
ESSAYS ON ENTREPRENEURSHIP AND BUREAUCRACY

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Printed by Kopieringen Mid Sweden University, Sundsvall, Sweden, 2008
Abstract

The overall aim of this thesis is to explore the theoretical and empirical relationship between entrepreneurship and bureaucracy, and to examine the cause and effect of entrepreneurship. From this overall aim, four specific questions are investigated. The first question deals with the issue of combining agency and structural explanations of entrepreneurship. Traditional one-sided explanations are discussed, and a two-sided explanatory model of the entrepreneurial choice is presented and tested empirically. In relation to this, the issue of causal heterogeneity is discussed and tested. The empirical results indicate that several country-level variables, including bureaucracy, influence the entrepreneurial choice at the individual level, and that the effect of some individual variables on the entrepreneurial choice varies according to structural context. The following two questions deal with the relationship between the entrepreneur and bureaucracy. The first one describes how the entrepreneurial process is regulated by bureaucracy, and how entrepreneurs solve regulatory problems. From this study it is clear that the smaller entrepreneurs comply with 'good' law in order to enjoy the benefits of formality, and avoid 'bad' law to reduce the costs of formality. The larger entrepreneurs comply with all regulations and are very frustrated over delays and inefficiency. The smaller entrepreneurs have a more understanding attitude towards bureaucratic inefficiency and have less trouble solving regulative problems. Both groups have strategies for solving regulative problems; most frequently this involves social ties with public officials and bribes. The second of the relationship questions investigates the extent to which entrepreneurs are obstructed by or dissatisfied with the regulatory authorities, and whether this varies over different types of entrepreneurs. Based on Schumpeter's distinction between entrepreneurs and other, less creative, business owners, the overall results indicate that creative companies have larger problems with regulatory authorities. The conclusion is that bureaucracy tends to be a problem with regard to new ideas, but not for new companies. The fourth question raised deals with the economic effects of entrepreneurship and bureaucracy. Can entrepreneurship and bureaucracy explain variation in economic development across countries? The results indicate that entrepreneurship combined with bureaucracy offer high explanatory values and that a large part of the variance in economic development, left unexplained by agency behaviour, is explained by the regulation of that behaviour. In terms of policy implications the results indicate that the removal of bureaucratic barriers to entrepreneurs could have large potential payoffs in terms of economic growth.

Keywords: Entrepreneurship, bureaucracy, development, economic growth, agency, structure.
Preface and acknowledgements

Writing a thesis is a lonesome undertaking. But had it not been for the people who helped, liked, published or paid me, this thesis would not have been written. Thanks to all of you for your contributions. Specifically I would like to thank Professor Lars-Erik Wolvén for accepting me as a PhD student and for believing in me and in my ideas. Lars-Erik and my other supervisors, Roine Johansson, Björn Fjaestad, Bengt Flach and Anna Olofsson, have all been very helpful in constructively criticising my thinking and writing, and in helping me transform my ideas into a thesis, in much the same way as when turning a creative business idea into an operative business. Some ideas are lost in the process, usually for a good reason, but those that survive are developed and turned into something tangible – in this case a thesis. Without the guidance of my supervisors my ideas would have remained mere ideas.

All the other sociologists at Mid Sweden University, too many to mention, have also been a great help in this process. In addition to this, they have made my stay at Mid Sweden University a stimulating, eventful and pleasant experience, and I feel very privileged to have been part of the group. Thanks also to all the people on the third floor who made every lunch, coffee break and after work fun and often interesting – I have learnt a lot from you all!

I was fortunate to have Assistant Professor Jonas Edlund as discussant at my last seminar, I am thankful for his thoughtful comments. I would also like to thank my new colleagues at Itps, Swedish Institute for Growth Policy Studies, for accepting that my mind sometimes drifted back to my thesis.

Thanks also to my family in Skåne, who have patiently watched me moving across most of the world’s climatic zones, on impulse, in search of new challenges and experiences.

Finally, thanks to my wife, Docas, and to my girls, Lisa and Amanda, who saw to it that my time away from work was surprisingly and refreshingly free from intellectual contemplation about ontology, entrepreneurs and statistical residuals.

Fredrik Svensson
Östersund October 2008
# Table of contents

1. **INTRODUCTION** ............................................................................................................... 1
   
   1.1. Why entrepreneurship and bureaucracy is interesting ............................................ 4
   1.2. Aim and questions ........................................................................................................ 5

2. **THE THEORETICAL FRAMEWORK** ........................................................................... 6
   
   2.1. Entrepreneurship ......................................................................................................... 6
   2.2. Bureaucracy ................................................................................................................ 8
   2.3. Agency and structure ................................................................................................... 10
       2.3.1. Giddens’ conflationary agency–structure approach .......................................... 12
       2.3.2. Archer’s non-conflationary agency–structure approach ..................................... 14
       2.3.3. Alternative agency–structure models ................................................................. 16
   2.4. Data and ontological models ....................................................................................... 19
   2.5. Agency and structure in theoretical entrepreneurship research .................................. 24

3. **THE THREE RESEARCH THEMES** .......................................................................... 29
   
   3.1. “Before” entrepreneurship/explaining entrepreneurship (I) ................................. 31
   3.2. “During” entrepreneurship/the entrepreneur–bureaucracy relationship (II & III) ................................................................................................................................. 36
   3.3. “After” entrepreneurship/the effect of entrepreneurship on development (IV) ......... 39

4. **METHODOLOGY** ............................................................................................................ 43
   
   4.1. Measurements of entrepreneurship and bureaucracy ................................................. 45

5. **EMPIRICAL FINDINGS** ................................................................................................. 46
   
   5.1. Explaining entrepreneurship ...................................................................................... 46
       5.1.1. Agency, structure and the entrepreneurial choice (Article I) .............................. 46
   5.2. The entrepreneur–bureaucracy relationship ............................................................... 48
       5.2.1. The regulation of entrepreneurship in Zambia (Article II) ................................ 49
       5.2.2. Entrepreneurship and bureaucracy (article III) ............................................... 52
   5.3. The effect of entrepreneurship on development ......................................................... 53
       5.3.1. Entrepreneurship and bureaucracy explaining economic development across countries (article IV) ................................................................. 53

6. **DISCUSSION** .................................................................................................................. 55
   
   6.1. Research implications ................................................................................................. 55
   6.2. Policy implications ..................................................................................................... 56
REFERENCES
List of figures

Figure 1. The newness of entrepreneurship; new idea, new organisation, or both. ..........7
Figure 2. Giddens’ conflationary agency–structure approach. .....................................13
Figure 3. Archer’s non-conflationary agency–structure approach. .................................15
Figure 4. Alternative ontological agency–structure models. ...........................................17
Figure 5. The traditional relationship between ontological model and types of variables in entrepreneurship research. The two broken lines describe the traditional agency explanations and the unbroken line above describes the traditional structural explanation of different entrepreneurial rates. The individual fallacy is marked I. F and the ecological fallacy E. F ........................................................................................................................................................................22
Figure 6. A schematic illustration of the necessary horizontal links between ontology, theory and methodology. ..................................................................................................................................................................................23
Figure 7. In the MOS model the entrepreneurial choice is influenced by motivation, skills and opportunity. Entrepreneurship policy should concentrate on increasing people’s skills and motivation and creating entrepreneurial opportunities. ...........................................27
Figure 8. The concepts surrounding entrepreneurship linked together and categorised vertically according to research level, and horizontally according to causal relation to entrepreneurship. The links between these concepts make up the three research themes discussed in the four articles. ..................................................................................................................................................................................30
Figure 9. Explaining entrepreneurship, rates or individual choice, based on the agency–structure approach. ..................................................................................................................................................................................33
Figure 10. The relationship between the entrepreneur and the bureaucracy. ..................37
Figure 11. The influence on the entrepreneurial process of the bureaucracy and other aspects of social structure. ..................................................................................................................................................................................38
Figure 12. Bureaucratic performance is influenced by policy and the bureaucratic performance has a direct impact on socio-economic development .............................................41
Figure 13. The combined effect on economic development by entrepreneurship and bureaucracy. ..................................................................................................................................................................................42
Figure 14. The four articles with research questions, the variables, data and methods used. .................................................................................................................................................................................................................44
Figure 15. The theoretical and statistical model from article I. ..........................................47
List of articles

This thesis is based on the following four articles, which are referred to in the text by their Roman numerals:

Article I  Agency, structure and the entrepreneurial choice.
Fredrik Svensson
Submitted

Article II The regulation of entrepreneurship in Zambia.
Fredrik Svensson
Submitted

Article III Hindras kreativa företagare av reglerande myndigheter?
Fredrik Svensson
Published in Relationsbyggande för ekonomiska utveckling (2003).

Article IV Entrepreneurship and bureaucracy explaining development across countries.
Fredrik Svensson
Accepted for publication in Journal of Asia Entrepreneurship and Sustainability (2008).
1. INTRODUCTION

The main focus in this thesis concerns the theoretical and empirical relationship between entrepreneurship and bureaucracy. My work in this field evolved from an interest in economic and social development theory (for example Barro and Sala-i-Martin 1995; Gunnarsson and Rojas 1995; Putnam, Leonardi and Nanetti 1993; Schumpeter 1934; Weber and Tawney 1930). Development theory raises questions such as “Why are some countries/regions developing while others seem stagnant?”, “How can development be explained and understood?”, “What policies should be implemented to promote social and economic development?” etc. In the social and economic sciences, attempts to explain economic development are numerous and diverse (Barro 1997). A large number of highly heterogeneous independent variables, contributing to or hindering economic development, have been identified through theoretical and empirical research. Development, or social change, has been a central issue and a source of lively debate since the beginning of social science, when many of the founding fathers wrote extensively on social change. Marx, Weber and Durkheim all wrote about large-scale social change. Indeed, sociology, as well as other social sciences, was born in the nineteenth century out of an attempt to understand and explain social change (Sztompka 1993). The highly uneven distribution of social change over time and space is probably the root of this enduring interest. Remarkable empirical differences can be observed when comparing different societies over time and space. Some societies develop and grow very fast economically, while others appear to stagnate. The central question, of course, is why? And this is where entrepreneurship and bureaucracy, and the relationship between the two, becomes interesting. This thesis is not primarily concerned with development, so I will not dwell on definitions of social and economic development. Here, development is understood and operationalised as long-term economic growth.

It is, however, very clear that both entrepreneurship and bureaucracy are closely linked to the concept of social or economic development. And much of the scientific and political interest in both concepts is linked to the fact that “more entrepreneurship” and “less bureaucracy” is generally perceived to promote development. This analysis is, of course, very simplistic; nevertheless, there seems to be a broad consensus among researchers and policy makers, in public and non-governmental institutions, that entrepreneurship causes positive social and economic development (Audretsch and Thurik 2001; Barro 1996; Bosma and Harding 2006; Shane 2003). Previous ideological differences seem to have declined in recent years. Liberal and conservative writers have traditionally placed more emphasis on the role of entrepreneurship in the development process, while leftist
writers have increasingly become interested in entrepreneurship, especially in the context of poor countries. This change is probably due to the somewhat slow realisation that poor people actually do become entrepreneurs, and that entrepreneurship in many circumstances is the only way out of poverty. Entrepreneurship is now a standard component in development programmes (Stevenson and Lundström 2005), no matter whether they aim to develop urban slums in the third world or peripheral regions in richer countries. If there is a lack of development, entrepreneurship is a standard medicine.

The link between bureaucracy and development is more ideological and more indirect. In media reports, bureaucracy is very commonly seen as an obstacle to development, since it hinders entrepreneurs and business owners from starting and developing their companies. Countless reports of entrepreneurs complaining about bureaucratic difficulties can be found in the media from all over the world. “The difficulty with being a start-up business in the UK is that we’re tied beyond all reason by red tape the whole time” (Clapperton 2005). There are also many narratives in the press describing absurd rules that are being implemented by the bureaucracy. “For example, by law she (a Russian entrepreneur) is required to have two elevators, one for carrying bread and the other for the croutons.” (Tavernise 2002). Although stories like these are very common in the press, it is, of course, impossible merely on the basis of these to say that bureaucracy poses a more general problem to entrepreneurs. There are, however, some scientific studies of the extent to which bureaucracy hinders entrepreneurs and stands in the way of development, where attempts are made to quantify this problem at country level. The World Bank annually publishes reports on the length of time and the number of procedures it takes to start a company in 175 countries (World Bank 2007). The most striking result from these studies is the very large variation. While it takes 2 procedures and 2 days to start a business in Australia, and 3 procedures and 16 days in Sweden, it takes 20 procedures and 136 days to start a business is Equatorial Guinea. When the company is registered it takes 17 licences in Australia, 8 in Sweden and 19 in Equatorial Guinea to operate the business legally. In Zambia it takes 6 procedures and 35 days to start a business and 16 licences to run it. Obviously it is very easy to imagine that this has consequences; both directly for the entrepreneurs and indirectly for the development of the specific country.

This picture of the bureaucracy as an obstacle to entrepreneurship and development has become very strong and has had global political consequences. Governments in many countries have deliberate policies and “action plans” for
regulatory simplification in order to reduce the bureaucratic burden on entrepreneurs. The Danish plan, for instance, states that:

“the government presented a cross-ministerial Action Plan for regulatory simplification, consisting of close to 200 initiatives. The initiatives make use of different instruments for simplification. Some alter legislation, by removing obligations for citizens, companies or local government. Others simplify the administration by reducing the number of authorities that citizens or companies need to interact with or by changing administrative procedures in order to provide better service from the public sector. Finally, a group of initiatives reduces administrative burdens by use of ICT, for instance by allowing reporting and applications via the Internet or by sharing information between different authorities and making single access points for citizens and companies. (Finansministeriet 2004).

Similar plans or programmes can be found in many countries. In Zambia the government seems very aware of, and concerned about, the bureaucratic difficulties faced by entrepreneurs. The Zambian government also seems to acknowledge the link between bureaucratic difficulties and the low levels of investment and economic development.

“When you replace bureaucracy obstacles with a streamlined process, indeed when you replace the old system with customer services centres like this one, outside investors will come.” Minister of Commerce, Trade and Industry, Felix Mutati (Daily Mail 2007)

At the EU level there is also wide acknowledgement that regulation is important for economic growth and development:

“The regulatory framework in which businesses operate is a key factor of their competitiveness, growth and employment performance. Therefore, a key objective of the European Union’s Enterprise policy is to ensure that the regulatory environment is simple and of high quality. This is why “better regulation” is a centrepiece of the European Commission’s “Partnership for Growth and Jobs” (Directorate General for Enterprise and Industry 2007).

Global institutions like the World Bank are also involved in regulatory simplification. The annual World Bank publication “Doing Business” concludes from cross-national analysis that:

“The payoffs from reform appear large. A hypothetical improvement to the top quartile of countries on the ease of doing business is associated with up to 2 percentage points more annual economic growth.” (Mundial 2004).
Like entrepreneurship, bureaucratic simplification and deregulation has become standard medicine wherever development is lacking.

1.1. Why entrepreneurship and bureaucracy is interesting

Entrepreneurship, and the bureaucratic regulation of entrepreneurship, is interesting and important for a number of reasons. Firstly, as seen above, the bureaucratic regulation of the entrepreneurial process does seem to be a problem; many entrepreneurs experience severe delays and disruptions due to inefficient and/or excessive regulation. There is a growing consensus among researchers, government officials and entrepreneurs that the regulation of private enterprises is a potentially serious problem. At firm level, de Soto (2002) has reported very difficult situations for entrepreneurs in relation to the bureaucracy. De Soto argues that the legal system is the principal enemy of small entrepreneurs.

Secondly, there are many entrepreneurs in the world. In developed countries, typically around 5-10% of the adult population is at any given time involved in starting a business. The corresponding figure for less developed countries is around 15-20% (Bosma and Harding 2006). Hundreds of millions of people every year perceive economic opportunities and try to exploit them to improve their lives. And although the meaning, scale and function of the phenomena of entrepreneurship differ between different cultures, countries and economic situations, all these people go through an entrepreneurial process. This process, from the initial idea to the operative business, is regulated by regulatory authorities, i.e. the bureaucracy.

Thirdly, the regulation of entrepreneurship potentially affects the aggregated economic performance of countries and regions. There is strong evidence from cross-national analysis that inefficient and/or excessive bureaucratic regulation, and several other measures of economic freedom, can hinder economic development on the aggregated level (Berggren 2003; Evans and Rauch 1999; Svensson 2008). This link between bureaucratic regulation and development is especially relevant and problematic in the context of less developed countries. Less developed countries have to grow and develop economically to get their populations out of poverty, and at the same time they have very limited resources to spend on making the regulation of entrepreneurship more efficient. This potentially creates a vicious circle. But it also indicates that there could be very large positive payoffs if the bureaucratic hurdles could be reduced.
In studies of entrepreneurship, the institutional setting is often ignored, and traditionally much emphasis has been placed on the entrepreneur and his/her skills and psychological traits (Shane 2003). In institutional research, both in economic and social fields, much emphasis have been placed on formal and informal rules and how these potentially hinder or facilitate social and economic development, and the role of agents is typically excluded. In this thesis I will try to combine these two research fields by studying the agent in an institutional/structural setting, i.e. the entrepreneur in the bureaucracy. For such a study to be meaningful it must be assumed that the bureaucracy matters to the entrepreneur, and that inefficient and/or excessive bureaucratic regulation potentially hampers the development of private enterprises as well as economic development at the aggregated level.

1.2. Aim and questions

The overall aim of this thesis is to explore the theoretical and empirical relationship between entrepreneurship and bureaucracy, and to examine the cause and effect of entrepreneurship. From this overall aim, four specific questions will be investigated and answered. One empirically based article is devoted to each question:

I) What are the agency and structural explanations of entrepreneurship?
II) How is the entrepreneurial process regulated by the bureaucracy, and how do entrepreneurs solve regulatory problems?
III) To what extent are entrepreneurs obstructed by or dissatisfied with the regulatory authorities, and does this vary over different types of entrepreneurs?
IV) Can entrepreneurship and bureaucracy explain variation in economic development across countries?

The purpose of this thesis introduction is to set the ontological and theoretical stage, and to relate the four questions to each other, and to the overall theoretical framework (section 2). In section 3 the three research themes, to which the four questions belong, are presented. The methods and data used are presented in section 4, and the empirical results are summarised in section 5. Finally, in section 6, the results are discussed, and potential research and policy implications are considered.
2. THE THEORETICAL FRAMEWORK

The theoretical framework of this thesis is based on certain assumptions. Ontologically it has an agency–structure approach, viewing the social world as being made up of two analytically distinct parts: agents and structures. This assumption has theoretical and methodological consequences that will be elaborated on in this section. Theoretically, entrepreneurs are seen as agents that operate or behave within a structure. The structure includes everything that to some extent influences the behaviour of the entrepreneur. This could be, for instance, taxation, social norms, laws, infrastructure etc. The bureaucracy is assumed to be an important aspect of structure in relation to the entrepreneur, and the thesis focuses primarily on the entrepreneur in relation to the bureaucracy.

In this section I will define the concepts, elaborate on the ontological agency–structure approach and present my theoretical model.

2.1. Entrepreneurship

There are many competing or complementary definitions of entrepreneurship. “Newness” is a component of most definitions, and there appear to be at least two competing views on what this newness consists of. Schumpeter (1934) and his followers would argue that new ideas are entrepreneurship. Schumpeter’s famous definition states that there are five types of entrepreneurial behaviour. These are: (1) the introduction of a new good; (2) the introduction of a new method of production; (3) the opening of a new market; (4) the conquest of a new source of raw material; and (5) the creation of a new organisation of an industry (Schumpeter 1934). To Schumpeter the entrepreneur is not necessarily an individual, but can equally be an organisation. What matters is not the actor, but the behaviour (Swedberg 2000). As I see it, Schumpeter’s definition theoretically inclusive in the sense that several types of economic actors can be entrepreneurs. On the other hand it is very empirically exclusive, in the sense that genuinely new ideas are very rare. If one were to identify Schumpeterian entrepreneurs empirically, most ordinary people who start businesses would not qualify, since their ideas are not new. Even though Schumpeterian or creative entrepreneurs are empirically rare, they can potentially have a very large impact on society. To Schumpeter the concept of “combinations” is very central (Schumpeter 2000). Indeed, Schumpeter defines the entrepreneur with this process in mind: “The carrying out of new combinations we call ‘enterprise’; the individuals whose function it is to carry them out we call ‘entrepreneurs’.”
Combining what already exists in new and unexpected ways is entrepreneurship. These new combinations can take place in both new and old organisations, although Schumpeter appeared to assume that genuinely new combinations tend to be introduced by new organisations. Schumpeter is sometimes criticised for being too focused on extraordinary and bold entrepreneurs.

Gartner (1992) and others, on the other hand, would argue that new organisations are entrepreneurship. An individual who starts an organisation to exploit an economic opportunity is an entrepreneur. Empirically, these types of entrepreneurs are much more common. The large international GEM study (Global Entrepreneurship Monitor) (Bosma and Harding 2006) is based on this definition, and it has a clear advantage over the Schumpeterian definition, in that it is easier to measure and identify. It is more difficult to identify a new idea than a new organisation. This form of entrepreneurship is sometimes referred to as “routine entrepreneurship” (Leibenstein 1968) because it is relatively common and involves little “newness” apart from the new organisation. In any case, this form of entrepreneurship is episodic in nature; an individual who starts a business is an entrepreneur but becomes a manager or business owner when the business is established, and running it becomes routine. Others again may argue that entrepreneurship is the establishment of a new organisation based on a new idea, making entrepreneurship a very rare phenomenon. This reasoning gives us a four-field matrix, see Figure 1.

Figure 1. The newness of entrepreneurship; new idea, new organisation, or both.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>New</th>
<th>Old</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Old</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

There would be no controversy regarding cells 1 and 4; cell 1 is entrepreneurship and cell 4 is not. When it comes to cells 2 and 3, it is a matter of opinion. The followers of Schumpeter would consider cells 1 and 2 as entrepreneurship, while Gartner would consider cells 1 and 3 as entrepreneurship. Others, depending on data limitations, define entrepreneurship as business ownership, and measure it by the number of business owners as a share of the total labour force (for example Audretsch and Thurik 2001). It is important to note that the concept of entrepreneurship is usually reserved for the economic sphere. Creative behaviour in other spheres (social, political, the arts, community development etc) is sometimes referred to as entrepreneurship, but as I see it, this conceptual
expansion is unhelpful to the field of entrepreneurship research, since it includes very diverse phenomena under the same conceptual label.

In this thesis, “entrepreneurship” refers to setting up a business venture in order to exploit a perceived economic opportunity. An entrepreneur is consequently a person that sets up a new business venture, and a creative entrepreneur is a person that sets up or develops a business venture based on a new idea. “Creative entrepreneurship” refers to economic behaviour based on new ideas. The concept of “creative entrepreneurs” is used in articles II and III only. In this context, creative entrepreneurs are an interesting subgroup, since they appear to have a more difficult relation to the bureaucracy compared with ordinary entrepreneurs. Entrepreneurship is also interesting in relation to bureaucracy since several writers, among them Weber (Swedberg 2000), seem to counterpose the entrepreneur from the bureaucrat. Entrepreneurial behaviour based on creativity and bureaucratic behaviour based on rules.

2.2. Bureaucracy

Bureaucracy is an important concept in the social sciences (Mouzelis 1967). The concept has, however, been used to label many different empirical and purely conceptual phenomena. Bureaucracy can mean inefficiency, red tape, an organisational form, rule-based behaviour, the public administration etc. The concept is therefore impossible to use without a clear definition. Below I will briefly describe the origin of the concept, outline how it has been used by social scientists and define what it means in this dissertation, and perhaps equally importantly, what is does not mean. It is possible to distinguish three broad meanings of the concept of bureaucracy (Crozier 1964).

To Karl Marx, the bureaucracy is synonymous with the state administration (Mouzelis 1967), and where Hegel uses the terms “administration” or the state’s “executive functionaries”, Marx uses the term “bureaucracy” (Garston 1993). It is impossible to separate Marx’s discussion on bureaucracy from his wider social and economic analysis. The bureaucracy is seen as a tool of the dominant classes, and its main function is to maintain the status quo. In Marx’s theory, bureaucracy rarely creates new wealth by itself, but rather coordinates the production and consumption of wealth. The bureaucracy can also be analysed as a social stratum that derives its income from the appropriation of part of the social surplus product of human labour. Wealth is appropriated by the bureaucracy by law, through fees, taxes, levies, tributes, licensing etc. Bureaucracy is therefore always a cost to society, but this cost may be accepted insofar as it makes social order possible.
Although most political scientists of today challenge Marx’s wider political analysis, and the role bureaucracy has in it, the concept of bureaucracy as state administration has become a frequently used definition.

However, Marx’s and Hegel’s work on bureaucracy has not exerted as much influence on the sociology of bureaucracy. Instead, Max Weber’s ideal type of bureaucracy has had a pervasive influence in the development of the sociological tradition (Shaw 1992). Like Marx, Weber places the concept of bureaucracy in a much wider social theory and more specifically within a theory of domination. Domination refers to a power relationship in which the ruler has legitimacy. According to Weber, there are three types of domination: charismatic authority, traditional authority, and legal or rational authority. These three types of authority are in turn related to different social structures and organisational forms. Charismatic authority is related to a very loose or unstructured organisational form, whereas traditional authority is related to a strict feudal or patriarchal organisational form. Thirdly, rational-legal authority is related to the bureaucratic organisation (Garston 1993). Weber describes this organisation as an ideal type with distinct characteristics (Mouzelis 1975):

1. High degree of specialisation.
2. Hierarchical authority structure with limited areas of command and responsibility.
3. Impersonality of relationships between organisational members.
4. Recruitment of members on the basis of ability and technical knowledge.
5. Differentiation of private and official income and fortune.

The aim of the clear functions and rules is to achieve high efficiency. This is of course not specific to the bureaucratic organisation; the old feudal organisations were also controlled by rules. The difference is that the rules in the bureaucratic organisation were based on technical knowledge and rational thinking, not on customs and traditions. The Weberian concept of “bureaucratization” refers to the rationalisation of collective actions (Crozier 1964) and is a process of change that goes far beyond the state administration. It includes the production of goods and services, and the very way society is organised.

In colloquial language, bureaucracy can refer to a number of different phenomena (Crozier 1964). The term “the bureaucracy” generally refers to public institutions that regulate some aspect of individuals’ lives. The term “bureaucratic” usually refers to a type of behaviour that is unnecessarily slow and cumbersome. This “bureaucratic” behaviour is seen in terms of being incapable of “common sense
reasoning” and always wanting to do everything “by the book”, and as a consequence tending to produce “unreasonable” decisions.

Much of the difficulty in discussions relating to bureaucracy stems from this uncertainty regarding vocabulary. This confusion is further reinforced by the fact that these three meanings (state administration, an organisational form and inefficiency) are widely perceived to be empirically correlated. State administration, for instance, commonly has a hierarchical structure, and many people perceive these organisations as inefficient and cumbersome to deal with.

In this dissertation, bureaucracy is defined as the regulation of economic behaviour by the public administration. And the term “the bureaucracy” refers to all public institutions (central, regional or local) that take part in regulating economic behaviour. The term “regulatory authority” is used synonymously with bureaucracy. This view of bureaucracy is closer to Marx’s definition than to Weber’s classical definition or ideal type, where bureaucracy refers to an organisational form with distinct characteristics. Bureaucracy does not, however, have a negative connotation, as it tends to have in colloquial language. And the concept of bureaucracy must be seen as analytically distinct from inefficiency, the Weberian ideal type or any other conception of what bureaucracy is. This analytical distinction between concepts should, of course, not be seen as an empirical distinction. Real-life bureaucracies might very well be inefficient and have a structure very similar to the Weberian ideal type.

In this dissertation, bureaucracy is relevant because it regulates the behaviour of entrepreneurs. The bureaucracy is not studied in terms of its internal workings or structure; it is viewed from the “outside”, from the entrepreneur’s perspective.

2.3. Agency and structure

The “agency–structure debate” is widely acknowledged to lie at the heart of sociological theorising (Archer 1988; Giddens 1984; Ritzer 1992; Rundqvist 1998). The ontological ideas of agency and structure have far-reaching theoretical and methodological consequences, and many research themes are divided into “schools” according to these basic assumptions. The research field of entrepreneurship is no exception (Shane 2003). The agency–structure debate should not be confused with the related micro–macro debate (Ritzer 1992); structures are not necessarily macro (e.g., family structures) and agents are not necessarily micro (e.g., multinational corporations). There are a number of possible ways in which the relations between agency and structure may be interpreted. In this thesis I will try to answer all the research questions using an explicit agency–
structure approach. In article I, agency and structural variables are used to explain the entrepreneurial choice; articles II and III explore the relationship between entrepreneurs and the bureaucracy in different contexts; and in article IV I try to explain economic development with a combination of entrepreneurship and bureaucracy. In order to introduce the agency–structure approach I will first introduce the two traditional one-sided approaches: the agency approach sometimes referred to as methodological individualism; and the structural approach, sometimes referred to as methodological collectivism. After introducing these traditional approaches, different types of agency–structure approaches are elaborated on and discussed in relation to the practicalities of empirical research.

The classification of empirical or theoretical social entities in terms of agency and structure is not absolute; it is dependent upon a theoretical framework or perspective. For instance, an organisation may very well be viewed as an agent, since it acts. But from the perspective of an employee/member, the same organisation may very well be seen as a structure, since it controls/frames agency behaviour. The same reasoning goes for nation states; they act on the international political stage but provide a structure for their citizens. And factors measured on the individual level might be seen as structure in some instances. Corruption is usually measured on the individual level (e.g., “the share of the population forced to pay bribes”) but is often used as a structural factor to which individuals, for instance entrepreneurs, have to adapt. In this dissertation, entrepreneurs are agents because they act, and the bureaucracy is a structure because it controls/frames the entrepreneur’s behaviour. At another stage, the bureaucracy may very well be seen as an agent.

The agency theoretical approach basically means that social phenomena are explained in terms of agency. Individual behaviour is explained by the psychological, demographic, biological etc characteristics of the individual who behaves in a certain manner. Social phenomena at the macro level are also explained in terms of aggregated agency factors. In its most extreme version, the “whole”, i.e. society, is nothing but the "sum of its parts", i.e. actions or agents. Or in the words of Margaret Thatcher, “there is no such thing as society. There are individual men and women, and there are families.” (Keay 1987), meaning that structure is not only incapable of explaining social phenomena; it simply does not exist.

The structural theoretical approach, on the other hand, assumes that social phenomena are explained in terms of structure. Individual behaviour is explained by the structural environment of individuals. Individual behaviour and actions are
structural consequences, and social structure is something more than social patterns or aggregated agents or actions (Piaget 1972). According to Blau (1975), this theoretical approach can be traced back to Durkheim and Marx. Durkheim’s work “Suicide” (Durkheim and Simpson 1979) explains the individual action of suicide as a consequence of social structure, and is seen by many as the first elaborated and explicit empirical application of the structural theoretical approach. In its most extreme version, agents or individuals have no freedom to choose between different options when they act; actions are purely structural consequences. Agents are puppets on strings (Craib 1992). However, it must be said that most proponents of the structural theoretical approach would maintain that this is a theoretical simplification rather than a description of empirical reality.

The agency–structure approach acknowledges that social phenomena are better explained by a combination of agency and structure. The “grand” theories of Giddens (1984), Archer (1988; 1995), Bhaskar (1978) and Bourdieu (1977) are all versions of this thinking. There are several ways of elaborating the agency–structure approach. A conflationary version, which in this context means the treating of two distinct concepts as if they were one, is here represented by Giddens’ theory of structuration (Giddens 1984). A non-conflationary version, is here represented by Archer’s so-called morphogenetic approach (Archer 1995). Although both Giddens and Archer have become widely renowned for their contributions to social theory, they have also been heavily criticised by more empirically orientated researchers, who claim that both of these grand theories are very difficult to apply empirically. For this reason, I will also present alternative, less “grand” and less philosophical, agency–structure approaches that are easier to use as a basis for empirical research.

2.3.1. Giddens’ conflationary agency–structure approach

All versions of the agency–structure approach share the aim of avoiding the extremes of structural or agent determinism. The core in Giddens’ theory of structuration (Giddens 1984) is the assumption that social structures make social action possible, and at the same time that social action creates those very structures. Giddens, however, rejects the treating of agents and structures as separate from each other. He sees them as mutually constituted. They cannot be considered separately from each other, as they are two sides of the same coin, a duality, and the concepts exist only in relation to each other, see Figure 2 below. All social action involves structure, and all structure involves social action.
Without doubt, Giddens’ theory of structuration is more complex and reality-like than the two traditional one-sided approaches, and much of the interest in the theory is probably due to the fact that his reasoning appears very close to our everyday experiences (Brante 1989). It is self-evident that we, as individuals, are influenced by structure, but that we also have free will that we can act upon. It is equally self-evident that we can influence our environment/structure, albeit to a limited extent. Giddens’ theory is considered realistic because of this compliance with everyday experiences, and is therefore an attractive choice as compared with the traditional one-sided approaches. Several writers have, however, suggested that the collapse of the analytical distinction of agency and structure as separate social entities makes the theory of structuration a problematic ontological model in explanatory social science (Archer 1995; Brante 1989). This is because the collapse of the analytical distinction between agency and structure matches poorly with the assumptions of the standard quantitative methods used in explanatory social science. In statistical analysis the concepts, and the corresponding independent and dependent variables, must be seen as “separate” entities, and I would argue that Giddens’ duality reasoning matches poorly with these necessary statistical assumptions, and that this mismatch can explain why Giddens’ impact on empirical quantitative research has been very limited compared with his impact on theoretical development. For instance, if the aim of the agency–structural approach is to avoid agency and structural determinism, two types of independent variables, agency and structure, have to be used in order to explain any social phenomena. And if these two types of social entities are assumed to be separate in the statistical analysis and conflationary in the theoretical model, the link between theory and method becomes illogical. This reasoning should, of course, not be seen as a criticism of either Giddens’ theory of structuration nor of traditional quantitative methods, but as an argument that indicates that combining the two is problematic. In qualitative research Giddens’ theory of structuration has had a much greater impact and this is probably because Giddens’ ontological model has been easier to adopt in this type of research.
2.3.2. Archer’s non-conflationary agency–structure approach

There is no uniform non-conflationary agency–structure approach. Several different versions are possible. All the different versions, however, share the view that agents and structures are analytically distinct. Margaret Archer’s so-called morphogenetic approach is seen by many (Ritzer 1992) as an alternative to Giddens’ theory of structuration. To Archer, the self-evidence of society’s dualistic ontology is demonstrated by an examination of one’s personal biography, which reveals that “we are simultaneously free and constrained” (Archer 1995). The issue of individual freedom and constraint is not purely academic but a universal experience. This universal experience proves the existence of both free agents and a pre-existing objective structure that frames and constrains the agent. Archer’s version of the agency–structure approach differs from Giddens’ theory of structuration in that it views agency and structure as analytically separate social entities. Like Giddens, Archer retrieves her energy from the fact that many view the traditional one-sided approaches as too simplistic and deterministic. But Archer is also strongly critical of any social theory that threatens to conflate agency and structure, such as the theory of structuration (Archer 1988; Archer 1995). In Archer’s opinion, this makes it impossible to study how agents affect structures and how structures affect agents. Archer’s starting point is that social phenomena cannot be explained by agent or structure, but only by a combination of agent and structure. In order to discuss agents and structures theoretically, Archer introduces the concept of “phases”. Phases are analytically distinct periods of time. In the beginning of a phase there is an initial structure. Every action and interaction is preceded by this initial structure that affects the action or interaction. The consequence of the action or interaction is a new structure, labelled structural elaboration, see Figure 3 below.
The agents in Archer’s model have a degree of freedom to choose different actions; the extent of this freedom is dependent on both the strength of the initial structure and the strength of the agent. The inclusion of phases in the analysis makes time a very important factor in Archer’s reasoning, and makes it, to some extent, more complex than the other approaches. Social life is seen as an infinite number of these phases. “Structural elaboration” becomes “initial structure” in the next phase. And to a certain degree, this reasoning is similar to Giddens’ reasoning, the difference being that the phases are seen as separate. There is a start, at T1, and an end at T5. In the next phase T5 becomes T1 and so on. In relation to this reasoning, illustrated in Figure 3 above, Archer differentiates three positions from which her own morphogenetic approach differs (Archer 1995):

1. The agency approach limits the analysis between T3 and T5.
2. The structural approach limits the analysis between T1 and T3.

So Archer’s morphogenetic approach differs from Giddens’ theory of structuration on three major points: agents and structures are analytically distinct; the phases have a beginning and an end; and the analysis is extended in time from T1 to T5.

Archer’s morphogenetic approach and Giddens’ theory of structuration are definitely more complex and reality-like than the two traditional one-sided approaches. This complexity, however, comes with a price. The problems relating to the empirical application of the theory of structuration are discussed briefly above. And although Archer’s model avoids problems relating to the analytical collapse of agency and structure, other problems arise when trying to use the
morphogenetic approach as an ontological basis for explanatory quantitative research. In the morphogenetic approach, agency is a mediatory “variable” between the initial structure and the structural elaboration, and many research questions are difficult to fit into this model. Furthermore, much of the criticism towards the morphogenetic approach is based on the view that it is only “methodologically useful” to a very limited extent (King 1999). One might argue that the various proponents of two-sided ontological models have focused more on claiming to give a “true” picture of social reality, with little concern for offering a “methodologically useful” model. The morphogenetic approach has also received criticism from individualistic writers who allege that it fails to prove that the initial structure at T1 is something more than consequences of “other people” in the past (King 1999). For this claim to be valid one must extend the analysis further back in time, to before T1. Archer, for instance, argues that a role or position in an organisation pre-exists the person occupying it, and that this role frames and constrains the behaviour of the person occupying it; the role is structure and cannot be reduced to “other people”. Individualistic writers, of course, see this same role as nothing more than a consequence of “people’s” negotiations and actions in the past (before T1). Collectivist writers, on the other hand, argue that the behaviour of the individual occupying a specific position in an organisation is a mere consequence of the rules relating to the position. Criticism from these traditional approaches is neither surprising nor very interesting. More interesting and constructive criticism can be found in writers who share the notion that social phenomena should be explained by a combination of agency and structure. Rob Stones (2001), for instance, argues that Archer’s very strong notion that the morphogenetic approach and Giddens’ structuration theory are incompatible and mutually exclusive theoretical approaches, is false. To Stones a combination of the two approaches could provide a more methodologically useful model. This is not the place to go into greater detail as regards Archer’s and Giddens’ contribution to social science. However, I agree with Stones (2001) that several types of relevant research questions fit very poorly with either of the ontological models created by Archer and Giddens, and in the following section I will present some more empirically oriented models that have been used in empirical research.

2.3.3. Alternative agency–structure models

This mismatch between the grand ontological models above and empirical research is very visible when studying the theoretical reasoning in studies that quantitatively test hypotheses based on some sort of agency–structure approach (de Soto 2000; Simonov and Giannetti 2004). The theoretical reasoning in many of these studies “looks” different. And due to their greater complexity, as compared with the one-sided models, there are several possible versions, apart from those of
Giddens and Archer. They basically differ in terms of where structure is placed in relation to a basic agency explanation, see Figure 4 below. “Social phenomena” in Figure 4 refers to any social “dependent” factor or variable. This can be an action on the individual level or a rate of actions on an aggregated level, as well as a structural condition or change.

Figure 4. Alternative ontological agency–structure models.

Model 1 is commonly used to explain individual-level actions, choices, attitudes etc (for instance Simonov and Giannetti 2004) and to explain country-level phenomena. The individual-level dependent variable is seen as an effect of both individual-level variables, psychological, demographic etc, and different structural
conditions. Independent, structural and individual variables are seen as unrelated. The advantage of using this theoretical model is that it “looks” identical to the statistical models commonly used to fit the data, OLS or logistic regression models, and there is no mismatch between theory and method. Article I in this thesis uses this theoretical reasoning to explain the entrepreneurial choice at the individual level, with a combination of individual-level agency variables and structural country-level variables. The effects of all independent variables on the dependent variable are seen as “fixed”. This means that the effect of an independent agency variable is the same, regardless of structural setting. This model is also used to explain country-level phenomena with a combination of structural and aggregated agency variables (for instance Stel, Carree and Thurik 2005). Article IV in this thesis uses this model to explain economic development with a combination of country-level structural variables and country-level aggregated agency variables. Article I departs from, and tests, a model where the reasoning is identical to this. But the statistical analysis is extended in order to find out whether the effects of the individual independent variables are indeed fixed, or whether they vary according to structural context.

Model 2 is similar to model 1, but differs in the sense that structure has no direct relationship with the dependent variable. Structure is assumed to alter the effect of individual action and therefore has an indirect effect on the dependent variable. This reasoning is common and applicable when studying the link between entrepreneurship and economic development (Audretsch and Thurik 2001). Entrepreneurial attempts are widely assumed to have a positive effect on development, and several aspects of structure are very often seen as an obstacle between entrepreneurial attempts and a positive economic development. This means that the removal of structural obstacles can have an indirect effect on development by “allowing” entrepreneurial attempts to contribute to development at an aggregated level. Or, in more general terms, the relationship between agency and the dependent variable is influenced by structure, and the outcome of a specific individual action is altered by structure. De Soto’s (2000; 2002) reasoning of entrepreneurship, legal obstacles and development is a typical example of this ontological model.

In model 3, structure comes before agency. Agency behaviour has a direct link to the dependent social phenomena but is influenced by structure. In relation to the entrepreneurship–development link, structure is seen as a factor that can encourage or discourage entrepreneurial attempts. Much of the reasoning surrounding the “promotion” of entrepreneurship and entrepreneurship policy, how to encourage people to become entrepreneurs, is based on this thinking
Changing the structure (rule simplification, tax exemption etc) is believed to encourage more people to become entrepreneurs, which will in turn lead to economic development in the next causal step.

Model 4 above can be seen as a combination of models 2 and 3. The basic link between agency and the dependent social outcome is the same as in the three other models but structure is understood to both influence the agency action directly (as in model 3) as well as alter the outcome of the agency action (as in model 2). In relation to concepts such as entrepreneurship, bureaucracy and development that are central to this dissertation, bureaucracy is seen to have a direct effect on individuals’ likelihood to become entrepreneurs and an effect on the entrepreneurship–development link.

All these models are versions of an agency–structure approach that can be identified in empirical research, and similar reasoning can be found in other branches of social research. Very often the theoretical reasoning is somewhat unclear and difficult to place in any of the models above, and since most empirical research uses standard statistical models, some degree of mismatch between theory and method is difficult to avoid completely if the theoretical reasoning is not identical to model 1. The aim of articles II and III is to describe the relationship between entrepreneur and bureaucracy during the entrepreneurial process. As such, these two articles are not explicitly explanatory in approach, and are therefore less coupled with explanatory models and the limitations associated with them. However, the empirical results from all four empirical studies are related to these models in the discussion.

I believe that there is a direct link between ontological model, theory and the necessary methodology to answer a research question based on a specific ontological model. Let us start by looking at what data are needed to answer a question based on an agency–structural approach.

### 2.4. Data and ontological models

If the dependent variable is on the individual, or agency, level (as in article I) data must be collected at this level. Due to the potential effects of the ecological fallacy, no conclusions about individuals can be drawn from studies based on aggregated individual-level data (Kramer 1983). But this individual survey data will not be sufficient to analyse the effect of structure on individual choice. These types of surveys are normally limited in time and space, rendering all structural variables constant and the effects impossible to analyse. If the effect of agency and structure
are to be analysed simultaneously, both types of variables must vary. Structural variation must be introduced and this can be done in three ways: individual assessment of structure (for example Grilo and Thurik 2005), “real” structural variation in space (for instance Simonov and Giannetti 2004) and “real” structural variation in time (for instance Shane 1996).

The easiest way is to ask individuals how they assess their structural environment. This means that even though individuals are actually in the same structural environment, their assessment of it will differ. In this way, “subjective” structural variation can be included in the analysis. Conclusions based on this type of structural variation, of course, say more about how individuals assess structure than about how “objective” structures influence individual choices. In defence of this way of introducing structural variation one might, of course, argue that this individually assessed structure is what actually matters to individuals. A potential entrepreneur might, for instance, very well shy away from starting a business if he/she perceives the process to be very cumbersome, regardless of the actual situation. Nevertheless, results based on this type of structural variation may say little about the effects of real variation in structure.

Real, or “objective”, structural variation in space can be introduced into the analysis by extending the individual-level survey into different structural environments, such as regions, countries etc. This variation is the same for all individuals in a structural environment rather than assessed by each individual. The main disadvantage associated with this technique is the cost involved in collecting individual-level data from several structural environments. This technique should make it possible to simultaneously analyse the effect on individuals by using agency and structural independent variables.

A third technique for introducing structural variation is to collect individual data from different periods, assuming that structural variables vary over time. This variation is also the same for all individuals in a structural environment rather than assessed by each individual. The main disadvantage associated with this technique is the fact that it requires a long time. There is also a risk that the structural variables of interest actually remain constant during the full length of the study. But if structure varies over time, this technique provides the same analytical possibilities as when structural variation is introduced, by extending the individual-level survey into different structural environments.

When the dependent variable is on the country level (as in article IV), the problem of variation in both agency and structure is easily solved by aggregating agency
variables. The agency-structural approach is therefore unproblematic when explaining phenomena at country-level (or any other geographic entity).

As seen above, three “types” of variables can be identified. The same classification can be found in Piaget (1972).

1) Agency data on the individual level. These can be variables such as gender, education, political views etc, and are typically collected via surveys or interviews.

2) Aggregated agency data is the same as agency data on the individual level but aggregated up to a higher level, for instance a country. These variables are usually measured in terms of rates or shares: how big a share (%) of the population has tertiary education, how big a share are entrepreneurs etc. Due to the problems of individual and ecological fallacies (Frankfort-Nachmias and Nachmias 1996), results from one level cannot be translated to the other, see Figure 5 below. That is to say, aggregated agency data correlations cannot be expected to be found on the individual level, and individual-level data correlations cannot be expected to be found at the aggregated level.

3) Structural variables are measured at the same level as the aggregated agency data but, as seen in the theoretical discussion above, they are theoretically not the same as aggregated agency. Structural variables can for instance be bureaucratic regulation, taxation, social norms, political system, all types of legislation etc. These variables are assumed to be constant over a structural entity, e.g. a country. In explanatory empirical research, the use of these three different types of variables is dictated by the approach used and the level of the dependent variable. The two lower arrows in Figure 5 below represent the traditional agency-based explanations on the two levels; and the upper arrow represents the traditional structural explanations. The application of an agency-structure approach when explaining a country-level phenomenon, such as economic development, is unproblematic; since both aggregated agency and structural variables are measured at the same level, the unit of analysis is the same. This is represented by the two upper arrows in the figure below. The structural-level dependent side box has been left empty because no such phenomenon is explained in this dissertation, not because it has no logical content.
Figure 5. The traditional relationship between ontological model and types of variables in entrepreneurship research. The two broken lines describe the traditional agency explanations and the unbroken line above describes the traditional structural explanation of different entrepreneurial rates. The individual fallacy is marked I. F and the ecological fallacy E. F.

To apply the agency–structure approach when the dependent variable is on the individual level is more problematic since the research has to include two research units: individuals and countries. This is necessary because both agency and structure must vary in order for the effects on the individual to be analysed. In Figure 6 below, the necessary link between ontology, theory and methodology is described. The individual-level phenomenon of the “entrepreneurial choice” is used as an illustration.
Figure 6. A schematic illustration of the necessary horizontal links between ontology, theory and methodology.

<table>
<thead>
<tr>
<th>&quot;Approach&quot;</th>
<th>Ontology</th>
<th>Theory</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>The agency theoretical approach</td>
<td>All social phenomena are explained in terms of agency</td>
<td>The entrepreneurial choice is explained by individual demographic and psychological variables.</td>
<td>Logistic regression + Individual-level survey.</td>
</tr>
<tr>
<td>The structure theoretical approach</td>
<td>All social phenomena are explained in terms of structure.</td>
<td>Different rates of entrepreneurial activity are explained by structural variables; formal rules and/or informal norms.</td>
<td>Ordinary least square regression + Aggregated and/or structural data on regional or country level.</td>
</tr>
<tr>
<td>The agency–structure theoretical approach</td>
<td>All social phenomena are explained by a combination of agency and structure</td>
<td>The entrepreneurial choice is explained by individual as well as structural variables.</td>
<td>Logistic regression + Individual-level surveys from different structural contexts.</td>
</tr>
</tbody>
</table>

The concept of methodology in the figure above is broader than the concept of method. Method usually refers to a specific statistical (or qualitative) technique, whereas methodology refers to design, data and a statistical technique. The figure above outlines the theoretical and methodological consequences of the three different ontological approaches. The agency theoretical approach claims that social phenomena are explained by agency; this leads to specific individual-level explanatory variables, and data is collected through a survey. The structure theoretical approach claims that social phenomena are explained by structure; this leads to specific structural explanatory variables and data is collected on a level where structure varies, most typically from different countries where the aggregated rates of entrepreneurship also differ. The agency–structure theoretical approach claims that social phenomena are explained by a combination of agency and structure; this forces the individual-level data collection to be extended in time or space to include structural variation. Data on both levels are needed (Iversen 1991) to analyse the effects on individuals by group membership/structure. These horizontal links (ontology – theory – methodology) in the figure above are
inescapable, and I believe that the empirical problems relating to the application of
the agency–structure approach constitute the principal explanation as to why the
research on entrepreneurship is still divided into two camps, as described by
Shane (2003). In the next section I will present some of the theoretical work in the
field of entrepreneurship research that aims to integrate or combine agency and
structure.

2.5. Agency and structure in theoretical entrepreneurship
research

The whole field of entrepreneurship research has traditionally been divided into
two camps, parallel to the two traditional one-sided approaches mentioned above.
Shane (2003) argues that this division is the greatest obstacle to the progression of
the entrepreneurship research theme:

“Perhaps the largest part of this problem lies with the division of the field of
entrepreneurship into two camps: those who want the field of entrepreneurship to focus
exclusively on individuals and those who want the field of entrepreneurship to focus
exclusively on external forces.”

As already discussed, the division is not unique to entrepreneurship research, and
above I have suggested that this persisting division is caused by problems relating
to the empirical application of the agency–structure approach. Theoretical
reasoning suffers fewer restrictions, and a relatively large amount of work can be
found on the theoretical side of entrepreneurship research, aiming to
integrate/combine agency and structure approaches. Many of these theoretical
constructions are influenced by the grand and philosophical theories discussed
above.

Thornton’s “sociology of entrepreneurship” (1999) is an attempt to integrate what
she calls the supply-side perspective, focusing on individual traits, and the
demand-side perspective, focusing mainly on entrepreneurial rates and on context.
Thornton’s concept of a “supply-side perspective” is identical to the concept of
“actor theoretical approach” used in this thesis and her concept “demand-side
perspective” is identical to the “structural theoretical approach”. This means that
her conclusions are very similar to Shane’s (2003), and that Thornton identifies the
same division of the entrepreneurship research theme into two camps and regards
it as a serious problem. She argues that sociological frameworks such as the
embeddedness perspective, institutional and ecological theory, and multilevel
models can be used to integrate the two schools of thought. Thornton defines
entrepreneurship “as the creation of new organisations, which occurs as a context-dependent, social and economic process”. Based on the empirical knowledge created in the two traditional perspectives and the sociological perspectives above, she argues that “future entrepreneurship research should address the effects of individual-level traits, organisational and market-level variables, and population-level characteristics in models of the founding of new ventures”. Multi-level models can incorporate individual- and contextual-level variables, and can therefore assist in analysing how individual behaviour is influenced by individual factors as well as by the social structure. Thornton also points out that many researchers actually theorise at multiple levels but use data on only one level, i.e. the ambitious theoretical models are not applied empirically.

The focus of Gorton’s (2000) Bourdieu-inspired model is on how agency and structural variables influence the formation and performance of small businesses, and how to overcome this traditional dichotomy. Gorton argues that businesses are embedded in objective and subjective structures, such as an enterprise within a market or an institution entwined in family and social relations. To understand business performance and formation, this dual embeddedness must be recognised. After presenting empirical evidence of this dual embeddedness and its relation to business performance and formation, Gorton proposes that future research should follow Bourdieu’s methodological approach by integrating “into a single model the analysis of the experience of social agents and the analysis and the objective structures that make these experiences possible”. Clearly this integrative framework is different from the other approaches described in this dissertation, in that it integrates not individual characteristics and structure but two types of structure: objective and subjective. However, this approach faces similar methodology challenges compared with the other approaches, and Gorton proposes to solve this problem by suggesting longitudinal studies of multifarious businesses. This methodology will make it possible to study how the “decision-making processes are durable to changes in the market environment and how different managers react differently to the same macroeconomic stimuli given divergent dispositions”. In statistical terms, this means that the effect of structural change is not fixed but dependent on the actor’s disposition. The longitudinal methodology is a technique to introduce variance in the objective structural environment in the analysis. And although Gorton does not empirically apply his theoretical framework, empirically he is one of the few who actually integrate ontology, theory and methodology in this field of research.

The “Eclectic theory of entrepreneurship” presented by Thurik et al. (2001) is another attempt to “integrate different perspectives of the determinants of
entrepreneurship”. Although the authors mention that the entrepreneurial phenomena can be studied at different levels of social reality they mainly focus on the aggregated country level. The individual-level choice to become an entrepreneur is only dealt with in relation to individual characteristics, and not in relation to social or economic context. The level of the data therefore dictates the type of variables that can be used to explain the dependent variable. No suggestion is made as to how this methodological problem can be overcome.

Shane’s “comprehensive framework”, found in “A general theory of entrepreneurship” (Shane 2003), is also an attempt to combine what he terms individual and opportunity variables. And although it deals with other issues in relation to entrepreneurial research, it focuses on the discovery and exploitation of entrepreneurial opportunities. He argues that the main problem with this line of research is the division into two schools of thought: those interested in the individual characteristics of those who become entrepreneurs, and those interested in the environmental variables. Because of this, most researchers fail to provide a comprehensive explanation for the phenomenon. Further, it hinders the development of a general theoretical framework for entrepreneurship because the two schools are dedicated to criticising each other’s intellectual stands. Shane’s aim is to integrate these two schools of thought. The comprehensive framework is based on the assumption that entrepreneurship must be understood and explained by an interdisciplinary approach; knowledge from the fields of economics, psychology and sociology must be integrated in order to provide a general theory of entrepreneurship. He assumes that entrepreneurial opportunities exist “outside” the individual, and that these are discovered and exploited by individuals. Individuals with specific demographic and psychological characteristics are likely to discover and exploit these opportunities. They operate in an institutional environment which influences their decisions. This institutional environment includes both the economic “rules of the game” and the social context, similar to what Gorton (2000) labels objective and subjective structures. In short, the entrepreneurial choice is influenced by individual demographic and psychological characteristics, and by social and economic context. The major part of the book is an impressive collection of empirical evidence on how these groups of variables influence the entrepreneurial choice and entrepreneurial rates respectively. However, it does not refer to any empirical research based on any type of comprehensive or integrative framework. Neither does it reflect on this strange fact or suggest methods to apply the comprehensive framework outlined in the theoretical section.
Lundström’s and Stevenson’s “MOS model” (2005) is primarily concerned with entrepreneurial policy and how entrepreneurship can be promoted through different policy measures. To Lundström and Stevenson, the main objective of entrepreneurship policy is to stimulate higher levels of entrepreneurial activity by influencing a greater supply of new entrepreneurs. Entrepreneurship policy differs from more general business policy in that it focuses on individuals who are not yet in business, but are potential future entrepreneurs. Business policy focuses on already established firms. Obviously the determinants of entrepreneurship are interesting to those involved in entrepreneurship policy, and the authors propose that the level of entrepreneurship in a society can be explained by different aggregated levels of “Motivation, Opportunity and Skills” (MOS). Motivation and skills are agency variables and opportunity is a structural variable.

**Figure 7.** In the MOS model the entrepreneurial choice is influenced by motivation, skills and opportunity. Entrepreneurship policy should concentrate on increasing people's skills and motivation and creating entrepreneurial opportunities.

As seen in Figure 7 above, the first causal step in the MOS model is a purely structural explanation. The second step is based on agency–structural reasoning identical to model 1 in Figure 4. Different, more specific, variables are used to measure these three broad concepts. The choice of variables is based on previous research findings and categorised according to the MOS model. Although it is testable at an aggregated level, this model is not applied on an empirical material in the work referred to here. And since the model is concerned with rates of entrepreneurship at country level, all individually based variables are measured on an aggregated level. These aggregate-aggregate correlations might not be transferable to the individual level and may therefore not say much about how individuals respond to variance in structure. As I see it, this ecological fallacy problem is the main weakness of the MOS model.
As seen in the above examples, theoretical reasoning based on an agency–
structural approach is not uncommon in the field of entrepreneurship research. 
Indeed, it is seen by many of the above writers as a very central question, which 
must be tackled in order to advance the field.

Empirical applications of the agency–structure approach in explanatory 
teacherpreneurship research are, however, much less common. Some empirical 
examples in relation to the individual-level entrepreneurial choice are described in 
section 3.1 below, and other empirical examples are described in the two other 
research themes.
3. THE THREE RESEARCH THEMES

In many research fields two questions or themes, more or less automatically, become very central: “How can X be explained?” and “What are the consequences of X?”. The field of entrepreneurship research is no exception: “How can entrepreneurship be explained?” and “What are the consequences of entrepreneurship?”. These two questions, albeit in many different versions, are very central.

There are two main versions (relating to underlying ontological assumptions) of the first question: “Why do some individuals become entrepreneurs?” and “Why are some countries/regions more entrepreneurial than others?”. In other words: “What comes before entrepreneurship?”.

Secondly, what are the effects of entrepreneurship? What comes after entrepreneurship? A large amount of research has concentrated on the effects of entrepreneurship. Entrepreneurship is generally perceived to have positive consequences, both for the entrepreneur him- or herself and for the country or region in which the entrepreneur resides.

In this thesis I will try to add to the bank of knowledge concerning these two central questions by trying to answer the questions using an explicit agency–structure approach. Further, in two articles (II and III) I will study how entrepreneurs relate to their structural environment. This theme relates to the relationship between the entrepreneur and the bureaucracy during the entrepreneurial process.

In Figure 8 below, these three research themes are illustrated; variables are categorised according to research level and linked together. The first article explains the individual-level entrepreneurial choice with relevant agency and structural variables. Articles II and III investigate the relationship between the entrepreneur and the bureaucracy during the entrepreneurial process, from the entrepreneur’s perspective and in two very different contexts. Article IV discusses and tests whether different rates of economic development can be explained by a combination of different rates of entrepreneurial activity and bureaucratic efficiency and coverage.
Figure 8. The concepts surrounding entrepreneurship linked together and categorised vertically according to research level, and horizontally according to causal relation to entrepreneurship. The links between these concepts make up the three research themes discussed in the four articles.

As mentioned above, the categorisation of variables and theoretical concepts into agency and structure at different levels is not absolute, but depends on perspective and is sometimes a matter of opinion. The rate of economic development, measured as change in GDP per capita over time, is the dependent variable in article IV. This variable is in fact an aggregated agency variable, since it is based on an aggregated measure for the total production of goods and services, and is categorised as such in Figure 8. It is, however, possible to argue intelligently that this change is more than a change in aggregates, and that the change is indeed structural. In this case, the categorisation of economic change as structure or aggregated agency respectively has no methodological consequences because the research unit is the same. In article I, the stage of economic development, measured as GDP per capita, is used as a structural variable, since it is an important aspect of the environment in which the potential entrepreneur operates. Many other variables (taxation, corruption, trust etc) are, indeed, measured at the individual level, but aggregated into country rates or averages they become an important aspect of the entrepreneurial environment and theoretically they are treated as structure.

A presentation of the three research themes, including theoretical reasoning and previous empirical research, is given below.
3.1. “Before” entrepreneurship/Explaining entrepreneurship (I)

As mentioned above, there are two versions of this question: Based on an agency approach many researchers have tried to identify the variables responsible for the entrepreneurial choice at individual level. Based on a structure approach, several researchers have tried to identify the structural variables responsible for the different rates of entrepreneurship in different countries or regions.

The first version of this question: why some individuals become entrepreneurs and others do not, has received much attention in entrepreneurial research from several academic disciplines (Shane 2003). Shane divided these individual-level explanatory variables into two groups: psychological and non-psychological factors. The psychological factors are, for example: extraversion, need for achievement, risk-taking propensity, desire for independence, locus of control etc. All of these psychological characteristics have been found to be positively related to entrepreneurship in many studies. The non-psychological factors are, for instance: gender, education, career experience, start-up experience, age, social position, opportunity cost etc. A multitude of studies at the individual level have shown that entrepreneurs and non-entrepreneurs differ in terms of these psychological and non-psychological factors.

The second version of the question: why the rate of entrepreneurship differs between contexts, has also received much attention. This question has a clear political connection because of the widely accepted notion that entrepreneurship is positively associated with economic development. And since economic development is a general political goal, the promotion of entrepreneurship becomes of political interest. Many countries have specific entrepreneurship policies that aim to encourage people to become entrepreneurs (Stevenson and Lundström 2005). It thus becomes very politically relevant to have a knowledge of the structural, or contextual/institutional, variables that encourage people to become entrepreneurs, and governments can use this information to influence the amount and form of entrepreneurial activity. In discussing what African states should do to promote entrepreneurship, Sriram and Mersha (2006) identify several possible interventions in the literature. The proposed policy interventions include creating a more business-friendly climate, building entrepreneurial and institutional capacity, minimising bureaucratic barriers, elevating the stature of entrepreneurship, and facilitating the creation of national and global linkages and networks for African entrepreneurs. Effective (in the sense that they actually increase the rate of entrepreneurship) policy interventions are likely to differ according to context, and an intervention might be effective in one context but
completely irrelevant in another. Shane (2003) has, however, listed and grouped several aspects of structural environment that are relevant to the rate of entrepreneurship in general. Shane divides these into three groups: economic, political and socio-cultural environment. Economic factors are, for instance, societal wealth, economic stability, capital availability, taxes etc. Political factors are different aspects of political freedom, property rights and the extent to which power is centralised in the political sphere. Socio-cultural factors seem to have been less investigated, and are often aggregated individual attitudes rather than structural factors in a theoretical sense. The social desirability of entrepreneurship, in relation to employment, is often seen as a cultural factor that can explain why ethnic minorities often differ from the majority population in terms of entrepreneurial rates. This difference is taken as a sign that culture and social norms do matter, and that they influence the rate of entrepreneurship in social groups and countries. According to Busenitz and Lau (1996), it is clear that some cultures produce many more entrepreneurs than others. Chinese migrants, for instance, are involved to a very high degree in entrepreneurial activities in many countries. Busenitz and Lau believe this is due to cognitive differences between cultures. The high propensity of the Chinese population to start new businesses is used as an example to illustrate this phenomenon.

Although the overwhelming majority of empirical studies within this research theme have been carried out in either of the traditional camps, with agency explaining the entrepreneurial choice or structure explaining entrepreneurial rates, there are some notable exceptions. Three exceptions are: Thurik and Grilo (2005), Simonov and Giannetti (2004), and to some extent Shane (1996). Simonov and Giannetti explain the entrepreneurial choice at the individual level with a combination of agency and structure variables. Thurik and Grilo explain the entrepreneurial choice with a combination of agency and respondent-assessed structure variables. Shane explains entrepreneurial rates with a combination of structure and aggregated agency variables. These three can also illustrate the three different techniques to introduce structural variation, mentioned above. To my understanding, they are all based on an ontological model that is identical to model 1 in Figure 4.
Figure 9. Explaining entrepreneurship, rates or individual choice, based on the agency–structure approach.

Thurik and Grilo (2005) emphasise that entrepreneurship is a multidimensional phenomenon spanning different academic disciplines (economics, sociology and psychology) and units of observation (individual, firm, region, industry and nation). This complexity means that the determinants of entrepreneurship in the literature are many and diverse. Thurik and Grilo explain latent and actual entrepreneurship at the individual level with a combination of agency, respondent-perceived environment and country dummies. Latent entrepreneurship is a variable that measures the relative attractiveness of entrepreneurship in relation to being employed. Being a latent entrepreneur is equivalent to preferring self-employment to employment, whereas actual entrepreneurship is equal to being self-employed. Individual-level data from the USA and 15 European countries are used to test their eclectic approach. The results for the agency variables indicate that actual entrepreneurship is affected by gender (males are more likely to become entrepreneurs) and education. Although real variation from the 16 countries is present, structural variation is introduced by means of individual assessment of structure. Among these “structural” (as perceived by the respondents) variables, respondents who perceive high “administrative complexity” are less likely to become entrepreneurs. The different countries are introduced in the model as dummy variables. Many of the countries have significant values far from one (the USA is the reference value), meaning that “something” in these countries influences the individual choice to become an entrepreneur. This “something” could have been analysed by exchanging the country dummies with real structural variables. The design used in this study cannot shed any light on whether this country effect is due to compositional effects of individuals or the effect of real structural variation between the countries.

Simonov and Giannetti (2004) use individual-level data from 289 Swedish municipalities to test the extent to which individual characteristics, business environment and cultural values explain why some individuals become entrepreneurs while others do not. The reasoning and statistical model is identical to model 1 in Figure 4. Individual characteristics and the dependent variable, entrepreneur or not, are measured at the individual level, and business
environment and cultural values at the municipality level. Structure varies across these 289 geographical regions, and structural variation is introduced by giving each individual structural properties according to the municipality in which they reside. The structural variables are divided into two groups: social/cultural and economic. The dependent variable is dichotomous with the value 1 if the individual becomes an entrepreneur at t, and 0 otherwise. The problem of the episodic nature of entrepreneurial phenomena is solved by the researchers, by excluding from the analysis those individuals who are already entrepreneurs at t-1. Since the data are on the individual level, from different structures, it is possible for the researchers to analyse the influence of both individual and structural variables on the decision to become an entrepreneur. The three groups of independent variables, over 20 variables, account for less than 1% of the variation in the dependent variable. Out of this total explained variance individual variables account for 78%, economic for 16% and social/cultural for the remaining 6%. The very low pseudo R2 figure might be partially explained by the modest variation in structural variables across the municipalities within a country. Cultural, social and economic conditions simply do not vary much within a relatively homogenous country like Sweden. When it comes to the individual-level variables included, they are mostly demographic in character. Psychological characteristics are not included in the analysis. Many psychological variables previously found to be of great importance in connection with the entrepreneurial choice are omitted, probably due to data limitations.

Based on a Schumpeterian influenced model, Shane (1996) tries to avoid the weaknesses of both the “traits-school” and “rates-school”. The “traits-school” is equivalent to what is labelled the agency approach in this dissertation, whereas the “rates-school” corresponds to the structural approach. Shane hypothesises that there is a positive correlation between technological change and entrepreneurship, and that there is a positive correlation between the rate of entrepreneurship at t-1 and the rate of entrepreneurship at t. Shane uses aggregated data from the United States, and structural variation is introduced into the analysis by gathering data from different time periods. Shane’s study differs from the other two by not using data at the individual level, but instead defining entrepreneurship “as the number of organisations per capita in the United States economy” and change in organisations per capita respectively. The model is fitted to data from the period 1899-1988. To test this he uses aggregated individual and system control variables, both of which vary over time. The control variables are selected from previous research. In this way, Shane is able to control for both “traits-school” and “rates-school” variables. The results indicate that technological change has a positive effect on the rate of entrepreneurship. The rate of entrepreneurship at t-1 is
significantly and positively correlated to the rate of entrepreneurship at time \( t \). This indicates, according to Shane, that a wave of entrepreneurship based on technology is followed by a wave of imitative entrepreneurship. The aggregated levels of risk-taking propensity also have a positive effect on the rate of entrepreneurship. Based on Weber’s reasoning from the “The Protestant ethic and the spirit of capitalism” (Weber and Tawney 1930), Protestants are assumed to have a higher propensity to take risks, and the aggregated level of risk-taking propensity is therefore measured as the ratio of Protestants to Catholics. The analysis, due to the aggregation of individual data, can tell us nothing about the individuals who became entrepreneurs and the individual characteristics of these individuals. The problem of the ecological fallacy remains.

In article I, I try to add to the bank of empirical knowledge concerning the entrepreneurial choice at the individual level, and how this choice is influenced by a combination of agency and structural variables. The individual-level GEM (Global Entrepreneurship Monitor) data from several countries make it possible to test a model based on an agency–structure approach. The GEM data are based on the largest single study of entrepreneurial activity in the world. Initiated in 1999 with 10 countries, GEM 2007 is conducting research in 42 countries. This data is available at www.gemconsortium.org. For several reasons this dataset offers a unique opportunity to test an agency–structure approach on the entrepreneurial choice. The countries are structurally much more diverse as compared with the Swedish municipalities that are used as structural entities in the Simonov and Giannetti study. Very few relevant structural variables vary within a country, and the very low explanatory values in the Simonov and Giannetti study are a likely consequence of this. In article I gender, age, education, self-estimated business skills and entrepreneurial network are used as agency variables; level of economic development, days required to start a business and taxation are used as structural variables. This method and data should ease the problems associated with individual and ecological fallacies as well as the problem of too small variation in structural variables, and include real variation rather than self-estimated structural variation. The individual-level variables are, of course, restricted to those available in the original GEM database, but structural variables can be incorporated into the analysis from other sources of country-level data.
3.2. “During” entrepreneurship/The entrepreneur–bureaucracy relationship (II & III)

In studies of entrepreneurship in the past, much emphasis has been placed on the entrepreneur him/herself. The psychological traits, family background, education etc of entrepreneurs have been researched for decades by researchers from many academic disciplines (Shane 2003). A significant, but smaller, body of research has concentrated on the environment in which the entrepreneur operates. This “entrepreneurial environment” is of course made up of many different components. Social norms, taxes, inflation, corruption, infrastructure etc all have a potential impact on the entrepreneur and the entrepreneurial process. The entrepreneurial process is shaped by the surrounding social structure. The social structure influences not only an individual’s decision to become an entrepreneur, as discussed above, but also the entrepreneurial process as such once the decision to become an entrepreneur has been taken. This whole entrepreneurial process is further regulated by the bureaucracy. Many decisions during the entrepreneurial process are influenced by the bureaucracy, and other aspects of social structure, and in the most extreme case the entrepreneur can give up his/her plan to start a business, or run the business illegally. Several studies indicate that the social, cultural and economic context in which the entrepreneur operates have a profound impact on entrepreneurs and their performance. Jack and Anderson (2002), for instance, studied rural entrepreneurs in Scotland and found that being robustly embedded in the social structure creates opportunities and improves performance. Both discovery and realisation of business opportunity are conditioned by the entrepreneurs’ role and position within the social structure. The general level of economic development also has an effect on the entrepreneurial process. Several studies indicate that the entrepreneurial process is much more challenging in less developed countries. To several researchers, the large informal sector (unregistered and unlicensed businesses) in less developed countries is an indicator of this (Bigsten, Kimuyu and Lundvall 2000; de Soto 2002). In this dissertation, the bureaucracy is seen as one aspect of this “entrepreneurial environment”. And the relationship between the entrepreneur and the bureaucracy during the entrepreneurial process is the second research theme.
Like any other social agent, the entrepreneur is embedded in a social context made up of institutions. Institutions can be defined as “the rules of the game in a society” (North 1990), and can be further divided into formal and informal. Following North’s typology, formal institutions can be defined as “formal rules including political (and judicial) rules, economic rules, and contracts”. In informal institutions the rules are unwritten, and are defined by North as “codes of conduct, norms of behaviour and conventions”. To the entrepreneur there are different types of relevant formal institutions. De Soto differentiates between ‘good’ and ‘bad’ laws regulating economic activities (de Soto 2002). Basically, ‘good’ law exists to protect the interests of the entrepreneurs. ‘Good law’ guarantees and promotes economic efficiency and is necessary for the entrepreneur to operate efficiently. For instance, the entrepreneur needs to register the business as a legal entity in order to open a bank account, and must secure title deeds in order to invest in permanent structures etc. These institutions are essential to start, run and develop an enterprise. ‘Bad law’, on the other hand, impedes or disrupts economic efficiency and is not necessary in order to operate efficiently. To the entrepreneur, ‘bad law’ is unnecessary regulation. ‘Bad law’ exists to protect other interests or social groups: consumers, workers, the environment, the financial elite, etc. If entrepreneurs comply with ‘bad law’ they do so to avoid penalties from the authorities. The costs of formality derive fundamentally from ‘bad law’, and the costs of informality are a result of the absence of ‘good law’. To the entrepreneur it is not just a question of ‘too much bureaucracy’; it can also be a matter of too little. Too much ‘bad law’ and too little ‘good law’ can be equally difficult. This distinction between ‘good’ and ‘bad’ law is, of course, theoretical and from the entrepreneurs’ perspective. The empirical distinction can sometimes be indistinct and some laws can be ambiguous. The analytical framework here is based on the idea that the entrepreneurial process, including the actions of the entrepreneur, is shaped by its institutional surroundings, see Figure 11.

Figure 10. The relationship between the entrepreneur and the bureaucracy.
The entrepreneurial process starts with the discovery of an economic opportunity and an idea to exploit it. There is some academic controversy as to whether this opportunity is an objective reality, independent of the entrepreneur, or “created” by the entrepreneur. However, this question falls outside the analysis here, since our analysis starts with the opportunity and the idea of exploiting it. In order to profit from the discovery of an economic opportunity an organisation has to be created, and according to the definition used in this thesis this process makes an individual an entrepreneur. The entrepreneurial process is the time from the idea to operative business, and this is very well documented in research from many academic disciplines (Samuelsson 2004; Shane 2003). During this process the entrepreneur develops the idea, secures funding, acquires business premises, buys equipment, hires staff, decides the scale of the business, etc (Shane 2003). Many of these steps are regulated by law, which in turn is implemented and enforced by local, regional and national regulatory authorities and their officials. The decisions on all the above issues can therefore not be taken without considering the regulatory framework. This is not just a number of formal rules relevant to a specific entrepreneur but is largely made up of informal institutions. Nevertheless, in order to start a formal business, the entrepreneur has to go through a number of formal bureaucratic steps. This typically includes registering the business, getting clearance from the revenue authority, acquiring the necessary licences and permits to operate the business in question, securing title deeds to land, and many other steps that vary according to the business in question and the country-specific context. The regulatory bureaucracy influences the entrepreneurial process in a number of ways. Several writers have concentrated on the time and effort it takes the entrepreneur to overcome bureaucratic hurdles (de Soto 2002; World Bank 2003). The number of steps and the time it takes to pass through them varies greatly between countries and within countries, according to the size and type of business in question.

The entrepreneurial process can be divided into different phases or activities. The chronological order of these activities can vary from case to case, but generally
starts with an idea and ends, if the process is completed, with an operational business. According to Hisrich, Peters and Shepherd (2004), the process has four distinct phases: (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) determination of the required resources, and (4) management of the resulting enterprise. Baron and Shane (2005) also describes the entrepreneurial process as it moves through several distinct phases: (1) generating ideas and recognising opportunities, (2) assembling resources, (3) launching the new venture, (4) building success, and (5) harvesting the rewards. In research about the entrepreneurial process, regulation of the process is typically excluded. Shane (2003) only includes “setting up a legal entity”, and Scott (2003) does not mention any aspect of regulation in relation to the creation of organisations. This exclusion is noteworthy, especially taking into account the considerable efforts required by entrepreneurs (de Soto 2000; Lopez-Claros, Schwab and Porter 2004; World Bank 2006b) to deal with various legal requirements. De Soto (2000; 2002) is, of course, an exception with regard to this exclusion of entrepreneurial regulation when describing the entrepreneurial process.

In articles II and III the relationship between the entrepreneur and the bureaucracy is explored during the entrepreneurial process. Although the two articles are not directly comparable, due to different methodologically, they can be seen to describe the relationship between entrepreneurship and bureaucracy in two very different structures. The bureaucracy in Sweden appears to be relatively well functioning but very detailed. The bureaucratic environment in Zambia is very different. It appears much less efficient but less detailed. Avoiding regulation seems a real option to many entrepreneurs, especially to the smaller entrepreneurs. Nevertheless, the entrepreneurs in the different contexts share the same regulatory process and a need for a good relationship with regulatory authorities. This relationship is, however, only studied from the perspective of the entrepreneur and the results from article II and III can therefore not be said to be complete and unbiased. The view on this relationship by the public officials is, of course, likely to differ from the view of the entrepreneurs.

3.3. “After” entrepreneurship/The effect of entrepreneurship on development (IV)

As discussed in the introduction, both entrepreneurship and bureaucracy are widely believed to influence the socio-economic development of countries and regions. Much is written on the effect of entrepreneurship on development and
also the effect of bureaucracy on development. These studies are generally firmly based, explicitly or inexplicitly, in either of the two traditional one-sided approaches and are commonly tested on aggregated country-level data. The contribution of article IV to this bulk of knowledge is to describe and empirically test a model based on an explicit agency–structure approach. It is hypothesised that the basic link between entrepreneurship and development is influenced by structural variables relevant to entrepreneurship. The regulation of economic behaviour, bureaucracy, is hypothesised to be strongly correlated to the residual from the basic entrepreneurship–development link. Or in more general words, the variance left unaccounted for by agency behaviour is explained by the regulation of that same behaviour: the structure.

The impact of entrepreneurship on economic development is well established and described in empirical and theoretical research (Audretsch and Thurik 2001; Bosma and Harding 2006; Carree and Thurik 2003; Davidsson, Lindmark and Olofsson 1994; Leff 1979; Leibenstein 1968; Schumpeter 1934; Wennekers, Thurik and Buis 1997). Based on different definitions of entrepreneurship and different theoretical frameworks, this empirical link between entrepreneurship and development appears very robust. No matter what definition of entrepreneurship is used, entrepreneurs are believed to introduce newness into the economy by starting new businesses, introducing new ideas and/or exploiting new resources. By doing this, entrepreneurs act as agents of change; and hence, at the aggregated level, more entrepreneurs mean more development. The theoretical reasoning clearly varies according to the definition of entrepreneurship and the theoretical framework used. The concept of entrepreneurship has also made its way into the field of economic growth theory. Several writers in this field try to include the discovery of new ideas and methods of production in explanations for long-term growth (Barro 1996). The apparent consensus concerning the positive consequences of entrepreneurship is, however, to some extent superficial, since many see entrepreneurship as a free service (Julien 1989) and not something that causes economic development. Similarly, writers such as de Soto (2000) claim that less developed countries are teeming with entrepreneurial activity and that differences in entrepreneurial activity therefore cannot explain differences in economic development.

Several large empirical studies have found a robust relationship between bureaucratic quality and different measures of social and/or economic development (Berggren 2003; Gwartney, Lawson and Emerick 2003; Kane, Holmes and O’Grady 2006; World Bank 2006a). In these studies bureaucratic quality generally refers to how easy, straightforward and costly it is for an entrepreneur or
businessman to comply with regulation. The existence of many and lengthy procedures, to start a business, is seen as an obstacle to development. This bureaucratic performance is seen by some researchers as an intervening variable between the policy and the socio-economic outcome, (Hyden, Court and Mease 2003), see Figure 12.

Figure 12. Bureaucratic performance is influenced by policy and the bureaucratic performance has a direct impact on socio-economic development.

Although this direct link between bureaucracy and development is empirically robust and commonsensical it is difficult to theoretically explain the causal link without involving agency. As I see it, the bureaucracy can have an effect on development only because it affects agents and/or the outcome of agency actions, in this case entrepreneurs and their actions. The bureaucracy can influence the entrepreneurial activity of the populace (as shown in article I) and it can make sure it poses no obstacles in the way of those who have opted to become entrepreneurs, see models 2 and 3 in Figure 4. Theoretically the link between bureaucracy and development must go via influencing agency behaviour and/or the outcome of agency behaviour.

Although the view of the bureaucracy as a general hindrance to entrepreneurship and development is easy to imagine (and a great deal has been written about it), one must not forget the other side of the coin. The bureaucracy has a very important function in implementing important formal institutions, such as those dealing with property rights, a functioning legal system etc. These institutions, which are necessary for the entrepreneur, are labelled “good law” by de Soto (2000). “Bad law” consists of regulations that present the entrepreneur with obstacles. Based on this, one must be very careful when talking about bureaucracy as a hindrance to entrepreneurship and development. Some regulations constitute a barrier, whereas some regulations are an absolute necessity. Secondly, one must separate the rules themselves from the way they are implemented. Inefficient implementation of regulations, whether “good or bad”, is likely to be a direct obstacle to entrepreneurship and an indirect obstacle to development. Some writers have actually suggested that the state administration (the bureaucracy) should be as “Weberian” as possible to make sure that implementation of regulations is efficient and fair (Evans and Rauch 1999). The empirical findings from this research conclude that states with a bureaucracy very similar to the
Weberian ideal type actually develop faster than states with a bureaucracy further from the ideal type. This research is based on a Weberian definition of bureaucracy and is therefore not entirely comparable with the main bulk of research that typically defines bureaucracy as governmental regulation: a measure that varies according to institutional “quality” (Hyden, Court and Mease 2003). To sum up the empirical research, one can say that the connection between bureaucracy and development is multifaceted. Generally speaking, sufficient good law, little bad law, few rules and efficient implementation are believed to promote development. Insufficient good law, much bad law, many rules and inefficient implementation are seen as obstacles to the entrepreneur and therefore a hindrance to development at the aggregated national level.

The application of an agency–structural approach on entrepreneurship, bureaucracy and development, essentially acknowledges the basic link between agency behaviour, entrepreneurship, and economic development; however, it also adds that variance in economic development, left unexplained by entrepreneurial behaviour, is explained by the regulation of that same behaviour, bureaucracy. Or in more technical terms: the residual from the basic link between entrepreneurship and development is strongly correlated to the bureaucracy variable. It is assumed that this residual must be explained by structure variables, and not by other agency variables. The testing of this agency–structure hypothesis poses no methodological problems, as when explaining the entrepreneurial choice at the individual level, since all variables are at the country level.

**Figure 13. The combined effect on economic development by entrepreneurship and bureaucracy.**

- Entrepreneurship
- Bureaucracy
- Economic development
4. METHODOLOGY

Some of the more “philosophical” methodological issues are discussed in section 2 in relation to the methodological consequences of ontology and theory. The focus of this thesis is on the conceptual and empirical relationship, based on an explicit agency-structure approach, between entrepreneurship, bureaucracy and development. The selection of the empirical data has therefore been guided by the methodological consequences of the agency–structure approach, rather than by geography, some specific theory or case, or a preferred statistical method. The four articles are based on four separate sets of data. Quite literally, the data are gathered globally. Article I is based on the individual-level GEM data from 25 countries combined with structural data from these 25 countries. The statistical method used is a multinominal logistic model with independent agency variables at the individual level, and structural independent variables at the country level. The dependent variable, if the individual becomes an entrepreneur, is measured on the individual level. To test whether agency variables have the same effect, independent of structural environment, the 25 countries are clustered into three groups using the SPSS two-step cluster method. The multinominal logistic model is then run on the three clusters separately, including only agency variables. Article II is based on interviews with 10 entrepreneurs in Zambia. The ten entrepreneurs are clustered into two internally relatively homogenous groups. Based on these two clusters, the regulation of the entrepreneurial process is described, and the entrepreneur’s methods for solving regulatory problems are described and discussed. Article III uses data from a questionnaire answered by entrepreneurs and business owners in the municipality of Strömsund in Sweden. Simple descriptive statistics and bivariate tests are used to find out whether certain types of entrepreneurs have a more problematic relation to the bureaucracy. An OLS regression is used to check the robustness of the bivariate results and to control for alternative explanations. Article IV uses aggregated data on entrepreneurship and long-term economic development from 37 countries. Structural country-level data on bureaucracy is included to test the hypothesis that bureaucracy influences the basic link between entrepreneurship and development. Below is a schematic illustration of the four research questions, the variables, and also the data and methods used.
Figure 14. The four articles with research questions, the variables, data and methods used.

<table>
<thead>
<tr>
<th>Study</th>
<th>Research question</th>
<th>Independent variables</th>
<th>Dependent variable</th>
<th>Data</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Before entrepreneurship</td>
<td>Gender, age, education, personally know an entrepreneur, business skills, days to start a business, taxation and level of economic development.</td>
<td>The individual-level choice to become an entrepreneur</td>
<td>Individual-level agency data and country-level structural data from 25 countries.</td>
<td>Quantitative. Multinominal logistic regression with data from two levels.</td>
</tr>
<tr>
<td>II</td>
<td>During entrepreneurship</td>
<td>NA</td>
<td>The individual-level choice to become an entrepreneur</td>
<td>Semi-structured interviews with ten entrepreneurs</td>
<td>Qualitative</td>
</tr>
<tr>
<td>IV</td>
<td>After entrepreneurship</td>
<td>Entrepreneurship and bureaucracy</td>
<td>Economic development</td>
<td>Country-level data from 37 countries</td>
<td>Quantitative. OLS regression models.</td>
</tr>
</tbody>
</table>
4.1. Measurements of entrepreneurship and bureaucracy

The concepts of entrepreneurship and bureaucracy appear in all four articles. However, the definitions of these concepts differ between the articles depending on available data, research unit and theoretical suitability. As illustrated in figure 1, there are two major perspectives on entrepreneurship. One sees entrepreneurship as new organisations, and the other sees entrepreneurship as the execution of new economic ideas. In relation to both bureaucracy and development, both these types of entrepreneurship are interesting, and I have therefore tried to separate the two types of entrepreneurs in the articles for which I collected primary data (articles II and III). In the Zambian study, article II, the basic definition of entrepreneurship is a person who has recently started a business, but I tried to identify those who started a business based on a new idea. In article III the general sample is made up of business owners. From this sample both types of entrepreneurs are identified: those who recently started their business and those who are creative.

Bureaucracy is defined as the regulation of economic behaviour. This regulation is implemented by national, regional and local authorities. To the entrepreneur, two aspects of this regulation are important: the number and character of laws and procedures, and the manner in which they are implemented by the relevant authorities. A measure including both these two aspects of bureaucracy is therefore needed. In article I, the measure “Days to start a business” from the World Bank (2003) is used. This measure is assumed to be especially relevant to potential/latent entrepreneurs, since it measures the regulation of start-up. In article IV a broader measure is used. The countries are graded on an ordinal scale from 1 to 5, where 1 implies that ‘existing regulations are straightforward and applied uniformly to all businesses; regulations are not much of a burden for business; and corruption is nearly nonexistent’, and 5 implies that ‘the government impedes the creation of new businesses; corruption is widespread; and regulations are applied randomly’.
5. EMPIRICAL FINDINGS

In the section below the findings from the four articles and the three research themes are presented. The section is structured around the three research themes. The results from article I are presented under the heading “Explaining entrepreneurship”. The results from articles II and III are presented under the heading “The entrepreneur–bureaucracy relationship” and the results from article IV are presented under the heading “The effect of entrepreneurship on development”.

5.1. Explaining entrepreneurship

5.1.1. Agency, structure and the entrepreneurial choice (Article I)

The aim of article I is threefold. Firstly, it aims to provide and test a model explaining the entrepreneurial choice at the individual level that includes both agency and structural variables. Secondly, it aims to find out if the bureaucratic regulation of entrepreneurship, measured as days to start a business, has an effect on the entrepreneurial choice at the individual level, controlling for other relevant agency and structural variables. Thirdly, it investigates whether the effects of agency variables on the entrepreneurial choice vary over structural contexts.

The theoretical model is based on the agency–structure approach and is identical to model I in Figure 4. Both agency and structural variables are assumed to influence the individual’s decision to become an entrepreneur or not. The statistical model is a multinominal logistic regression model. The dependent variable is multinominal with four possible values: none, entrepreneur, business owner/manager, and both. “None” refers to being neither an entrepreneur nor a business owner/manager and “both” refers to having a business and at the same time being in the process of starting another one. “None” is the reference category. Entrepreneurship is defined as starting a business.
Regulation of entrepreneurship, measured as the number of days to start a business, does seem to have a negative effect on the likelihood of an individual becoming an entrepreneur. The measure captures the median duration necessary to complete all legally necessary procedures. This aspect and measure of bureaucracy is chosen since it is likely to be especially relevant to the potential entrepreneur at the beginning of the entrepreneurial process. Other, more general, aspects and measures of bureaucracy, such as institutional quality and efficiency, are more likely to be important at later stages. Exp (B) for the ‘days to start a business’ variable is 0.994 (p=0.000) indicating that a one-unit change in the ‘days to start a business’ variable reduces the odds of becoming an entrepreneur by 0.6%. This effect appears very small but since the measure varies from 2 to 104 days, the effect is potentially fairly large. This result is theoretically expected. The effect of taxation on the entrepreneurial choice (measured as total tax revenue as a percentage of GDP) is negative. Exp (B) for the taxation variable is 0.974 (p=0.000), indicating that a one-unit change in the taxation variable reduces the odds of becoming an entrepreneur by almost 3%. The effect of the GDP per capita variable is also negative, Exp (B) for the GDP per capita variable is 0.964 (p=0.000), indicating that a one-unit change (=$1000) in the GDP per capita variable reduces the odds of becoming an entrepreneur by almost 4%.

As regards the individual-level variables, the odds of becoming an entrepreneur for men are 36% higher than the odds for women. The age variable is relatively uninteresting; obviously different age groups become entrepreneurs to varying degrees. The age groups <30 and 31-40 are not significantly different from each other, but belonging to any of the older groups significantly reduces the odds of becoming an entrepreneur. With regard to education, belonging to any of the two medium-level education attainment groups reduces the odds of becoming an entrepreneur as compared to the lowest education attainment group. Individuals with the lowest levels of education are most likely to become entrepreneurs. But
the small group of people with graduate experience are not significantly different from those with the lowest level of education. Knowing an entrepreneur personally increases the odds of becoming an entrepreneur by 125%, and having (or rather believing that one has) the necessary business skills increases the odds by 326%. Share of variance explained is, according to Nagelkerke, pseudo R-square 21%.

All the above results are based on the assumption that the different individual-level variables have the same effect, independent of the structural context, on causal homogeneity. The effects are fixed. This is, of course, not something that one can assume without consideration. It is very possible that individual-level variables, for instance education, have different effects in different structural contexts, causal heterogeneity or random effects. To find out whether there are such different effects I grouped the 25 countries according to structural environment (taxation, GDP per capita and days to start a business). The classification was carried out in SPSS using a two-step cluster analysis. The result was a three-cluster solution: one cluster with low GDP per capita, low taxation and many days to start a business; a second cluster with high GDP per capita, medium taxation and few days to start a business; and a third cluster with high GDP per capita, high taxation and medium days to start a business.

Three models, one for each cluster of countries, and including agency variables, only show that the effect of agency variables on the choice to become an entrepreneur is affected by the structural set-up. In most cases it is just a matter of different magnitude but the same direction. The effect of being male universally increases the odds of becoming an entrepreneur but is considerably weaker in cluster two. The effect of age on entrepreneurship is universal but the strength is somewhat weaker in cluster two. Knowing an entrepreneur personally has a strong positive effect in all three clusters but is weaker in cluster one, and strongest in cluster three. The signs on some education levels are opposite in the different clusters but the differences are not significant.

5.2. The entrepreneur–bureaucracy relationship

Both article II and article III investigate the relationship between the entrepreneur and the bureaucracy. Entrepreneurs are seen as agents operating in a social structure, and bureaucracy is seen as an important aspect of this structure. It is important to note that this relationship is viewed from the entrepreneurs’ perspective only. Article II focuses on describing the entrepreneurial process and on how bureaucratic problems are solved by the entrepreneurs. Article III focuses
on investigating the extent of the bureaucratic problem among various types of entrepreneurs and business owners.

5.2.1. The regulation of entrepreneurship in Zambia (Article II)

There is a growing consensus that the quality of government regulation of business is a major determinant for the development of private enterprises in less developed countries (Satta 2004; World Bank 2006c). The first aim of article II is to describe the entrepreneurial process and how this process is regulated, from idea to operative business, by the bureaucracy. This description is related to previous research on entrepreneurship in less developed countries and used to find out the extent to which small and medium-scale entrepreneurs are obstructed by the bureaucracy. The second aim is to investigate how entrepreneurs solve regulatory problems once they occur.

The results in this article are based on interviews with ten Zambian entrepreneurs. The entrepreneurs were chosen among small and medium-scale entrepreneurs in two major towns: Lusaka and Kabwe. Although not by design, it became evident after all the interviews were conducted that the ten entrepreneurs belonged to two relatively distinct clusters. The smaller entrepreneurs in cluster A, tended to be indigenous Zambians, who invested considerably less money, and the majority of them were first-time or part-time entrepreneurs. It took fewer procedures to start their businesses, and they were generally less disgruntled with the bureaucracy. The larger entrepreneurs in cluster B tended to be non-indigenous Zambians, who invested more money in their businesses. They were all experienced entrepreneurs in the sense that they had run one or several businesses before starting the current one. Further, they had to go through more procedures to start their business and were generally more frustrated with the bureaucracy.

On average the entrepreneurs reported 7.7 bureaucratic procedures to start and operate their businesses. It should be noted that these are the steps the entrepreneurs actually took, not the number of legally required steps. The number of legally required steps is higher, since some entrepreneurs ignored several legal requirements. The time and number of procedures required to set up a business in Zambia is much shorter than the time reported by de Soto in the Peruvian study (de Soto, 2002). However, the time required in Zambia varies considerably: from those who spend only two weeks to register a company and get one operating licence from the council, to the larger businesses that often spend several years getting the necessary permits to start operating their business. The number of procedures reported by the respondents ranged from 0 to 22. The general feeling of the entrepreneurs towards bureaucratic regulation varied greatly; from those who...
were very frustrated, to those who had had no problems at all during the start-up process.

Based on the two clusters, two typical entrepreneurial processes, relating to their start-up experiences, are described. For the majority of the smaller entrepreneurs, cluster A, the regulation of the start-up process seemed quite simple. Few regulatory steps were taken (average 4.8), and some of them started operating their business before applying for the necessary permits. The two largest entrepreneurs in cluster A did, however, experience considerable delays due to inefficient regulation in relation to land ownership. Land ownership is administrated by the various councils and the Ministry of Lands. One of the smaller entrepreneurs operated his business completely informally. The smaller entrepreneurs typically ignored several legal requirements; regulations relating to labour (pensions contributions and worker compensation in case of injury) were most commonly ignored.

For the larger entrepreneurs, cluster B, the story is quite different. On average, 10.6 regulatory steps were taken, and few, if any, of the entrepreneurs seem to have deliberately ignored any legal requirements. They also applied for all the permits before they started operating; only one mentioned having started operating before everything was ‘clear’. Four of the five in this group had experienced long delays or disruptions of business due to regulation. The larger entrepreneurs also complied with all ‘good law’ regulations and encountered few problems, the only exception being one very long process with the Ministry of Lands. On top of this they also dealt with a lot of ‘bad law’ regulations that most of the smaller entrepreneurs ignored or were not covered by. The entrepreneurs in cluster B also dealt with a number of other regulatory authorities regulating specific economic sectors.

Using de Soto’s (2000) concepts of ‘good’ and ‘bad’ law, it is clear that the smaller entrepreneurs comply with ‘good’ law in order to enjoy the benefits of formality, and avoid ‘bad’ law to reduce the costs of formality. The larger entrepreneurs comply with all regulations and are very frustrated with delays and inefficiency. Most of them have had regulatory problems that took several years to solve. The smaller entrepreneurs have a more understanding attitude towards bureaucratic inefficiency and have less trouble solving regulatory problems.

In relation to the second aim, the entrepreneurs’ strategies for solving regulatory problems are identified and discussed. Not all entrepreneurs had such problems in the start-up process. However, eight of them did have problems with the
bureaucracy in the start-up process, which they had to solve. The most frequent strategy for managing regulations was, of course, to comply with them. Secondly, many of the smaller entrepreneurs avoided several regulatory requirements. When neither of these strategies was applicable, the entrepreneurs had to solve the situation with other strategies. A regulatory problem is created when the entrepreneur finds it impossible to comply with or avoid the regulation in question. It can be ‘impossible’ to comply because of the extremely high costs (in time and/or money) involved, or an extremely inefficient regulatory authority. If at the same time it is ‘impossible’ to avoid the regulation, a regulatory problem arises that the entrepreneur has to manage and solve. All except the two smallest entrepreneurs had strategies for managing regulatory problems. Establishing social contacts and paying bribes seem to be the most frequent strategies for managing (solving and/or preventing) regulatory problems.

Five of the ten entrepreneurs mentioned having bribed public officials in order to get faster service or preferential treatment in relation to business start-up and licensing. The entrepreneurs related to bribes in different ways; some did not use the terms ‘bribe’ or ‘corruption’ but preferred to refer to it as ‘appreciation’. Bribing, however, did not seem to be a very frequent or important phenomenon; most of the entrepreneurs had come across it but did not seem to consider it a major problem. The smaller entrepreneurs, in particular, seemed to have a very relaxed attitude towards bribes, and none of them seemed to have any problems in understanding the tricky and sensitive bribe situation. The larger entrepreneurs found the situation more difficult. It was not the cost of the bribes, in monetary terms, which they complained about, but the delays and frustration caused by the uncertainty of the situation. Further, some of the larger and more visible entrepreneurs felt targeted by some public officials, since they were perceived to make a lot of money. In a similar way, some of the smaller entrepreneurs made some effort not to look too prosperous, as a way of avoiding this type of ‘attention’. Some of the smaller entrepreneurs deliberately tried to look small and unnoticeable, as if they did not make any money.

As a way of managing regulatory problems, social connections with public officials in the right places were seemingly much more important than bribes. The two strategies, however, do not seem completely detached from each other, since these social contacts in the bureaucracy were sometimes expected to be ‘appreciated’ by the entrepreneurs. All nine entrepreneurs with formal businesses stressed the need to know, or get to know, somebody within the bureaucracy. Both clusters of entrepreneurs described the social connections with officials as an absolute
necessity. The larger entrepreneurs were, however, more ‘permit dependent’ and therefore more dependent on having good relations with the officials.

5.2.2. Entrepreneurship and bureaucracy (article III)

The aim of article III (Swedish title: Entreprenörskap och byråkrati – hindras kreativa företag av reglerande myndigheter?) (Svensson 2003) is to investigate the extent of the “bureaucratic problem” with respect to different types of entrepreneurs and business owners. The “bureaucratic problem” refers to whether entrepreneurs or business owners find the bureaucracy a problem at the start and/or during the development of the business. Previous academic surveys on the bureaucratic problem have concluded that relatively few entrepreneurs and business owners in Sweden find the bureaucracy an obstacle to development. The total stock of companies in Sweden, however, contains a very large share of static and old companies who are very unlikely to have any problems with the bureaucracy. Thus, it is possible that the bureaucratic problem is underestimated for creative and new businesses. Based on Schumpeter’s distinction between entrepreneurs and other, less creative, business owners (Schumpeter 1934), it is assumed that creative business behaviour leads to problems with regulatory authorities. Further, companies producing goods are distinguished from those providing services. The results are based on survey data from 123 entrepreneurs and business owners in Strömsund, Sweden.

The overall results are similar to other studies: 16% of the entrepreneurs or business owners state that they have problems with regulatory authorities. When dividing the respondents into creative and non-creative, based on an index, it becomes clear that 27% of the creative companies have problems with regulatory authorities compared with only 5% of the less creative companies ($X^2=9.47$, $p=0.002$). In the subgroup of companies producing creative goods, the figure is even higher: 47% claim to have problems with regulatory authorities. In an OLS model (controlling for company size, type and age and entrepreneur gender, age and education) the creativity variable has the largest impact on whether entrepreneurs find themselves obstructed by the bureaucracy. The hypothesis that new companies have more frequent bureaucratic problems is not supported.

Based on the theoretical assumption that creative companies are essential to economic development (Schumpeter 1934), these results indicate that the bureaucratic problem is underestimated as a development obstacle. In a development perspective the creative entrepreneurs and business owners are more interesting, and if the bureaucracy problem is studied as a general business
problem the problem will be underestimated. The conclusion is that the bureaucracy tends to be a problem for new ideas, not for new companies.

5.3. The effect of entrepreneurship on development

As mentioned above, both entrepreneurship and the bureaucracy are widely believed to influence the economic development of countries and regions. In article IV it is hypothesised that national differences in the rate of economic growth can be explained by economic behaviour, entrepreneurship and the efficiency and size of a country’s bureaucracy.

5.3.1. Entrepreneurship and bureaucracy explaining economic development across countries (article IV)

The analytical framework in article IV is based on an agency–structure approach, assuming that the basic link between entrepreneurship and economic development is influenced by the bureaucracy. This means that the residual from the basic entrepreneurship–development link should be strongly correlated to the bureaucracy variable. This reasoning should, for instance, be able to explain why high levels of entrepreneurship do not necessarily result in high levels of economic development. In countries with a difficult regulatory environment, high levels of entrepreneurship are not translated into high levels of economic development. The micro-level “bureaucratic problems”, discussed in articles II and III, faced by entrepreneurs in these countries are translated into an aggregated lack of economic development.

A model based on this agency–structure approach is discussed and tested on cross-national data from 37 countries (the sample being limited by the availability of entrepreneurship data from the international GEM study). Ordinary least square models including entrepreneurship and various structural independent variables are evaluated in terms of explanatory power and compared with traditional one-sided models. The level of economic development, measured as GDP per capita, is used as a control variable in all models.

In a simple one-sided model, controlling for GDP per capita, higher entrepreneurial activity in a country appears to result in faster economic development and 27% of the variance is accounted for. Based on agency–structure approach, the inclusion of structural variables that are relevant to entrepreneurship should considerably increase the share of variance explained. A two-sided multiple regression model that includes entrepreneurship and bureaucracy as independent variables, controlling for differences in GDP per capita, results in a considerably
higher explained variance, R² at 44%. This implies that a large part of the variance, left unexplained by agency behaviour, is explained by the regulation of that behaviour. Combining entrepreneurship with other potentially important structural variables indicates that “economic freedom” is statistically significant with the expected sign. This variable is very broad and strongly correlated to the bureaucracy variable. The very broad nature of this variable makes the causal reason very difficult. Social capital and taxation could potentially be important to the entrepreneur but are not significant when included in the basic entrepreneurship-development model.
6. DISCUSSION

Based on the results from the four articles it is clear that entrepreneurship is conceptually and causally surrounded by bureaucracy. The individual-level odds of becoming an entrepreneur are affected by the bureaucracy (article I). Lengthy bureaucratic procedures reduce the odds of becoming an entrepreneur. The entrepreneurial process, from idea to operative business, is greatly influenced by the bureaucracy (article II). Based on a Schumpeterian definition of entrepreneurship, results from article III indicate that entrepreneurial creativity “causes” bureaucratic problems. And results from article IV indicate that the aggregated economic outcome of entrepreneurship is influenced by bureaucracy. In relation to the ontological models in Figure 4 this looks like model 4. When studying entrepreneurship, and the entrepreneurship–development link, entrepreneurship is surrounded by bureaucracy. The bureaucracy is relevant to entrepreneurship before, during and after the actual entrepreneurial actions.

6.1. Research implications

The results presented in this thesis have some research implications for the three entrepreneurship research themes respectively.

The aim of the first article was to contribute to the knowledge on the first research theme: how can entrepreneurship be explained. Keeping both agency and structural variables constant it is shown that at the individual level the odds of becoming an entrepreneur are influenced by the bureaucracy. Many “days to start a business” significantly reduces the odds of becoming an entrepreneur. It is also shown that, in relation to entrepreneurial choice, it might be a mistake to assume causal homogeneity. The magnitude of several independent individual variables differs according to structural context. So, why go to the trouble of collecting data from different structural contexts, debating ontological issues, questioning causal homogeneity etc? To me the answer is simple. Although the social scientist has to accept the complexity gap between reality and theory (meaning that social reality tends to be very complex and social theory very simplistic) there are ways of reducing this gap. Since we cannot do anything about reality, working with more complex theories is one way of overcoming this problem. However, as discussed in relation to Giddens and Archer, theoretical complexity often comes with a high price: the theories are difficult to test test empirically. Empirically oriented theories and methods based on an agency–structure approach are definitely more “reality like” and, at the same time, testable with standard statistical methods. The research implication of causal heterogeneity, when explaining why some people become entrepreneurs and others do not, is that the research field might continue to
produce very conflicting explanations for entrepreneurship. These varied results might very well all be correct but differ because structures differ. Sorting these individual-level explanations according to structural context might very well produce a much clearer picture. Trying to find a universal explanatory model might be a futile exercise, if the structural environment is not considered.

In relation to the second research theme, concerning the entrepreneurial process and its regulation, it is shown that the process is greatly influenced by the bureaucracy. This appears especially relevant in two circumstances: in a poor country context (article II) and when the entrepreneur is creative (article III). The general tendency by researchers to ignore regulation, when describing and researching the entrepreneurial process, might therefore exclude important aspects of the process. When studying “routine” entrepreneurs in developed countries, where institutional quality tends to be high, this exclusion might be of little importance. But when studying creative entrepreneurs and entrepreneurship in a poor-country context, where institutional quality tends to be low, this exclusion could neglect very important aspects of the entrepreneurial process.

The aim of the fourth article was to contribute to the knowledge on the third research theme, the link between entrepreneurship and development, about which a great deal has been written. The somewhat simplistic and commonsensical hypothesis that “more entrepreneurship” and “less bureaucracy” promotes economic development is tested and supported by aggregated country-level data. A large proportion of the variance in economic development that is left unexplained by agency behaviour, entrepreneurship, is explained by the regulation of that behaviour: bureaucracy. These results actually strengthen the case for entrepreneurship as a “development variable”. Many poor counties have very high rates of entrepreneurship but stagnant social and economic development. Based on a traditional one-sided agency approach, this fact becomes a theoretical anomaly requiring an ad hoc explanation. When including structure in the analysis this theoretical anomaly, residual in statistical terms, is greatly reduced and theoretically, not only understandable, but expected.

As in most social research, we cannot rule out the possibility that the results in this thesis are to some extent due to selection, reverse causal links, or relationships excluded from the analysis.

6.2. Policy implications

Since “development” is to a large extent a universal aim of government and policy, the research results presented in this thesis have several relatively clear policy
implications. Policy can potentially be used to: 1) encourage people to become entrepreneurs, 2) reduce bureaucratic difficulties for entrepreneurs starting and developing businesses and 3) remove the regulatory barriers “between” entrepreneurship and development.

Results from article I indicate that reducing the number of days it takes to start a business can be used as a policy measure to promote entrepreneurship. And while the other structural variables, GDP per capita and taxation, also influence the individual odds of becoming an entrepreneur, policy makers generally have modest influence over these variables. As discussed in the introduction, promotion of entrepreneurship is often used as a social or economic “medicine”. If entrepreneurship is used as a means of adjusting or improving social or economic conditions (unemployment, stagnant economy, integration of immigrants, empowering women and urban slum dwellers etc), these results have some policy implications. Since policy makers generally have a modest influence on overall taxation as a percentage of GDP, and no direct influence over the level of GDP per capita, lowering taxes to promote entrepreneurship would be a very expensive policy measure. And lowering the level of GDP per capita in order to promote entrepreneurship, of course, makes no sense. There should, however, be considerable room for improving the efficiency and extent of business entry regulation. According to the results of article I, reducing the days it takes to start a business should significantly increase the odds of individuals becoming entrepreneurs. Considering the very large international variation in this variable, this is a policy measure that should be very attainable. Some of the individual-level variables also have potential policy implications. The general level of education has no general or clear impact on the odds of becoming an entrepreneur, but self-perceived business skills have a very large impact. So if entrepreneurship is to be encouraged, the practicalities of doing business should be included in curricula at various educational levels. Entrepreneurship could also potentially be promoted by “linking” potential entrepreneurs to entrepreneurs and business owners. Based on results from article I, “personally knowing an entrepreneur” more than double the odds of becoming an entrepreneur. If potential entrepreneurs, through the educational system or the employment agency, got in contact with entrepreneurs, the phenomenon of entrepreneurship would become less unusual and a real option, rather than something that very special people do.

When it comes to reducing bureaucratic difficulties and removing the barriers between entrepreneurship and development, results from articles II and III indicate that this is especially important for entrepreneurs in less developed counties and for creative entrepreneurs. If this were to be done, results from article
IV indicate that there might be relatively large economical payoffs in terms of long-term economic growth. Based on the empirical results there are several possibilities when it comes to reducing the bureaucratic difficulties faced by entrepreneurs. Some options are more relevant in a poor-country context and some are more relevant in richer countries.

Results from the Zambia study indicate that there is a serious lack of necessary good law. Property rights, such as the title deeds to land, are reportedly very weak and inefficiently administrated, leading to severe delays of investments. If the regulatory authorities handled these matters more efficiently, many entrepreneurs, large and small, would probably feel more secure and invest more in their businesses. Results from both the Strömsund and the Zambia study indicate that the bureaucratic burden on several entrepreneurs is very intense. However, excessive ‘bad law’ regulation has more serious consequences in the Zambian context, since the bureaucracy is also less efficient. In relation to bad law, there seems to be a tendency among the entrepreneurs in Zambia to have a “plan B”. If the initial idea is too difficult, in relation to regulation, they have plans for how to transform it into something “easier”. That is to say, a hotel can be transformed into an office complex, a filling station can be transformed into a kiosk, a restaurant becomes a bottle store etc. Due to regulation, an ambitious dream is turned into a small business. This reasoning conforms with Buames (1996) and Riggs (1964): due to excessive regulation, entrepreneurs are attracted to “easy” businesses with little regulation, and repelled from businesses with more regulation. This drift is potentially very serious if all “easy” businesses (trading, retail etc) have low social benefits, and productive enterprises (manufacturing, agriculture, export etc) are more difficult to set up. When it comes to ‘bad law’ regulation there are two policy options: the first is to consider removing the specific regulation altogether. In many less developed countries, where it typically takes around ten procedures to start a business, this should be an affordable option with large potential payoffs. Even though the number of procedures appears to be fewer, as compared with other research, several entrepreneurs in the Zambia study experienced severe delays and some of them spent over two years trying to obtain the necessary licences to start their businesses. If removing regulation is not possible, the second option is to investigate whether it can be handled more efficiently and transparently.
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