems. *Urban Studies* 53(10): pp.2118-2133.

Mason, C and Brown R (2014). Entrepreneurial ecosystems and growth oriented entrepreneurship. *Final Report to OECD*, Paris.

Mitchell RK, Agle BR and Wood DJ (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management Review* 22(4): pp.853-886.

O'Connor A, Stam E Sussan F and Audretsch D (2018). *Entrepreneurial Ecosystems: Place-based transformations and transitions*. Springer.

Pitelis C. (2012). Clusters, entrepreneurial ecosystem co-creation, and appropriability: a conceptual framework. *Industrial and Corporate Change* 21(6): pp.1359-1388.

Pfeffer, J, (1992). Understanding power in organizations. *California management review* 34(2): pp.29-50.

Santos, NA. Khong KW Trigo V Kong SH Vong FCK (1994). Macanese Entrepreneurship : Past, Present and Future in Rufino Ramos, D. Y. Yuan, John E. M. Barnes, Wong Hon (eds.), *Population and Development in Macao* Macao: Macao Foundation.

Sarasvathy S D (2008). *Effectuation: Elements of entrepreneurial expertise*. Cheltenham, UK: Edward Elgar.

Sarasvathy S D and Venkataraman S (2011). Entrepreneurship as method: Open questions for an entrepreneurial future. *Entrepreneurship Theory and Practice* 35(1): pp.113-135.

Sit, VFS, Cremer R and Wong SL (1991). *Entrepreneurs and Enterprises in Macao: A Study of Industrial Development*: pp. 75-194.

Sussan F and Acs ZJ (2017). The Digital Entrepreneurial Ecosystem. *Small Bus Econ* 49(1): pp. 55-73.

Sussan F, Autio E and Kosturik J (2016). *Leveraging ICTs for Better Lives: The Introduction of an Index on Digital Life*. CPRLATAM Conference, Mexico, June 22-23rd, 2016 in conjunction with CLT2016, June 20-23rd.

Sussan F, Sloboda B and Hall R (2018). Is There a Path from Sin City to Tech City? The Case for Las Vegas. In: O'Connor A, Stam E Sussan F and Audretsch D (eds) *Entrepreneurial Ecosystems. International Studies in Entrepreneurship* 38. Springer, Cham.

White Paper (2013). Macao Micro Small Medium Company White Paper. Available at: <https://www.sme.org.mo/tc/whitepapers/> (Accessed 5 June, 2017).

On Understanding the Confluence of Recent Political Events with the Current State of Entrepreneurial Ecosystem in India

Subhashis NANDY*

***Abstract:** This paper investigates the confluence of recent important political events and the current state of entrepreneurial ecosystem (EE) in India. Prior work has mainly focused on the development of EE only in certain cities in India but not in India's states. Filling this gap of knowledge, the current work uses data from multiple sources (GEM data, World Bank, Indian government) to show that the development and growth of EE has taken a firm foothold across India after Modi's win in the 2014 national election. Further, this work strives to develop an understanding of how the ascend of Modi's leadership and recent reforms in India might have led to the development of a healthy EE. This paper also addresses certain challenges faced by institutions and entrepreneurs in India.*

***Keywords:** Entrepreneurial Ecosystem, India, Venture Capitalists, Global Entrepreneurship Monitor (GEM), Information Technology*

Introduction

INDIA HAS THE WORLD'S SIXTH LARGEST GDP (Gross Domestic Product). India's GDP in 2016 was \$2.26 trillion (World Bank 2018). Among the entrepreneurs in India, about 40% are engaged in retail activities, which exclude retailing of automobiles (Aurora 2015). Previous research focused on the development of entrepreneurial ecosystems (EE) in certain regions of India, such as in the south - Hyderabad and Bangalore (Subrahnanya 2017), in the west - Pune, and in the north - National Capital Region of Delhi (Srivastava 2017). There is a lack of research that documents the development of EE all

* Subhashis NANDY, Research Fellow, Center for Global Business and Information Technology Research, School of Advanced Studies, University of Phoenix. Email: subasnandy@email.phoenix.edu

across India within the current political environment. Hence, the focus of the present work is to understand and document the development of EE in India.

Literature Review

Baporikar (2013) suggested that the Indian government would have to develop and foster policies to encourage entrepreneurs to flourish in a networked Indian economy. Baporikat (2013) stated that the government of India must provide access to capital and develop the right environment for entrepreneurs to flourish. Aurora (2015) mentioned that, according to data from the Government of India, micro, small, and medium enterprises (MSME) contributed 8% to annual GDP and created 1.3 million jobs in India every year over the past several years.

IT Industry

In the past, India's economic growth was bolstered by the strong performances of entrepreneurial companies in Information Technology (IT) industry. Initially, Bangalore (south) emerged as the central hub of IT business in India in 1990s, but, in the very recent past, Hyderabad (south), Kolkata (east) and Pune (west) also emerged as other entrepreneurial centers for IT companies (Ramachandran and Ray 2005; Kolluru and Kolluru 2014). Bargade and Baporikar (2017) completed case studies on two innovative entrepreneurial IT companies in India: Infosys Edge Limited and Phoenix IT Solution Limited. These authors concluded that the success of the IT industry in India has depended on nurturing a large talent pool of software scientists and engineers, who can develop sophisticated computer codes to innovate business processes. With Internet as a major business enabler, sales and marketing on global scale are not an issue for these entrepreneurial IT firms in India. Meil and Salzman (2017) noted that entrepreneurial businesses IT in India follow distinctive paths. Their achievements are different from other entrepreneurial businesses - as shown by the states of their business development and in their economic activities.

Srivastava (2017) estimated that more than 80% of entrepreneurs in India close their business within the first three years of their operation. Subrahmanya (2017) opined that the entrepreneurial ecosystem (EE) in Bangalore (the center of IT industry in India) and in Hyderabad (the capital of Andhra Pradesh and Telangana states) had entrepreneurs and prospective entrepreneurs surrounded by an outer layer. According to Subrahmanya (2017), this outer layer consisted of (i) private enterprises, (ii) education and research institutions, (iii) positive government support, (iv) venture capitalists, (v) accelerators such as business incubators or co-working spaces, and (vi)

technology and business mentors. Subrahmanya (2017) further stated that the EE in these two cities was also aided by exclusive start-up promotion policy, good weather, supportive media, and supportive culture.

In a recent paper, Jha (2018) discussed several positive aspects of the entrepreneurial ecosystem in India. According to Jha (2018), there are several innovative opportunities for entrepreneurs to explore in India: an educated workforce is available to be employed, and the ample availability of venture capital funding. However, Jha (2018) stated that there are also challenges to overcome in the further development of the entrepreneurial ecosystem of India. Jha (2018) identified these challenges: 1. value creation for venture capitalists, 2. the development of an acceptable framework for VCs to exit smoothly after providing the seed funding for entrepreneurial ventures, 3. proper education of young entrepreneurs, and 4. the need to develop a tolerance for failures in entrepreneurial activities in India.

Venture Capital

Deva (2008) stated that venture capital has become one of the main vehicles for investments in entrepreneurial business in India since late 1980s. This happened because of the formation of conducive legal and economic environment for foreign direct investment in India. Initially, venture capitalists (VCs) invested in the growing information technology (IT) sector. However, in the early 2000s, foreign VCs faced limitations in investments because Indian company laws did not allow foreign limited partnership or limited liability partnership (Deva 2008). This situation changed with the enactment of new Bankruptcy Code in India and American tax authorities accepting advances through bilateral pricing agreements (Weblog post 2016). Panda and Dash (2016) studied the relationship between venture capitalists (VC - representing institutions) and entrepreneurs (representing agents) in India. Their empirical case study revealed that the initial stages of the relationship between VC and entrepreneur entail low risks for agents, and a relational mechanism is used to develop cooperation between agents and VCs. However, in the later stages, the relationship with VCs entails more risks for the agents in terms of deprivation of funding. These authors suggested a control mechanism needs to be adopted in the later stages to mitigate this risk for the agents. Mishra and Bag (2017) stated that the Indian economy witnessed high inflow of capital for startups in recent years through venture capital (VC) investment. However, VC investors prefer to invest jointly. In other words, joint investment or co-investment or syndication is a common trend. According to Mishra and Bag (2017), VCs adopt this strategy to minimize their future uncertainties as a part of the control mechanism. Jha (2018) stated that value creation for venture

capitalists is one of the main hurdles that must be overcome in the development of a thriving EE in India.

Recent Political Events in India

The Hindu nationalist Bharatiya Janata Party (BJP) won 282 seats out of a total of 543 seats in lower house (*Lok Sabha*) of the Parliament in the general elections held in 2014 (Chacko & Mayer 2014; Tillin 2015). The BJP was the first single party since 1984 to win majority status in the Lok Sabha. The Indian National Congress Party (commonly known as the “Congress” party), which held the majority stake in the Parliament since India’s independence from Britain in 1947 to the 1980s, was reduced to a minority opposition party in the *Lok Sabha* after the 2014 elections (Chacko & Mayer 2014). The BJP won by a large margin as its leaders ran an effective election campaign, focusing on governance failure of the previous government, such as rising inflation and corruption scandals in the government (Chacko & Mayer 2014).

Narendra Modi, who in the past served as an effective chief minister (chief executive) of one of the most entrepreneurial and economically successful states of India, was promoted as the top leader of the BJP before the national elections in 2014. Mr. Modi became extremely popular among the electoral masses in the populated northern and central states of India (Chacko & Mayer 2014). After BJP’s massive victory in the general elections in 2014, Narendra Modi became the Prime Minister (Chief Executive) of India.

Political Impact on the Economy

The Congress government which ruled India in 1991, adopted a neo liberal economic policy that led to growth in India’s Gross Domestic Product (GDP) but did not reduce unemployment significantly over the years (Siddiqui, 2017). India’s economy opened to foreign direct investment in 1991, duties on imports were reduced, and taxes on capital gains were reduced (Siddiqui 2017). From 1991 to 2001, India’s GDP grew at an average rate of 5.7% (Siddiqui 2017) – that was not much different from the growth rate of India’s GDP in 1980s. Inflation in India increased to more than 10% during the first decade of 2000s. Since 1997, growth in the agricultural and manufacturing sectors in India have been only 2.3% and 4.3% respectively. These two sectors account for about 80% of employment in India (Siddiqui 2017). On the other hand, growth in the financial sector has been on the average 11.5% annually (Siddiqui 2017).

Data and Analysis

Longitudinal data from the World Bank, the Indian government, and Global Entrepreneurship Monitor (GEM) were collected to illustrate the impact of Modi's ascent as Prime Minister and the subsequent impact on EE in India. Table 1 reports the changes of the ranking of India in its ease of doing business, a common measurement for EE quality.

Table 1: Ranking of India in Ease of Doing Business

Categories	DB 2018 Rank (out of 190 countries)	DB 2018 DTF (DTF is Distance to frontier"	DB 2017 DTF	Percent Change
Overall	100	60.76	56.05	+4.71
Starting a business*	156	75.40	73.69	+1.71
Dealing with a construction permit*	181	38.80	36.17	+2.63
Getting Electricity	29	85.21	85.17	+0.04
Registering Property	154	47.08	48.83	+0.25
Getting Credit*	29	75	65	+10
Protecting Minority Investors*	4	80	76.67	+3.33
Paying Taxes*	119	66.06	47.67	+18.39
Trading Across Borders*	146	58.56	57.61	+0.95
Enforcing Contracts*	164	40.76	38.90	+1.96
Resolving Insolvency	103	40.75	32.75	+8.00

Source: World Bank - <http://www.doingbusiness.org/data/exploreconomies/india>

The items in Table 1 that are marked with an asterisk indicate the areas that India has made improvements in 2018. According to the World Bank (2018), these improvements are:

- Starting a Business: This category has accelerated by merging the applications for the Permanent Account Number (PAN) and the Tax Account Number (TAN), and by improving the online application system.
- Dealing with Construction Permits: India made dealing with construction permits less cumbersome by implementing an online system
- Getting Credit: India strengthened access to credit by amending the rules on priority of secured creditors outside reorganization proceedings and by adopting a new law on insolvency that provides a

time limit and clear grounds for relief to the automatic stay for secured creditors during reorganization proceedings.

- Protecting Minority Investors: India strengthened minority investor protections by increasing the remedies
- Paying Taxes: India made paying taxes easier by making payment of taxes mandatory electronically and
- Trading across Borders: India reduced import border compliance time in Mumbai by improving infrastructure at the Nhava Sheva Port. Export and import border compliance costs were also reduced both in Delhi and Mumbai by eliminating merchant overtime fees and through the increased use of electronic and mobile platforms.
- Enforcing Contracts: India made enforcing contracts easier by introducing the National Judicial Data Grid, which makes it possible to generate case measurement reports on local courts.
- Resolving Insolvency: India made resolving insolvency easier by adopting a new insolvency and bankruptcy code that introduced a reorganization procedure for corporate debtors and facilitated continuation of the debtor’s business during insolvency proceedings.

World Bank (2018) gave India a score of 100 among 190 countries in “Doing Business” rankings (which is a measure of business regulations), as compared with China’s ranking of 78.

Table 2: Ranking of the states of India in the Category of “Ease of Doing Business”

State	2016 Score (%)	Rank (2015)	Rank (2016)	Percent Change
Andhra Pradesh	98.78	2	1	-50
Telangana	98.78	13	2	-84.6
Gujarat	98.21	1	3	200
Chhattisgarh	97.32	4	4	0
Madhya Pradesh	97.01	5	5	0
Haryana	96.95	14	6	-57.1
Jharkhand	96.57	3	7	133
Rajasthan	96.43	6	8	33.3
Uttarakhand	96.13	23	9	-60.9
Maharashtra	92.96	4	10	150

Source: Assessment of Implementation of Business Reforms 2016, published by the Department of Industrial and Procedures. Government of India.

In Table 2, a positive percentage change indicates a deterioration in the ranking of a state in “Ease of Doing Business” from 2015 to 2016, whereas, a negative percentage change shows an improvement in a state’s ranking. Data from the above table show that among all the ten states considered, four

states – Andhra Pradesh, Telangana, Haryana and Uttarakhand showed significant improvement in rankings from 2015 to 2016, while the states of Chhattisgarh and Madhya Pradesh maintained the same rankings between 2015 and 2016. The state of Gujarat (home state of the current Prime Minister of India) slipped in ranking from 1 to 3 between 2015 and 2016. Some of the highlights of the analysis are:

- Andhra Pradesh (capital city: Hyderabad) was ranked 1st in 2016, compared to 2nd in 2015. In 2016, this state scored 100% on 8 of 10 parameters. These 8 parameters were: 1. Access to Information and Transportation, 2. Single Window Policy, 3. Construction Permits, 4. Environmental Regulations, 5. Labor Registration, 6. Obtaining Utility Connection, 7. Tax Registration and Compliances, and 8. Carrying out Inspections. The two parameters where the scores were less than 100% were: Land and Property Rights (90% score) and Enforcing Contracts (77.78% score).
- Telangana (capital city: Hyderabad) jumped from a rank of 13th in 2015 to 1st in 2016. It scored 100% on 7 out of 10 parameters, and above 90% on another 2 parameters, which were Land and Property Rights, and Construction Permits. Telangana had room for improvement on Enforcing Contracts (88.89% score).
- Gujarat (capital city: Gandhinagar) was ranked 2nd in 2016, down from 1st in 2015. The state scored 100% on 6 of the 10 parameters of this assessment. In 2016, Gujarat focused extensively on strengthening their single window system, as well as on inspections reforms. Although Gujarat scored 100% on 6 of 10 parameters, it had room for improvement on Land and Property Registration (90% score), Construction Permit (95% score), Tax Registration and Compliance (98% score) and Enforcing Contracts (77.78%).

Table 3 shows that nine of the top ten most entrepreneurial states (except for Uttarakhand) saw an increase in the number of private companies that were newly registered for business from 2012-2013 to 2013-2014. No data exist for 2014-2015. The increase from 2012-2013 to 2013-2014 could be attributed to the anticipated results from the parliamentary elections and the expected electoral victory of the current Prime Minister, Narendra Modi, in 2014.

Table 3: Private Companies – Newly Registered for Business in the Top Ten Entrepreneurial States – Comparison from 2012-2013 to 2013-2014 and 2015-2016

	2012-2013	2013-2014	Percent Change from 2012-2013 to 2013-2014	2015-2016
Andhra Pradesh	6460	7981	23.50	2144
Telangana				5689

On Understanding the Confluence of Recent Political Events with the Current State of Entrepreneurial Ecosystem in India

Gujarat	4337	4977	14,75	3535
Chhattisgarh	462	512	10.82	409
Madhya Pradesh	2126	2165	1.83	1508
Haryana	2944	3401	15,52	3341
Jharkhand	652	940	44.17	860
Rajasthan	3432	3503	2.07	2257
Uttarakhand	5933	466	-92.10	505
Maharashtra	15616	17220	10.27	15138

*Source: Ministry of Statistics and Programme Implementation.
<http://www.mospi.gov.in/statistical-year-book-india/2017/186>*

Table 4 shows that societal values towards entrepreneurship in all categories have increased from 2015 to 2016. The societal value toward “Entrepreneurship as a Good Career Choice” shows the highest increase of 12.97% from 2015 to 2016.

Table 4: Comparison of Societal Values Towards Entrepreneurship Between 2015 and 2016 (Reported as Percentages of Adults Surveyed)

Category	2015 (%)	2016 (%)	Percent Change
High Status to Successful Entrepreneurs	46.5	46.6	0.20
Entrepreneurship as a Good Career Choice	39.3	44.4	12.97
Media Attention to Entrepreneurship	39.4	39.7	0.76

Source: GEM (Global Entrepreneurship Monitor) India Annual Report, 2018.

Table 5 shows that among the states considered in the study (Gujarat, Madhya Pradesh and Chhattisgarh, Jammu and Kashmir) – Gujarat shows the highest percentages in favorable rating of societal values toward entrepreneurship. As shown in Table 2, - Gujarat was ranked - 3, Madhya Pradesh – 5, and Chhattisgarh - 4 among the ten most entrepreneurial states in India in 2016.

Table 5: Comparison of Societal Values Towards Entrepreneurship in Different States (Reported as Percentages of Adults Surveyed)

	Gujarat (%)	Madhya Pradesh and Chhattisgarh (%)	Jammu and Kashmir (%)
Entrepreneurship as a Good Career Choice	55.2	41	9
High Status to Successful Entrepreneurs	63.2	33.8	2.9
Media Attention to Entrepreneurship	57.2	38.1	4.8

Source: GEM India Annual Report, 2018.

Table 6 shows that increases in all three categories of self-perception towards entrepreneurship (“Perceived Opportunity”, “Perceived Capability” and “Entrepreneurial Intention Rate”) between 2015 and 2016. At the same time, there was a decrease of 15.9% in the “Fear of Failure” category between 2015 and 2016.

Table 6: Self-Perception Among Entrepreneurs Regarding Starting a Business (Reported as Percentages of Adults Surveyed)

Categories	2015	2016	Percent Change
Perceived Opportunity	38	44.3	16.6
Perceived Capability	38	44	15.8
Fear of Failure	44	37	-15.9
Entrepreneurial Intention Rate	9	14.9	65.6

Source: GEM India Annual Report, 2018.

Table 7 shows that male respondents who participated in the survey in 2016 show the highest percentages in favorable rating regarding starting a business. The preferences for the first three categories (“Perceived Opportunity,” “Perceived Capability,” and “Fear of Failure”) are quite similar for both genders, while the preferences for “Entrepreneurial Intention Rate” are low for both genders.

Table 7: Self-Perception Among Entrepreneurs Regarding Starting a Business (Reported as Percentages of Adults Surveyed) - Comparison Among Genders

Categories	Male (%)	Female (%)
Perceived Opportunity	59.2	40.8
Perceived Capability	60.5	39.5
Fear of Failure	61.2	38.8
Entrepreneurial Intention Rate	17.5	12.4

Source: GEM India Annual Report, 2018.

Table 8 shows that the highest percentages of adults (surveyed by Global Entrepreneurship Monitor) who were involved in “Total Entrepreneurial Activity” were in the South and West regions of India.

Table 8: Distribution of Total Entrepreneurial Activity in the Different Regions of India in 2016 (Reported as Percentages of Adults Surveyed)

Regions	Total Entrepreneurial Activity (%)
East	7.0
West	5.8

On Understanding the Confluence of Recent Political Events with the Current State of Entrepreneurial Ecosystem in India

South	13.4
North	16

Source: GEM India Annual Report, 2018.

Data from Table 9 show that the mean scores for India (usually considered a factor economy) are comparable to the scores or exceed the mean scores of the highest form of economy- innovation-driven economy. India’s mean score is lower than that of innovation-driven economy in “Physical Infrastructure.”

Table 9: Comparison of Mean Scores of Entrepreneurship Framework Conditions Between Different Forms of Economies and Indian Economy in 2016

Parameters	Factor Driven	Efficiency Driven	Innovation Driven	India
Entrepreneurial finance	3.9	4	4.5	5.7
Government policies and relevance	4.7	3.9	4.5	5.6
Government policies taxes and bureaucracy	4.4	3.6	4.3	4.3
Government entrepreneurship programs	4.4	3.9	4.8	4.7
Entrepreneurial education at school level	2.8	2.9	3.4	4
Post-school entrepreneurial education	4.6	4.5	4.7	5.1
R&D transfer	3.2	3.5	4.4	4.8
Commercial and legal infrastructure	5.1	4.6	5.2	5.2
Internal market dynamics	4.8	5	4.9	6.3
Internal market burden or entry regulations	4.0	4	4.6	5
Physical infrastructure	6.0	6.4	6.8	6.5
Cultural norms	4.5	4.7	4.9	5.2

Source: GEM India Annual Report, 2018.

Global Entrepreneurship Monitor (GEM, Babson College, Boston) also conducted national expert surveys (NES) in India in 2016 and 2017. The survey findings showed that the major constraints to the flourishing of entrepreneurial activities in India are: (1) financial support, (2) cultural and

social norm, (3) R&D transfer, and (4) education and training. GEM also noted that the major source of empowerment and support to entrepreneurs in India came from the entrepreneurship programs recently adopted by the current government, under the current Prime Minister Narendra Modi. Some of these programs recently implemented by the government of India are: “Startup India,” “Stand Up India,” “Skill India,” and “Made in India.” The authors of this report opined that these government support programs have created a favorable entrepreneurial ecosystem in India. Further, it was noted that the government of India has taken steps to adopt favorable regulations and policies to support entrepreneurs. The authors also mentioned that universities have started new programs in entrepreneurial education and training. These institutions of higher learning established incubators to support entrepreneurial activities (GEM 2016-2017; India Annual Report, 2018).

Conclusion

It can be concluded that the societal value toward “Entrepreneurship as a Good Career Choice” in India increased between 2015 and 2016. Further, as the World Bank (2018) report suggests, certain factors considered in “Ease of Doing Business” improved in India from 2017 to 2018. Increases have been observed in all three categories of self-perception of adults in India towards entrepreneurship - “Perceived Opportunity,” “Perceived Capability,” and “Entrepreneurial Intention Rate.” At the same time, there has been a decrease in the “Fear of Failure” category among adults in India. Overall, it can be concluded that the societal values towards entrepreneurship and self-perception of adults toward entrepreneurship have improved under the current Prime Minister in India. Further, the government of India has taken adequate steps to foster a thriving entrepreneurial ecosystem (EE). With adequate venture capital funding, the entrepreneurs can now leverage the EE in India to start successful new ventures.

References

- APS (Adult Participation Survey) Data 2016-2017, GEM India (2018). Available at: http://www.gemindiaconsortium.org/gem_data_APS.php (accessed 10 April 2018).
- Aurora R (2015). Why India is the Land of Rising Entrepreneurship. *Inc.* Available at: <https://www.inc.com/rohit-arora/why-india-is-the-land-of-rising-entrepreneurship.html> (accessed 9 March 2018).
- Baporikar N (2013). Entrepreneurship in a Networked Modern Indian Economy. *International Journal of Asian Business and Information Management* 44(4): pp. 48-66.
- Baragde D and Baporikar N (2017). Business Innovation in Indian Software Companies. *Journal of Science and Technology Policy Management* 8(1): pp.62-75.
- Chacko P and Mayer P (2014). The Modi lahar (wave) in the 2014 Indian national election: A critical realignment? *Australian Journal of Political Science* 49(3): pp.518–528.
- Deva S (2008). Foreign Venture Capital Investment: The Indian Experience. *The International Lawyer; Chicago*; pp.177-192.
- Gokhale N (2016). Supporting Research-Inspired Entrepreneurial Activities in India. *Technology Innovation Management Review* 6(5): pp.10-14.
- Global Entrepreneurship Monitor (GEM) India 2016-2017 Annual Report (2018). Babson College, Boston, Massachusetts. Available at http://www.gemindiaconsortium.org/gem_india_report.php (accessed 7 April 2018).
- Government of India Ministry of Skill Development and Entrepreneurship (2016). Available at: <http://www.skilldevelopment.gov.in/proposed-scheme.html> (accessed 31 July 2018).
- Jha SK (2018). Entrepreneurial Ecosystem in India: Taking stock and looking ahead. *IIMB Management Review* 30: pp. 179-188.
- Kolluru M and Kolluru SK (2014). A Study of Software Technology Parks in India. *Indian Journal of Management Sciences* 4(3): pp.35-43.
- Loomba J (2014). 16th Lok Sabha Elections and Contagion Effects to Indian Stock Market. *Asia Pacific Journal of Management & Entrepreneurial Research* 3(2): pp. 133-149.
- Meil P and Salzman H. (2017). Technological Entrepreneurship in India. *Journal of Entrepreneurship in Emerging Economies* 9(1): pp.65-84.
- Mishra S and Bag D (2017). Syndication in Venture Capital Investment in India: An Empirical Study. *Journal of Entrepreneurship and Innovation in Emerging Economies* 3(2): pp. 81–90
- NES (National Expert Survey) Data 2016-2017, GEM India (2018). Available at: http://www.gemindiaconsortium.org/gem_data_NES.php (accessed 7 April 2018).

Panda S and Dash S (2016). Exploring the venture capitalist – entrepreneur relationship: evidence from India. *Journal of Small Business and Enterprise Development* 23(1): pp.64-89.

Ramachandran K and Ray S (2005). Formation of Information Technology Clusters: How Late Movers Follow Models Different from Early Movers. *Working Paper Series*. Indian School of Business. Available at www.isb.edu (accessed 8 June 2018).

Siddiqui K (2017). Hindutva, Neoliberalism and the Reinventing of India. *Journal of Economic and Social Thought* 4(2): pp.142-186.

Srivastava K (2017). Contours of Indian Entrepreneurial Ecosystems – Perspectives from Pune and NCR Delhi. *Journal of Commerce & Management Thought* 8(2): pp. 318-332.

Subrahmanya MHB (2017). Comparing the Entrepreneurial Ecosystems for Technology Startup in Bangalore, and Hyderabad, India. *Technology Innovation Management Review* 7(7): pp. 47-61.

Tillin L (2015). Indian elections 2014: explaining the landslide. *Contemporary South Asia*. 23(2): pp.117–122.

Weblog post. (May 18, 2016). Newstex Global Business Blogs. The Hindu Business Line: US firms bullish on India after passage of bankruptcy law, says US official.

World Bank Data (2018). Available at: <https://data.worldbank.org/country/india> (accessed 31 July 2018).

Global Political Context in Entrepreneurial Ecosystems Building: The Case of Morocco

Louis DAILY*

Fiona SUSSAN**

***Abstract.** Research on entrepreneurship ecosystems (EE) lacks a political contextual approach, particularly in emerging economies. Morocco is a large country in the MENA region where entrepreneurship activities have been thriving over the past decade. Morocco, a kingdom endowed with many natural resources, has been labeled the “anti-Silicon Valley” for its vibrant but casual entrepreneurial community. This paper investigates the Moroccan EE from an international geo-political perspective to provide a gateway to understand entrepreneurship development in the region. The shaping of the entrepreneurial community in Morocco is also the result of the significant influence of foreign government. The investigation of the significance of foreign assistance as a soft policy tool in a target region or country is lacking in prior EE research. Morocco is a good example since the US foreign policy interests have been translated in significant foreign assistance programs.*

Introduction

ENTREPRENEURIAL ECOSYSTEMS is an important and urgent topic that has been investigated by practitioners (Feld 2012; Hermann, Gauthier, Holtzschke, Berman, and Marmer 2015), scholars (Ács, Autio, and Szerb 2014; Isenberg 2010), policy makers (OECD 2013), and think tanks (Stangler and Bell-Masterson 2015). As EE activities are coming in from various angles, academic entrepreneurial researchers called for a more holistic and integrative approach to study entrepreneurial activities (Markley, Lyons, and Macke 2015; Stam 2015). To address this gap of knowledge, this paper uses geo-political lenses to investigate the EE of Morocco.

Specifically, there exists a significant role of foreign government and its impact on the local EE formation, but such significant role has yet to be

* Louis DAILY, Research Fellow, Center for Global Business and Information Technology, School of Advanced Studies, University of Phoenix, USA, dailyl@email.phoenix.edu

** Fiona SUSSAN, School of Advanced Studies, University of Phoenix, USA, fsussan@gmail.com

investigated in the EE literature. The investigation of the significance of foreign assistance as a soft policy tool in a target region or country is lacking in prior EE research. Morocco is a good example since the U.S. foreign policy interests have been translated in significant foreign assistance programs.

In other words, using EE building in a foreign country as a foreign policy tool to influence a country/ a region (Morocco is an example) has yet to be discussed in the EE literature. Thus, this paper adds new knowledge to EE literature by linking foreign policy agenda with EE activities. The rest of paper will begin with the background of Morocco and brief literature review, followed by U.S. and local entrepreneurial activities in Morocco. The next section analyzes U.S. influence on the Moroccan indigenous EE development. The conclusion includes managerial implications and future research agenda.

Background and Literature Review

Dependency Theory Debate

More than 50 years after its independence, it is obvious Morocco has a special preference for France; however, it is worth pondering on whether U.S. efforts to influence MENA EE could fall under the dependency theory or under neo-colonialism (Wallerstein 2004). Jeffrey Sachs, while highly critical of the Bretton Woods organizations, embraced intervention through his participation in “Millennial Villages” (Sachs, 2006). William Easterly, critical of both the Western financial system (“developing countries are not developing”!) and of Jeffrey Sachs, seems to be on board with helping indigenous entrepreneurs (Easterly 2009). Nobel laureate Joseph Stiglitz, former advisor to President Clinton, lambasts the Western approach to developing economies, even if he did become the Chief Economist at the World Bank (Stiglitz 2002).

Morocco’s Geo-political History and Economy

To understand Morocco’s ties with the West in the EE context, we explore recent foreign relations of Morocco. Morocco’s strong ties to the West play a part in the upsurge in entrepreneurial activity in Morocco and generate economic and political benefits (Migdalovitz 2010). Morocco is “...a moderate Arab regime, an ally against terrorism, and a free trade partner. King Mohammed VI ... has taken incremental liberalizing steps ... In the Middle East, it supports a two-state solution to the Israeli-Palestinian conflict...” (Migdalovitz 2010: 1). Reforms have not, however, stopped migration of the poor, potentially radicalized, youth (Migdalovitz 2010). Morocco imports 97% of its energy needs, prompting the government to invest \$9 billion in solar

energy. There is room here for entrepreneurial activity in the solar energy arena (Migdalovitz 2010).

Morocco is seeking membership in the EU, as yet becoming an “associate.” In fact, the European Union is responsible for 73.5% of investment in Morocco, while the Arab world only for 19.3%. As mentioned, there is a large contribution from the U.S. in the form of foreign aid. Morocco has been designated a non-NATO ally by the U.S. government and is one of the 16 partner countries in the EU’s European Neighborhood Policy engaged in bilateral and regional cooperation (Economy of Morocco 2017).

King Mohammed’s and government’s policy of cultivating the West, while garnering economic and military assistance, has not relegated Morocco to rely solely on the West (Encyclopedia of the Nations 2003). King Mohammed VI also maintains close ties with the Arab Maghreb Union (AMU), which includes Algeria, Libya, Tunisia, and Mauritania. King Mohammed wants Jerusalem to be shared among all religions. Although Morocco contributes to the Palestinians, Israeli prime minister Itzhak Rabin visited Morocco in 1993. Morocco could be pivotal in the cause of Middle East peace (Encyclopedia of the Nations 2003).

US Foreign Aid in Morocco

Support from USAID bolstering the EE of Morocco seems in the best interests of both Morocco and the United States. Services and tourism are growing sectors, and tourism and remittances from several million expatriates (mostly in France, Italy, Spain, and Belgium) are a large source of foreign currency. While excessive regulation exists, foreign direct investment is growing, and there is a move toward privatization (Migdalovitz 2010). Foreign direct investment has grown despite excessive red tape and corruption. The current government’s goals are ambitious, looking toward a 6% GDP growth and creating a quarter million jobs by the end of 2018. As just about everywhere, plans have been tempered by the global financial crisis, although farm productivity grew during that period.

U.S. political linkage to Morocco’s EE requires an understanding of USAID and its history. USAID is the primary U.S. agency created by President Kennedy’s Executive Order in 1961 tasked to lift nations out of poverty toward an expanding economy. The stated goal of the agency is to further U.S. interests while improving conditions in the developing world. In other words, USAID promotes economic well-being, human rights, democracy, free markets, finding trading partners, global health, agricultural improvement, education, recovery from conflict and fosters good will. To these ends, USAID spends about one percent of the US budget and is engaged in over 100 countries. (USAID 2017).

In the 1980s, the goal of USAID changed from emphasizing food, nutrition, health and education to stabilizing currencies and financial systems. Activities shifted from individual projects to large programs (e.g., Endeavor, created later). By the 1990s, USAID's top priority was helping countries improve their quality of life. USAID was the lead agency to implement programs following the fall of the Berlin Wall in 1989. USAID helped the transition economies in Central and Eastern Europe develop free market systems and social safety nets. The current focus of USAID is to mobilize investors and capital globally, and to create jobs and business opportunities to help target economies to develop. The agency builds on the assumption that, by growing their economies (e.g., in Africa), these countries are less likely to be germinating beds for terrorist and criminal activities or impacted by terrorists and crime (USAID 2017).

Another USAID effort is the Global Entrepreneurship Program (GEP). The USAID managed program started in 2010, and it aims to support entrepreneurs in Muslim countries (GEP 2017). GEP holds business plan competitions, connects entrepreneurs to capital, creates partnerships between US business schools and schools worldwide and mentor entrepreneurs. The fifth Global Entrepreneurship Summit (GES), an initiative sponsored by GEP, was held in Morocco, after Egypt, Turkey, Dubai, and Malaysia (GEP 2017; Morocco World News 2014). Morocco was selected from 50 other African countries in consideration of the country's recent significant development, as well as the result of U.S. faith in Morocco as an entrepreneurial example for the rest of Africa.

Foreign Investment in Morocco

Morocco is considered, along with South Africa, the most attractive country for direct foreign investments on the African continent. The Minister of Foreign Affairs and Cooperation, Salaheddine Mezouar, stated that "Morocco is going to target the various countries with the aim of assuring wider participation" (GES Marrakech 2014: 2). GES Marrakech 2014 was attended by over 3,000 entrepreneurs, heads of state, government officials, global heads of businesses, officers of small and medium enterprises (SMEs), and corporate officials. African entrepreneurs promoted and pitched their projects in the "innovation village" and shared ideas on a variety of topics, including water management and alternative energy (GES Marrakech 2014).

The Moroccan government's investment in hosting GES Marrakech 2014 has apparently borne fruit. Yasmine El Baggari, a Moroccan entrepreneur and founder of *Voyaj*, an online platform that connects travelers and hosts across the world, outlined the steps the government will take as a result of the summit (El Baggari 2014). *Voyaj* connects people from various countries and

cultures around the world. One can travel as a guest or welcome as a host to share cultural knowledge and understanding, while developing global communication skills (Voyaj 2017).

Data

According to Global Entrepreneurship Monitor (GEM, 2016), at the societal level, Morocco ranks 7th out of the 65 countries surveyed that view entrepreneurship as a good career choice (with 79% of the population having a positive perception). At the individual level, 33% of survey participants admit to fear of failure (rank 42nd out of 65). This translates in 5.6% of citizens who are engaged in startups (i.e., total early-stage entrepreneurial activity rate, hereafter TEA). Entrepreneurial activities of employees are at 0.5% ranking 62 out of 65, and the impact of business service sector rate at 3% resulting in a 62nd ranking for Morocco.

Morocco’s level of primary or secondary education is indexed at 1.21 compared to the MENA level of 1.60. Morocco has a high level of perception of need for new resources when compared to other global markets or MENA. According to this GEM study, Morocco has an “uphill battle,” and government efforts (such as hosting the Global Entrepreneurship Summit, hereafter GES, 2014) have yet to be effective (GEM Morocco Report 2015; GES Marrakech 2014).

Table 1: GEM Survey Morocco 2016

		Value %	Ranking (out of 65)
Self-Perceptions	Perceived Opportunities Rate	45.0	26
	Perceived Capabilities Rate	56.1	42
	Fear of Failure Rate	32.9	42
	Entrepreneurial Intentions Rate	36.2	14
Activity	TEA	5.6	59
	Established Business Ownership Rate	7.5	27
	Entrepreneurial Employee Activity Rate	.5	62
Motivations	Motivation Index	1.8	40
Gender Equity	Female/Male TEA Ratio	67.2	33
	F/M Opportunity-driven TEA Ratio	104.6	12
Impact	High Job Creation Expectation Rate	17.7	42
	Innovation Rate	14.5	61
	Business Services Sector Rate	3.4	62
Societal values	High Status to Successful Entrepreneurs Rate	58.7	50

	Entrepreneurship as a Good Career Choice Rate	79.3	7
--	---	------	---

Source: GEM Global Entrepreneurship Monitor-Morocco (2016)

In addition to the GEM report, which is based on the polling of the perception of individuals and opinions of experts (based on a sample of 2,061 people in their 2015 report and interviews of 50 experts), we report in Table 2 a list of active entrepreneurial activities that have been covered by the press. In fact, the west coast of Morocco is touted as *start-up haven* that is a halcyon and an affordable scene to grow a business (Monks 2016). The fishing village of Taghazout, for instance, was rated by as one of the world’s best startup ecosystems on par with Seattle and London, with its strength in linking Morocco and Europe (Monks 2016). Examples of startups in the village include The Blue House (a British incubator), Maptia (from U.K.), and Chiu (local startup). In Casablanca, Rabat, and Tangiers, we also find high profile local entrepreneurial activities and players: Anou, Endeavor, Greendizer, Hidden Founders, Injaz, New Work Lab, Startup Your Life, and The Moroccan Center for Innovation and Social Entrepreneurship. Many of these local entrepreneurial activities are supported by charities from local industry (e.g., OCP Foundation (El Baggari 2014), infrastructure or large-scale Moroccan government sponsored venues (e.g., TechnoPark since 2001), or global non-Moroccan entrepreneur actors or supporters (e.g., AMPION, Central and Eastern Europe Development Institute (CEED), Startup Maroc (sponsored by Startup Nation), and Wamda. A summary of some of these entrepreneurial entities is as follows:

- **AMPION** is a global entity. It has a Pan African agenda and won the “Pan African Awards for Entrepreneurship in Education 2014.” It is famous for its week-long boot camps on AMPION Venture Buses. It also partners with Microsoft on an incubation program.
- **Anou** was founded by Dan Driscoll. It is a platform for Moroccan made art and crafts. It aims to eliminate the middlemen in bringing indigenous art producer directly to market.
- **Endeavor Morocco** is the Moroccan project of Endeavor. Endeavor is a large non-profit international accelerator started by Linda Rottenberg and Peter Kellner in 1997 to support entrepreneurs. They mainly support high-impact entrepreneurs. They are active in the MENA region in general. For Morocco, they supported the Blue House, Omniup (founded by Ali Bensouda).
- In January 2015, Omniup launched “Omniup Ads,” which seeks to patent free Wi-Fi in public spaces and to finance it through advertisements, coming on for a few seconds just before the Wi-Fi. It is the first company of this kind in North Africa and powers more than

900 internet hubs in 12 Moroccan cities and across the Strait of Gibraltar to Spain (Endeavor Morocco 2017; Omniup 2017).

- **Hidden Founders** in Rabat assists non-technical founders to move from the early idea stage to the product stage. They pursue accelerators, angel investors, and CTOs which help get a startup past the early, most vulnerable stage of development. In exchange for a 3% stake in the start-up, Hidden Founders provides a contract to help start and develop the project.
- **New Work Lab** is an entrepreneur training entity to connect students to mentors and large companies.
- **Startup Your Life (SYL)** is the brainchild of a returnee, Kenza Lahlou, from San Francisco to help connect Moroccan entrepreneurs domestically and internationally. SYL organizes events, “open cafes,” workshops, and networks. SYL partners with CEED and Wamda.
- **Wamda** is a global accelerator that provides research, advisory services and community development worldwide. While they are not located in Morocco, they have offices in Lebanon, UAE, and Jordan.

Table 2 Recent High-Profile Entrepreneurial Activities in Morocco

Time	Entrepreneurs and their organizations	Founders, Locations, Details	Funding and Source
2001	TechnoPark	Casablanca (2001). Rabat (2012), Tangier (2014).	Funded 35% by Moroccan Government and 65% by consortium of Moroccan private banks. https://en.wikipedia.org/wiki/Casablanca_Technopark
2006	AbWeb	Taher Alami for Morocco. AbWeb is a global IT consulting firm.	https://www.b2match.eu/hubafrica2016/participants/341
2007	INJAZ Al-Maghrib	Training program of entrepreneurship to students	https://ma.usembassy.gov/op-ed-realizing-power-entrepreneurship/
2008	Synergie Media	Youness Quassimi, Dutch and Moroccan web design firm	http://www.moroccotomorrow.org/10-tips-for-moroccan-entrepreneurs-from-a-maroc-web-awards-co-founder/
2010	Geek Ffour	Youseff Es-skouri	Like a TEDx or Startup Weekend. Funded by INWI (3 rd largest Moroccan telecom)

2012	The Moroccan Center for Innovation and Social Entrepreneurship	In Rabat.	Sponsored by Drosos Foundation (2003, Zurich, Switzerland) and The National Endowment for Democracy (funded largely by the U.S. Congress). http://www.mcise.org/en/about/ http://www.mcise.org/en/partners/
2013	Endeavor Morocco	Launched with the support of USAID. Only funds high impact entrepreneurs	http://endeavor.org/location/morocco/ https://www.devex.com/news/why-2016-is-a-big-year-for-morocco-s-startup-culture-88675 https://ma.usembassy.gov/op-ed-realizing-power-entrepreneurship/
2013	Startup Your Life	Founder: Kenza Lahlou, Open Cafes series, workshop, network event,	partners with CEED, Wamda https://ma.usembassy.gov/op-ed-realizing-power-entrepreneurship/
2014	The Blue House	British incubator. 2016 Feb on hold	https://medium.com/@YallahAli/why-the-entrepreneur-life-made-me-miserable-and-why-im-putting-the-blue-house-on-hold-95cf1a6f06d
2014	Impact Lab	Leyth Zniber, Casablanca	www.numa.co/casablanca
2015	Maptia	Founder: Jonny Miller from U.K.	www.maptia.com
2015	Anou	Dan Driscoll	Platform to sell on Etsy or eBay
2015	Omniup	Founded by Loan Duong. Provide free Wi-Fi in public spaces in exchange of a 10 seconds advertisements. 900 Internet hubs in 12 Moroccan cities.	Supported by Endeavor ((Endeavor Morocco, 2017; Omniup, 2017). Loan Duong awarded “Best women entrepreneur of the year” http://themoroccantimes.com/2016/03/18208/omniup-ads-morocco
n/a	Hidden Founders	In Rabat, helps non-tech founders	www.hiddenfounders.com
	OCP Foundation	OCP is a global	Promote entrepreneurial

		corporation on phosphate. Their foundation establishes an OCP Policy Center at Mohammed VI Polytechnic University in Rabat	education, training, and employable skills. http://www.ocpgroup.ma/
<i>Non-Moroccan Supporters</i>			
	AMPION	AMPION venture buses – incubation	www.ampionadvisory.com
	CEED	Center for Entrepreneurship and Executive Development, SEAF	https://ma.usembassy.gov/oped-realizing-power-entrepreneurship/ http://ceed-global.org/

Two five-year U.S. funded programs launched by the Millennium Challenge Corporation have contributed significant development funds: \$697.5 million for the first Compact signed in 2007, and \$450 million for the second five-year cooperation Compact concluded in 2015. The first compact invested in five project areas based on Morocco’s own national growth strategy. This strategy was designed to modernize industrial sectors and target areas where the country had competitive advantages, such as textiles, agribusiness, fishing, and handicrafts. Compact II aimed at improving the quality of human capital and land productivity.

Analysis: Tracing USAID and Its Influence in Morocco’s Entrepreneurial Ecosystem

According to the GEM data, at the individual level, 33% of those surveyed admit to fear of failure (rank 42nd out of 65). This contrasting societal positive perception versus individual perception to entrepreneurship leads to a rather dismal population (5 in a 100 or 5.6%) of citizens who are engaged in startups (i.e., total early-stage entrepreneurial activity rate). Entrepreneurial activities of employees are also surprisingly low at 0.5% ranking 62 out of 65, and the impact of business service sector rate at 3% resulting in a 62nd ranking for Morocco. From the same GEM report, the 50 experts polled concluded that the education system in Morocco must be revamped to increase entrepreneurship and pro-active political measures and new policies are necessary.

In analyzing the activities in Table 2, we traced the sources of funding of entrepreneurial activities in Morocco. We noticed funding came from U.S.

sources with many originated from or linked to United States Agency for International Development (USAID 2017). Examples of such linkage include INJAZ, The Moroccan Center for Innovation and Social Entrepreneurship, Endeavor Morocco, and Startup Your Life.

Conclusion and Recommendations

The entrepreneurial ecosystems of Morocco are expanding and show significant potential for growth, especially from the youth population, in the near future. Although incubators, hubs, and summits have helped to strengthen the linkages between those who are creating new ventures for investors, pathways to financing, or even simply completing the formalized paperwork, the high uncertainty avoidance, alongside with the need for connections to the right people at the right time, are still quite essential for entrepreneurial success.

Some of the recommendations for the next 5-10 years for Morocco would be to remain focused on fostering the growth of micro and small enterprises (MSEs) to become small and medium size enterprises (SMEs) in order to support the country's economic development. To support this initiative, changes need to be made in the regulatory framework, and entrepreneurs should get additional access to capital and more advanced technology. Although many of the new ventures are technology-based, they are only using low to medium-level technologies, not allowing for growth in doing business across borders due to the inability to meet the needs of larger corporations.

More significantly, more focus needs to be placed on entrepreneurial education across all levels of society. Inroads have been made in certain towns outside the major cities, but, for the most part, activities, funding, and encouragement and placement of incubators are only found at private institutions where the attendees are wealthier. As long as the entrepreneurial mindset is limited in its developments, there will be limitations for its growth in all sectors of society. Finally, focus on youth education and on fostering the culture of entrepreneurship, along with improving the regulatory environment and diversifying finance sources, will contribute to the sustainable development of entrepreneurial ecosystems in Morocco.

References

Ács ZJ, Autio E and Szerb L (2014) National systems of entrepreneurship: Measurement issues and policy implications. *Research Policy*, 43(3): 476-494.

- Ampion (2017, March 6) Available at www.ampion.org
- Baten J (2016) *A History of the Global Economy. From 1500 to the Present*, 227. Cambridge University Press.
- Desertec (2017, March 6) Available at <http://www.desertec.org/>.
- Easterly W (2009) *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. Oxford University Press.
- Economy of Morocco (n.d.) Retrieved February 25, 2017, from https://en.wikipedia.org/wiki/Economy_of_Morocco
- El Baggari Y (2014) Empowering entrepreneurship in Morocco and beyond. *Atlantic Council*. Available at <http://www.atlanticcouncil.org/blogs/menasource/empowering-entrepreneurship-in-morocco-and-beyond>.
- El Din, Mohamed A (2017, January 21) Entrepreneurship and start-ups sector highly likely. Available at <http://www.dailynewsegypt.com/2017/01/21/611371/>.
- Endeavor Morocco (2017, March 6) Available at <http://endeavor.org/location/morocco/>
- Endeavor (n.d.) Accessed on February 25, 2017, from [https://en.wikipedia.org/wiki/Endeavor_\(non-profit\)](https://en.wikipedia.org/wiki/Endeavor_(non-profit)).
- Feld B (2012) *Startup communities: Building an entrepreneurial ecosystem in your city*. John Wiley & Sons.
- GES Marrakech (2014) Available at <http://gesmarrakech2014.org/en/home/>.
- Global Economy (n.d.) Available at http://www.theglobaleconomy.com/rankings/wb_political_stability/.
- Global Entrepreneurship Monitor (2017) Available at <http://www.gemconsortium.org/about/news>.
- Global Entrepreneurship Monitor – Morocco (2016) Available at <http://www.gemconsortium.org/country-profile/89>.
- Global Entrepreneurship Program (GEP) (n.d.) Available at https://en.wikipedia.org/wiki/Global_Entrepreneurship_Program.
- Herrmann B, Gauthier J, Holtschke D, Berman R and Marmer M (2015) *The Global Startup Ecosystem Ranking 2015: Technical Report for Compass*.
- Hidden Founders (2017, March 6) Available at <http://hiddenfounders.com/>.
- Hofstede G (n.d.) What about Egypt? Available at <https://geert-hofstede.com/egypt.html>.
- Isenberg DJ (2010) How to start an entrepreneurial revolution. *Harvard Business Review*, 88(6): 40-50.

- Kabil S (2016, March 30) Available at <http://endeavoreg.org/the-egyptian-entrepreneur-who-became-a-harvard-case-study/>.
- Markley DM, Lyons TS and Macke DW (2015) Creating entrepreneurial communities: building community capacity for ecosystem development. *Community Development*, 46(5): 580–598.
- Mayard A (2013) *Startup Your Life*. Available at <https://www.wamda.com/2013/11/startupyourlife-community-shaking-moroccan-startup-scene>.
- MENA entrepreneurship ambitions rise (2016, August 28) Available at <http://www.iaauae.org/en/news/mena-entrepreneurship-ambitions-rise.html>.
- Migdalovitz C (2010) *Morocco: Current Issues*. Available at https://digital.library.unt.edu/ark:/67531/metadc505581/m1/1/high_res_d/R_S21579_2010Feb03.pdf
- Monks K (2016) The anti-Silicon Valley: Start-up haven blooms in Moroccan paradise. CNN. Available at <http://www.cnn.com/2015/12/14/world/moroccan-startup-paradise/index.html>.
- Morocco World News (2014) Morocco first African country to host global entrepreneurship summit in 2014. Available at <https://www.moroccoworldnews.com/2014/08/136300/morocco-first-african-country-to-host-the-global-entrepreneurship-summit-in-2014/>.
- New Work Lab (2017, March 6) Available at <https://www.newworklab.com/>.
- OCP Foundation (2017, March 6) Available at www.ocpfoundation.org
- OECD (2013) *Entrepreneurial Ecosystems and Growth-Oriented Entrepreneurship Workshop (The Hague)* Available at <http://www.oecd.org/cfe/leed/entrepreneurialecosystemsandgrowth-orientedentrepreneurshipworkshop-netherlands.htm>.
- Omniup (2017, March 6) Available at <http://advertising.omniup.com/en/rejoignez-nous>.
- Sachs J (2006) *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin.
- Stam E (2015) Entrepreneurial ecosystems and regional policy: A sympathetic critique. *European Planning Studies*, 23(9): 1759–1769.
- Stangler D and Bell-Masterson J (2015) Measuring an entrepreneurial ecosystem. *Kauffman Foundation Research Series on City, Metro, and Regional Entrepreneurship*.
- Startup Angels Cairo (n.d.) Available at <https://startupangels.com/market/cairo/>.
- Stiglitz J (2002) *Globalization and Its Discontents*. New York: Norton.

Synergos (n.d.) Available at <http://www.synergos.org/>.

Thomas M (2005) Editor *Encyclopedia of the Developing World*, 1085. Taylor & Francis.

Voyaj (2017, March 6) Available at www.voyaj.com.

Wamda (2017, March 6) Available at www.wamda.com.

USAID (2017, March 6) Available at www.usaid.gov.

U.S. Embassy Promotes Entrepreneurship in Delta Governorates (2016, October 17)
Available at <https://www.modernghana.com/news/727998/us-embassy-promotes-entrepreneurship-in-delta-governorates.html>.

Wallerstein IM (2004) *World-systems analysis: An introduction*. Duke University Press.

Zhao X, Li H and Rauch A (2012, January) Cross-country Differences in Entrepreneurial Activity: The role of Cultural Practice and National Wealth, Available at https://www.researchgate.net/publication/228963053_Cross-country_Differences_in_Entrepreneurial_Activity_The_Role_of_National_Cultural_Practice_and_Economic_Wealth.