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The entrepreneurship triangle: a novel approach to explain national differences in entrepreneurship

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Abstract
This conceptual paper introduces the *entrepreneurship triangle* as a mechanism to analyze differences in entrepreneurial ecosystems across nations. The theory provides a structure to examine how institutional processes and changes in state, market, and society co-evolve with entrepreneurial actions. Using these dimensions (state, market, and society), we analyze the expected dominance of high and low levels of entrepreneurship in a country. High-level entrepreneurship occurs in a formal/organized manner, whereas low-level entrepreneurship occurs in an informal/unorganized fashion. We argue that, depending on the arrangement of state, market, and society institutional mechanisms in place in a country, we can predict either high- or low-level entrepreneurship, or a mixture of the two. This has direct implications for public policy, as one of the main levers that states can employ to improve entrepreneurial activity in their country is through changes in their institutions.

Keywords Entrepreneurial ecosystem · High- and low-level entrepreneurship · Formal and informal institutions · Public policy · Institutional theory · Regulatory quality · Market efficiency

Introduction

Since the seminal work of Schumpeter (1934, 1942), scholars have long sought to understand why countries differ in their levels of entrepreneurial activity and in the ecosystems that either foster or inhibit entrepreneurial behavior. It is widely argued that comparative international entrepreneurship can not only advance entrepreneurship theory but also inform policy development (Estrin et al., 2013a, 2013b; Kleinhempel & Estrin, 2024; Stephan & Uhlaner, 2010; Terjesen et al., 2016). Despite this potential, the field of entrepreneurship has progressed slowly. It was not until the 1980s that entrepreneurship began to gain recognition as a "potentially promising field of scholarly inquiry" (Bygrave & Hofer, 1992, p. 13). Scholars have attributed this slow development to a lack of robust theoretical foundations (Keupp & Gassmann, 2009), considering the research "still in its infancy" (Stam & Van de Ven, 2021, p. 810), and characterizing much of the existing work as "largely typological and atheoretical" (Spigel & Harrison, 2018, p. 151).

Scholars have attempted to overcome this limitation by extending theories such as bricolage (Baker & Nelson, 2005), creation and discovery of opportunities (Alvarez & Barney, 2007), and effectuation (Sarasvathy, 2001), but these theories are still very young and certainly in need of further development (Alvarez, et al., 2016). Importantly, entrepreneurship theories do not explicate causal mechanisms underlying entrepreneurial ecosystems. This deficiency in theory is particularly problematic for the field, where understanding how the complexity of national contexts and public policy interacts with entrepreneurial ecosystems in different ways across the globe requires theory to be developed that is tailored specifically for such topics.

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The objective of this conceptual paper is to provide a systematic theoretical structure for the analysis of entrepreneurial action and its interaction with policy. The theoretical framework we develop is called the *Entrepreneurship Triangle*. Inspired by the work of Abbott and Snidal (2009a, 2009b) on political governance, and building on institutional economics (Acemoglu & Johnson, 2005; Acemoglu et al., 2001; Djankov et al., 2003; North, 1981, 1990, 1991, 2005; Shleifer & Vishny, 1998; Williamson, 1975, 1985, 2000a, 2000b), and the notion of high-level and low-level entrepreneurship (Buckley & Casson, 1991), our framework presents a three-dimensional approach to analyze the entrepreneurial ecosystem in a given country. "High-level entrepreneurship refers to one conducted in a formal and organized manner, whereas low-level entrepreneurship is characterized in an informal and unorganized fashion (Buckley & Casson, 1991; Casson, 2021). The former aligns with Schumpeter's heroic vision of system-wide innovation and is marked by a systems-oriented perspective, strong network links, a detached view of risk, effective delegation skills, and high self-confidence. The latter is the kind undertaken by petty traders in market towns using arbitrage and the market process, depends principally on good judgment, and is constrained by lack of network links and limited mobility (Buckley & Casson, 1991).

More specifically, Buckley and Casson (1991: p. 34) explain the difference between the two as follows: "It is useful to distinguish between high-level entrepreneurship, as exemplified by Schumpeter's heroic vision of system-wide innovation, and low-level entrepreneurship of the kind undertaken by petty traders in small market towns, which can be analyzed using the Austrian concepts of arbitrage and market process. High-level entrepreneurship generally requires all the elements of entrepreneurial culture …..whilst low-level entrepreneurship requires only some—it depends principally on good judgement, and to some extent on the absence of attachments that impede mobility. It is this contrast between high-level and low-level entrepreneurship rather than the presence or absence of entrepreneurship, which seems to be important in explaining the difference between DCs and LDCs. In other words, it is a relative and not an absolute difference with which the analysis is concerned."

This theoretical conceptualization enables us to integrate the roles of state, market, and society with entrepreneurial actions and interactions between them. We argue that the entrepreneurship triangle presents a general framework that can explain not only national or sub-national level entrepreneurial ecosystems but can also explain differences in entrepreneurial ecosystems across the globe. This theoretically based approach conceptualizes the entrepreneur not simply as a rule-taker operating in a vacuum, but also as a rule-maker interacting with state, market, and society institutional mechanisms; not only accepting norms and rules but extending and challenging them.

Following Casson (1982), this paper takes entrepreneurship to be a social and economic function. It is shaped by socio-economic policies operating in the country where entrepreneurs are embedded. An entrepreneur is someone who specializes in adapting and taking judgmental decisions under uncertainty (Basu et al., 2022). This is a central role in understanding entrepreneurship (Casson 2010). Scholars suggest that the entrepreneurial environment is too complex to be modeled with precision (e.g., McKelvey, 2004). This is partly because of the multifaceted nature of forces that constitute the environment and constantly evolving policies that shape and nurture entrepreneurship. Therefore, an attempt is needed to construct simplified, actionable models of the environment. We employ the entrepreneurship triangle to develop theoretical arguments and formal propositions for the types of entrepreneurial action that are most prevalent in different countries. We examine what kind of entrepreneurship—high- or low-level, or a mixture of the two—exist, depending on the configuration of state, market, and society institutional mechanisms in a nation.

This article makes two contributions to the literature on entrepreneurship and public policy. First, it introduces a theoretical framework in the form of the entrepreneurship triangle to analyze the entrepreneurial ecosystem within a country. It shows the dynamic process that creates and sustains an entrepreneurial ecosystem, which has not been duly analyzed in prior work (Malecki, 2018). Second, it provides several propositions for predicting the prevalence and evolution of national entrepreneurial ecosystems by taking account of differences in the configurations of state, market, and society across nations. This is directly relevant to public policy, as one of the main levers that states can utilize to improve entrepreneurial activity in their market is through changes in their institutions. This provides relevant outcomes not only for theory, but also for managers and policymakers. Moreover, our propositions can guide future research as scholars can empirically test these propositions in a given country or in a cross-national study. Our paper represents an advance in structuring different theoretical approaches to entrepreneurship.

The remainder of this paper is organized as follows. "Entrepreneurship and the entrepreneurial ecosystem" section provides the key concepts and presents limitations in the extant literature. "The entrepreneurship triangle" section develops the entrepreneurship triangle. "Institutional configurations and entrepreneurial ecosystems" section then develops theoretical arguments and formal propositions based on the triangle. Finally, "Discussion and conclusion" section provides the discussion and conclusions for policy.

Entrepreneurship and the entrepreneurial ecosystem

Institutions are defined as the established and shared "rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (North, 1990: p. 3). They can be further subdivided into: (1) formal institutions, which are written or codified (e.g., policies, laws, regulations, contractual agreements, etc.); and (2) informal institutions, which are unwritten guidelines or codes of behavior (e.g., norms, traditions, customs, and reward structures). Public policy is a form of formal institution implemented by a government. It is defined as the sets of formal actions that governments make "that affect and influence every member of a nation-state or a subnational jurisdiction" (Howlett & Cashore, 2014, p. 17). More generally, it refers to the sets of guidelines, principles, or courses of action adopted by governments to achieve specific objectives or address issues, such as promoting entrepreneurship. Such policies provide a framework for decision-making and guide actions of actors embedded in an institutional framework. They are designed to influence behaviors, manage resources, and ensure compliance with regulations. Policies are subject to change as circumstances and objectives evolve. Furthermore, we define the entrepreneurial ecosystem as the interaction (or co-evolution) between formal and informal institutional processes in a given state, market, and society, as well as the strategic decisions and actions of entrepreneurs with that system.

Policy provides essential instruments that nurture and shape both the entrepreneurial ecosystem and the forms of entrepreneurship that evolve within it. By influencing institutional structures, market conditions, and societal norms, policy plays a pivotal role in enabling entrepreneurial activity. It supports the entrepreneurial "pursuit of opportunity beyond resources controlled" (Eisenmann, 2013: p. 1), a general perspective adopted in our study to frame the dynamic interaction between policy frameworks and entrepreneurial actions. Scholars (Baumol, 1986; Hagen, 1963; Schumpeter, 1934) generally agree that entrepreneurs seek to find what an organization should do and how it should be done. This notion of the entrepreneur fits with Kirzner's (1973) view of 'entrepreneurial alertness' wherein the entrepreneur is seen as a proactive agent that is engaged in processing information and seeking opportunities prevailing due to imperfect knowledge among market participants. Kirzner also emphasizes that by doing so, the entrepreneur not only appropriates profits but also takes the market forward (ibid.). This idea directly links to finding what products and/or services an organization should produce in order to compete successfully in the market, paving ways for product and market innovations and forming the basis for the growth of the firm and market (Reynolds, 1987). Entrepreneurs also seek to identify new and better ways of conducting business that link directly to improved processes for organizational management and the formation of the host country's entrepreneurial ecosystem.

Buckley and Casson (1991) conceptualized high-level entrepreneurship as formal and organized entrepreneurial activity, distinguishing it from low-level entrepreneurship in which refers to informal and unstructured ventures typically undertaken by petty traders. Formal entrepreneurship is legally registered, whereas informal entrepreneurship is not legally registered (Ault & Spicer, 2024; Dau & Cuervo-Cazurra, 2014; Salvi et al., 2023; Wei et al., 2023). The formal economy is made up of all (new and extant) businesses in a market that are legally registered, and the informal economy incorporates those not legally registered.

In contrast to the organized formal economy, the means and ends in informal entrepreneurship may be illegal but legitimate in society (Dau & Cuervo-Cazurra, 2014; Salvi et al., 2023; Webb et al., 2020). Both high- and low-level entrepreneurship are vital for economic growth, as these types of serve two different markets and deploy two different sets of skills for the given socio-economic conditions within which the entrepreneur operates (see for example, Buckley & Casson, 1991; Casson, 2021).

High-level entrepreneurship requires all the elements of entrepreneurial culture featured in Table 1. Low-level entrepreneurship requires only a subset of those elements, depending mainly on good judgement and a strong attachment to sectional, ethnic, and caste groups. It is argued that the relative absence of high-level "system" skills is a unique characteristic of underdevelopment. The entrepreneurial ecosystem is also linked by Buckley and Casson (1991) to geographical factors that create the basis for trade though *entrepôt* potential: factors such as communications, ports, and other transport infrastructures.

Despite having a clear identification of factors affecting entrepreneurship and the levels at which they interplay, research in the field has not paid sufficient attention to the interrelation between different forces that drive entrepreneurship and its ecosystem (Ace et al., 2014; Cavallo et al., 2019; Isenburg, 2010; Stam & Van de Ven, 2021). Nonetheless, Webb et al. (2009) suggest such informal/unorganized entrepreneurship occurs due to the incongruence between formal and informal institutions, which creates the potential for an informal economy. We argue this is a robust argument that paves the way to analyze entrepreneurial ecosystems and differential entrepreneurial activities in a given country.

We argue that policy plays a pivotal role in resolving incongruence between formal and informal institutions, and the ultimate state of entrepreneurship in a country. Policy is

Table 1 Elements of an entrepreneurial culture

1. Technical aspects
A. Scientific attitude, including a systems view.
B. Judgmental skills, including:
(i) Ability to simplify
(ii) Self-confidence
(iii) Detached perception of risk
(iv) Understanding of delegation
2. Moral aspects
A. Voluntarism and toleration.
B. Association with trust, including:
(i) General commitment to principles of honesty, stewardship, and the like
(ii) Sense of corporate mission
(iii) Versatile personal bonding (friendship not confined to kin)
(iv) Weak attachments to specific locations, roles, and so on.
C. High norms in respect of effort, quality of work, accumulation of wealth, social distinction, and so on.

Source: Derived from Buckley and Casson (1991)

a course of action adopted or proposed by the state. It provides a framework within which institutions change, which subsequently changes the structure and behavior of actors embedded in the institutional environment (Clegg, 2019). Van Assche (2019) emphasizes the importance of investigating policy shifts to explore rich narratives of the current state of activities and real changes taking place on the ground, for instance shifts from low to high-level entrepreneurship.

Entrepreneurial ecosystem

Carvallo et al. (2019) suggest that the concept of an "entrepreneurial ecosystem" represents an attempt to encompass a systematic view of entrepreneurship, but its use is problematic because its conceptualization has been "diverse" and "chaotic". An ecosystem is a complex system hosting several entities. The business ecosystem is a network of interconnected organizations that are likely to operate around a focal firm or platform. However, the ability of an ecosystem to support its inhabitants is contingent on its ability to absorb external environmental changes. Roundy et al. (2017) suggest that the resilience of an ecosystem is influenced by the diversity and coherence of its actors, and by the interaction between micro- and macro-level processes within it. The key features of an ecosystem are elements (active agents and enabling factors) and framework conditions (systemic structures and the broader social context that shape entrepreneurial activity). Interactions or cycles between elements and connections give dynamics to the system. It is usual to define the ecosystem within a defined space, usually a geographically bound area such as a nation or a city. The focus is on a specific territory, and this makes the rationale for a national ecosystem clear, given the cultural, legal, and regulatory boundaries of a nation state provide a frontier between different national entrepreneurial ecosystems (analogous to national innovation systems). There are complications arising from cyber entrepreneurial activities, but these are usually the outgrowth of individual national geneses. Entrepreneurial ecosystems are evolutionary, socially interactive, and non-linear (Malecki, 2018). Readers can refer to studies by Cao and Shi (2021) and Wurth et al. (2022) for a detailed review of the literature on entrepreneurial ecosystems.

Carvallo et al. (2019, p. 1301) defines an entrepreneurial ecosystem as "a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory". This definition is useful but incomplete because market-based economic systems are composed of interdependent actors, implying that the actors and factors forming entrepreneurial ecosystem are not independent but interdependent (Leendertse et al., 2022; Wurth et al., 2022). Carvallo et al. (2019) suggest that in empirical investigations, little is known about how entrepreneurial ecosystems can be studied, evaluated, and measured. We suggest that a more careful structuring of the concept, grounded in theory—particularly the theory of the entrepreneurship triangle—can not only enhance theoretical development but also address the deficiencies in empirical investigation and measurement.

Adner (2017, p. 42) suggests an ecosystem represents "the alignment structure of the multilateral set of partners that need to interact in order for a focal value proposition to materialize". He highlights four features of this definition: "alignment structure", "multilateral", "set of partners" and "for a focal proposition to materialize". We use these four features to develop the triangle below. Note that Adner's system is underpinned by the notion that a "focal firm" or focal entity has a role in creating the ecosystem (ibid.). Our notion is that the central actor—the entrepreneur—has a

limited role in creating the ecosystem. Individual entrepreneurs influence the triangle but cannot determine the pattern of forces that markets, society, and governments create by interacting. Within these constraints, entrepreneurship can flourish, but the key point is that context matters and the scope for entrepreneurial action will differ across (national) contexts.

We argue that the framework conditions for the type of entrepreneurship and for an entrepreneurial ecosystem are given by the interaction of governance by the market, by the state, and by pressures from society. Within this interacting triangle of forces, national systems of entrepreneurship emerge in which the agents create systematic conditions that interact with the triangle of forces in an evolving dynamic process. There are several features of dynamics in ecosystems that require attention: this is more than "micro-factors up, macro-factors down". There are layers of complexity; the mechanisms of interaction between firm and environment are multilateral, not bilateral, and they cannot be simply collapsed into dyads. The ecosystem co-evolves as the framework and agents interact.

Adner's (2017) definition is not a perfect fit for the concept of the triangle. The alignment structure is beyond the entrepreneur's control but can be influenced by their actions. The ecosystem is indeed multilateral and non-decomposable. The set of partners is not under the control of the entrepreneur and individual entrepreneurs must work within the parameters of the triangle, possibly with the aim of changing and influencing some of its dimensions. The focal value proposition is the existence, growth, and prosperity of individual entrepreneurs, and in aggregate, the exercise of entrepreneurship.

Our analytical system distinguishes between the entrepreneur and the exercise of entrepreneurship. As an actor, the entrepreneur sits at the center of our framework of forces (the entrepreneurship triangle). The entrepreneur is influenced by the forces represented in the triangle (state, market, society) and also influences them (Fig. 1). The exercise of entrepreneurial decision-making is conducted by the entrepreneur in the context of influences from the ecosystem—the forces and the institutional placing of the entrepreneur. This determines the high- or low-level exercise of entrepreneurship. If the entrepreneur is constrained by elements of the triangle, then the range of the operation of entrepreneurial decision-making will be small. For instance, if the state decrees that large-scale operations are the province of state entities, society opposes capitalism and market opportunities are limited—particularly if the capital market is underdeveloped—then, "petty trading" will be all that remains for entrepreneurs. This will also be the case if institutions combine to discriminate against entrepreneurs on religious, ethnic, or class grounds. If, however, state ownership is limited, society welcomes innovation and economic freedom and market opportunities are unconstrained, then there is scope for high-level entrepreneurship. This is developed below and presented in Table 2.

Based on these notions we define an entrepreneurial ecosystem as the configuration and relationships between the state, market, and society forces and the entrepreneur. Furthermore, we extend the definition of entrepreneurship as: "the pursuit of opportunity beyond resources controlled" (Eisenmann, 2013, p. 1) within the context of—and interactions with—the state, market, and society forces of the entrepreneurial ecosystem.

In our model, the three key institutional areas (state, market, and society)—represent a dynamic framework that constrains or promotes the exercise of entrepreneurship. However, under certain circumstances, entrepreneurial activity in interacting with these forces can alter them. Entrepreneurs can capture the state mechanism, can alter public opinion and can liberalize markets. These forces from within the entrepreneurial ecosystem can play a role in determining its wider framing. Over time, however, the exercise of entrepreneurial decision-making may change the forces that both constrain and encourage it.

The entrepreneurship triangle

We now discuss the 'Entrepreneurship Triangle', our theoretical framework to explain the national level entrepreneurial ecosystem and how it affects entrepreneurship in a nation. As presented in Fig. 1, it captures how three forces—(a) the state, (b) the market, and (c) the society—shape the entrepreneurial ecosystem. These three forces are represented at the edges of the triangle and the entrepreneur is at the center of the triangle, with small black arrows representing the pressure exerted by these forces on entrepreneurial decision making. We further suggest that the entrepreneur interacts with state, market, and society institutions to determine the entrepreneurial ecosystem of a given nation. As shown in the figure, the relationships go both ways, with the state, market, and society, and entrepreneurial ecosystem affecting each other and co-evolving.

The triangle has external ribbon two-way arrows, which show that state, market, and society interact with each other. Their interaction forms a dynamic external environment within which entrepreneurs and the entrepreneurial ecosystem operate. Furthermore, the three dimensions of the triangle (state, market, and society) co-evolve with entrepreneurial strategy and action. These evolutionary dynamics within entrepreneurial ecosystems are thus dynamic and non-linear.

State bodies primarily rely on formal institutions (i.e., written or codified rules, laws, regulations, policies) to influence the market and society. The state influences the market

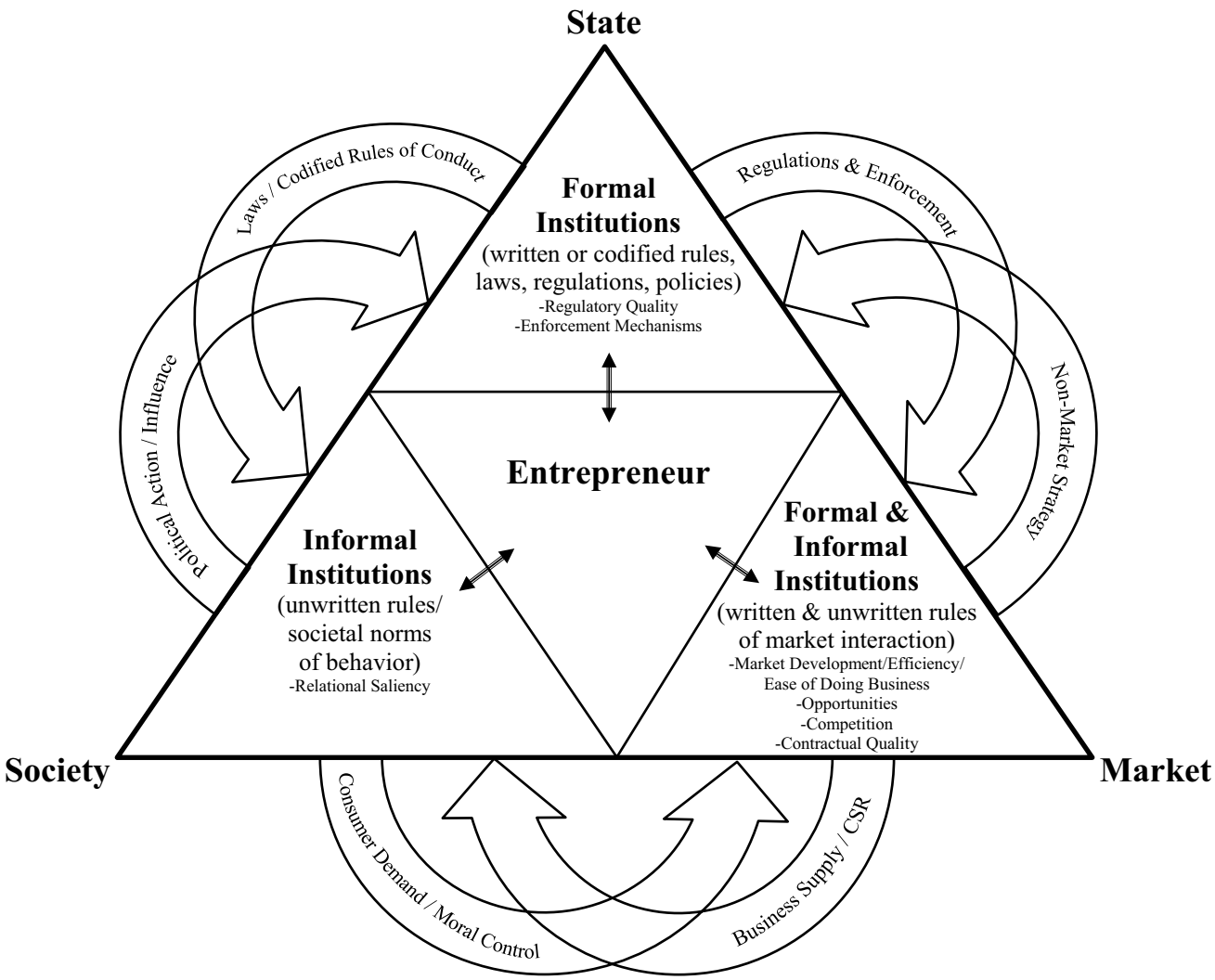

Fig. 1 The entrepreneurship triangle

through regulations and enforcement mechanisms, while it influences society by forming laws or codified rules of conduct. A key aspect that differentiates these institutions across nations is the quality of the regulatory framework, as well as the enforcement mechanisms in place to ensure compliance and reduce malfeasance (Fukuyama, 2004a; Williamson, 1990, 2000a, 2000b, 2004). We capture these with the term "regulatory quality" (De Francesco & Radaelli, 2013).

Society relies primarily on informal institutions (i.e., unwritten rules or societal norms of behavior). Society influences the state through political action and the market through consumer demand and moral control. Prior research suggests that socially determined institutions and demand in the market tend to create an ecosystem that promotes entrepreneurship (Meek et al., 2010). An important aspect that differentiates these institutions across nations is their degree of relational saliency. We define relational saliency as the extent to which institutions are socially embedded and required for everyday business operations in each society. Nations with low relational saliency tend to be more transactional, whereas those with high relational saliency tend to be more reliant on relationships.

Markets rely on a combination of formal institutions (e.g., contractual agreements) and informal institutions (e.g., informal agreements)—(i.e., written and unwritten rules of market interaction and transactions) (Dau et al., 2022a, 2022b; Helmke & Levitsky, 2004, 2006; Kafouros et al., 2022; Murtazashvili & Murtazashvili, 2024; North, 1990, 1991, 2005; Pejovich, 1999; Sartor & Beamish, 2014; Sauerwald & Peng, 2013). The market influences the state primarily through non-market strategy mechanisms (e.g., business-related lobbying), while it influences society by supplying goods and services, and through its corporate social responsibility practices. Key aspects of the market that differentiate these institutions across nations include the degree of market development, market efficiency, ease

Table 2 Proposed entrepreneurial ecosystems and predominant level or type of entrepreneurship (high, low, or mixed) for different state, market, and society configurations

1 Case	2 State* (Regulatory Quality—High or Low)	3 Market* (Market Efficiency—High or Low)	4 Society* (Relational Saliency—High or Low)	5 Entrepreneurship Level (High or Low Level)	6 Entrepreneurial Ecosystem Type	7 Examples
1	H	H	H	H	High-Level Relational Entrepreneurship	*Yongo* in South Korea and *Wa* in Japan
2	H	H	L	H	High-Level Transactional Entrepreneurship	Co-operative banks and building societies in the UK
3	H	L	H	Mixed	Mixed-Level State-Based Relational Entrepreneurship	China (e.g., Guanxi), India (e.g., family ties), and Russia (e.g., Blats/Svyazy)
4	H	L	L	Mixed	Mixed-Level State-Based Transactional Entrepreneurship	State-imposed allocation in Cuba or the former USSR
5	L	H	H	Mixed	Mixed-Level Market-Based Relational Entrepreneurship	Private social enterprises in Syria
6	L	H	L	Mixed	Mixed-Level Market-Based Transactional Entrepreneurship	Mafia in the Niger Delta
7	L	L	H	L	Low-Level Relational Entrepreneurship	Small traders extending credit, community-based saving clubs
8	L	L	L	L	Low-Level Transactional Entrepreneurship	Petty traders in Somalia and Syria

*Note: Each of these can be conceptualized as a continuum ranging from low to high. For the sake of simplicity, we examine the extremes of these continuums.

of doing business, market opportunities, competition, and contractual quality (Contractor et al., 2020, 2021; Dimson and Mussovian, 2000; Tran, 2019). We summarize these with the term market development or efficiency.

In developing the triangle and the subsequent theoretical arguments below, we examine the relationships between the entrepreneurial ecosystem and three key institutional categories: regulatory quality, relational saliency, and market development. It is important to note that each of these constructs can be conceptualized as a continuum ranging from low to high. For the sake of simplicity, we only examine the extremes of these continuums (i.e., low and high), leaving it to future work to tease them out even further. In addition, our application is at the national level, but it could equally be employed at the sub-national (e.g., city) level.

The intention is to show the impact of the state, society, and market on entrepreneurship but also the impact of entrepreneurship on these constituencies. While being 'rule takers' from formal and informal institutions from each of these, entrepreneurs also influence regulations (through lobbying and innovation), market forces (through changes to supply and demand conditions and competition), and society (through seeking to sway informal norms and behavior). The triangle therefore encompasses a dynamic ecosystem, with entrepreneurial activity firmly at its center.

Market context and entrepreneurship

The concept of opportunity lies at the core of entrepreneurship research (Shane & Venkataraman, 2000). In an economic environment, it relates to needs and gaps both at the micro and macro levels. At the micro level, individuals demand goods and services, while at the macro level, the economy has market voids (gaps) and requires development (Mair & Marti, 2009).

At the micro level, the demand and supply of goods and services provide fundamental forces for the market and entrepreneurship to exist. Kirzner (1973) in his seminal book entitled "Competition and Entrepreneurship" emphasizes the role played by demand and supply forces in forming market structure, which turns the wheels of entrepreneurship. Demand and supply forces define the level of competition and set market processes into action. As such, an understanding of competition and market processes is "analytically inseparable from the exercise of entrepreneurship" (Kirzner, 1973: p. 9). These insights into the interaction between entrepreneurship and market processes suggest that entrepreneurship is an evolutionary process that progresses with the maturity level of the market and at the same time forms a central element for the development of the market itself (Von Mises, 1966).

In a cross-country analysis, Ault and Spicer (2024) found that the level of economic development affects entrepreneurship and its type. As a country's economy grows, it reduces informal entrepreneurship by providing more opportunities for formal employment and social protection to its citizens. Likewise, a cross-country analysis by Bjørnskov and Foss (2008) suggests that the depth and breadth of the financial market also promote entrepreneurship. The maturity of the market for financial capital in the USA is often considered the prime attraction for technology-intensive firms to locate their innovation centers in the USA. This is a major incentive for entrepreneurial clusters to grow there (Mazzucato, 2013). In addition to strong financial markets, the development of infrastructure and well-structured labor markets also shape the formation of high-level entrepreneurship (Krueger, 1993). Yu et al. (2023) found that improvements in the Chinese business landscape (in terms of public services, the market environment, and the legal environment) encourage business owners to transition low- to high-level entrepreneurship.

Typically, low-level local entrepreneurship runs in parallel in an unorganized form and fills important gaps left behind by high-level entrepreneurship (Buckley & Casson, 1991; Casson, 2021). This is characteristic of developing countries that operate with a dual economic structure. Scholars argue that such idiosyncrasies in developing countries often prepare entrepreneurs to transfer their entrepreneurial skills and capabilities to other developing countries with similar kinds of market voids (Cuervo-Cazurra & Genc, 2008; Doh et al., 2017).

It is also important to emphasize that while opportunities for entrepreneurship are frequently available in developing countries, resources such as technology and capital are often scarcer (Rosenberg, 1963), posing challenges for business activities (Linna, 2013). Entrepreneurs compensate for the scarcity of capital and technology by indulging in low-level entrepreneurship and by using more labor-intensive production methods, exploiting the availability of excess labor and consequent low wages in developing countries. MNEs from advanced economies, who we posit have a stimulating effect on the host country's entrepreneurial ecosystem (Buckley & Casson, 1991; Casson, 2021), often tap into these resource differences in two ways: *first*, by replacing low-level with high-level entrepreneurship (for instance, by replacing petty retail traders by setting up supermarkets); and *second*, by achieving an entrepreneurial division of labor between MNEs and local entities, through outsourcing and offshoring production into developing countries. This is facilitated by the differential capabilities that exist between them, which are connected through market and institutional links, while context determines the precise breakdown of the division of labor (Buckley & Prashantham, 2016).

The role of the state and entrepreneurship

The formal institutional context has been established as an important theoretical foundation in the field (e.g., De Clercq et al., 2010; Mickiewicz et al., 2021; Sahasranamam & Nandakumar, 2020). Taking cues from this Austrian school of thought, scholars (e.g., Moyo, 2009; Rodrik, 2007) argue that often the state promotes high-level rent-seeking corporate entrepreneurship to address market voids and for the economic development of the country by building a fully functioning market. Telecom and Railways in many countries, for instance in the United Kingdom as well as in India are great examples in this respect, where the government initiated such high-level entrepreneurship because firms from private sector could not enter due to a lack of technology and finance. Estrin et al. (2013a, 2013b) suggest that the nexus between the state and entrepreneurship is based on the scope and size of the state. They argue that a smaller government is usually beneficial for entrepreneurship. Fukuyama extends this argument and suggests that it is critical "to distinguish between the scope of states, and their strength" (Fukuyama, 2004b: p. 1; cf., Fukuyama, 2014a). State strength is defined as "the effectiveness with which countries can implement a given policy" (ibid), whereas state scope is defined as "a state's range of functions, from domestic and foreign security, the rule of law and other public goods, to regulation and social safety nets, to ambitious functions such as industrial policy or running parastatals" (ibid). Thus, a strong but smaller government refers to one that has effective enforcement mechanisms to curb opportunism and malfeasance, while seeking to minimize unnecessary interference in the market.

Although the concept of institutional entrepreneurship and the interaction between institutions and entrepreneur was formally introduced much later by DiMaggio (1988) in his seminal work entitled 'interest and agency in institutional theory', the impact of institutional factors on

entrepreneurship can be traced back to Adam Smith (1776) who identified two sets of constraints or "Material impediments" to the exercise of entrepreneurship. One is, "lack of capital", and the other is "oppression of civil government". Smith lists these institutional factors as—wars, anarchy, slavery and serfdom, short tenancies, high taxes, obstruction of trade, privileges and monopolies, legal insecurities, low self-esteem of merchants and poor transport facilities (Pollard, 1971, p. 74). This comprehensive list includes not only government interference but also what we would recognize today as property rights constraints and excessive transaction costs (Estrin et al., 2013b).

DiMaggio's (1988) thinking was heavily influenced by Eisenstadt's (1968) earlier work on elites with free access to resources. He portrayed the institutional entrepreneur as the powerful and resource-rich actor with the ability to leverage the State's resources for entrepreneurial activities (Aldrich & Fiol, 1994). Often, this converges with the State's primary aim of economic development, implying that entrepreneurship, when built around economic development (Ace et al., 2008; Casson & Wadeson, 2007) intertwines with policy formulations and institutional changes required to foster more balanced and inclusive economic development (McMullen, 2011; Dacin et al., 2002; Birley, 1987). However, despite the importance of the institutional context, its robustness, unlike the economic context, has not been examined methodically in a cross-national setting. While Oliver (1991) presents a typology of formal institutions, driven by strategic responses that vary from passive conformity to proactive manipulation, there are only a few studies that examine the features of the formal institutional context and its impact on entrepreneurship (Bruton et al., 2010). Scholars (Kiss et al., 2012) argue that the operation of formal institutions is idiosyncratic to the local context as entrepreneurs and local institutions co-evolve, shaping each other (Cantwell et al., 2010). A study by Mair and Marti (2009) provides exemplary illustrations regarding the three-way relationship among local context, institutions, and entrepreneurship, especially highlighting how intuitional voids arise and then how that may trigger entrepreneurship.

It is widely acknowledged that entrepreneurial activities have a positive effect on economic growth (Stel et al., 2005; Stoica et al., 2020). Therefore, states generally aim to nurture entrepreneurial ecosystems. Spigel and Harrison (2018) argue that governments actively promote entrepreneurship through setting up industrial clusters and regional innovation hubs. These clusters and hubs then become breeding grounds for new start-ups and at the same time platforms to provide solutions for scaling up problems often faced by small entrepreneurial firms, all of which provide several tangible benefits to the economy.

Scholars argue that "while capital, labor, resources, and infrastructure are all important, equally, how these elements are mobilized through leadership, governance, and institutions are at least but perhaps even more important" (O'Connor et al. 2018: p. 1). Thus, this approach of creating entrepreneurial ecosystems presents a situation whereby policy informs theory-building rather than theory informing policy and practice (Stam, 2015).

Shane (2009) provides a contrarian perspective regarding entrepreneurship and economic growth. He argues that not many entrepreneurial ventures are innovative, that they create few jobs and generate little wealth. Thus, obtaining the expected economic growth through private entrepreneurship is not a given condition. This suggests that encouraging the right kind and quality of entrepreneurship is better than subsidizing the formation of a typical start-up with the assumption that "more is better". Nonetheless, extant research also concludes that entrepreneurial activity has important social implications (Chell, 2007; Simba et al., 2023). For instance, it can help prevent unemployed youth from being drawn into antisocial behaviors by providing them with productive opportunities and a sense of purpose. As a result, states often promote entrepreneurship as a central component of their policy formulation process (Acs & Szerb, 2007; Candeias & Sarkar, 2024).

Research focusing on policy aspects of entrepreneurship examines how states can reduce uncertainty in the external environment (Alvarez & Barney, 2005; Bradley et al., 2021; McMullen & Shepherd, 2006; Minniti, 2008), especially in case of new and emerging industries (Aldrich & Fiol, 1994; Garud et al., 2002; Wen et al., 2022). Burns et al. (2016) argue that entrepreneurs often form deep psychological bonds with stakeholders. This helps entrepreneurs to develop trust-based relationships with stakeholders, thereby reducing uncertainties associated with the acquisition of resources from them. McKelvie et al. (2011) analyze uncertainty as a multidimensional construct and explore how its varying dimensions impact different aspects of entrepreneurship. However, scholars still argue that the role of uncertainty in influencing entrepreneurship and strategy has not been adequately explored (Alvarez & Porac, 2020). What is commonly understood is that the economic environment in advanced countries is generally less uncertain, as formal institutions in these countries are more mature and normally do not directly interfere with businesses, and regulators function as watchdogs overseeing the proper conduct of business in their economy. In contrast, developing countries often have underdeveloped formal institutions and an unstable business environment, which enhances risk and uncertainty and complicates entrepreneurial activity. Hence, the scholarly focus tends to be more on public policy and entrepreneurship in developing countries, particularly emerging economies, where institutional change is used as an engine to attain economic growth (Hoskisson et al., 2000). As discussed above, governments mitigate the

hardships of entrepreneurship, seeking to promote economic development, by providing support and incentives of various kinds (O'Connor, 2013). The public sector also acts as an entrepreneur in order to fill the gaps in the market left by private entrepreneurs (Morris and Jones, 1999).

Scholars suggest that entrepreneurship can emerge out of institutional voids, i.e., the missing or inefficient functioning of formal institutions (Khanna & Palepu, 2010; Mair et al., 2009). Moreover, entrepreneurs sometimes form informal parallel institutions to "fill" extant institutional voids (Battilana et al., 2009), and leverage their experience in other host markets with similar institutional voids (Cuervo-Cazurra & Genc, 2008). Puffer et al. (2010) report that Chinese entrepreneurs often overcome difficulties posed by weak formal institutions in doing business by forming 'guanxi' networks that enable entrepreneurs to conduct their economic activities, for instance by exchanging favors with bureaucrats, other government officials, and politicians. Wang et al. (2022) argue that Chinese corporate entrepreneurs often exploit their political capital and guanxi network to mitigate challenges posed by institutional voids in developing host countries, such as Africa.

Society and entrepreneurship

The social context provides the third influence on entrepreneurship (Baker et al., 2005; Estrin, Mickiewicz and Stephan, 2013). There are two dimensions to this social context: (a) social entrepreneurship, which is concerned with social causes (Gupta et al., 2020; Mair & Marti, 2006; Peredo & McLean, 2006), and (b) commercial business entrepreneurship emerging from social factors, e.g., driven by community, group, ethnicity, and religion.

Autio et al. (2013) argue that entrepreneurship in any country is strongly connected with its social fabric and the level of economic development. Social fabric encompasses informal institutions, primarily culture, which sets the unwritten rules or norms that are widely accepted and followed in each society (Helmke & Levitsky, 2004, 2006; North, 1990, 1991, 2005). These informal institutions not only regulate entrepreneurship and its types but also act as a catalyst of entrepreneurial outcomes.

At the macro level, culture "transforms and complements the institutional and economic contexts to influence entrepreneurship" (Hayton et al., 2002, p. 45). It shapes the political and administrative establishments in a country, which in turn governs the ecosystem of entrepreneurship. For instance, in a society where kickbacks and bribes are acceptable ways of doing business, the political and administrative machinery is likely to be less transparent, which in turn affects the entrepreneurial activities in the country. At the micro level, society persuades entrepreneurial activity by motivating and mentoring budding entrepreneurs. This eventually helps society by creating jobs, innovation, and solutions for its challenges.

However, societal orientation towards entrepreneurship varies substantially across countries (Autio et al., 2013; Baumol & Strom, 2007; Bjørnskov & Foss, 2008). Kleinhempel and Estrin (2024) associates cognitive biases in society as the main cause behind this. They argue that cognitive biases, such as level of confidence, in society significantly affect entrepreneurial aspirations and activities. Often when a society nurtures entrepreneurship, it provides communal support in the form of mentoring, resources, and a network that enhances entrepreneurial activities (Fortunato & Alter, 2015). Gujrati, Marwari and Baniya communities in India; Ibo (or Igbo) and Yoruba in Nigeria are great examples in this respect.

Zelekha et al. (2014) found that religion also yields a significant impact on the tendency of someone to become an entrepreneur. Scholars often draw entrepreneurial lessons from religious texts to articulate the impact of religion on entrepreneurship (Dana, 2009). Indeed, some of these analyses are subjective and can be criticized for misinterpretation. Carswell and Rolland (2007) examined the role of religion and cultural diversity on entrepreneurship and found no apparent relationship. Nonetheless, extant literature in marketing suggests that religion, societal values and other cultural norms helps in identifying market segments (McDaniel & Burnett, 1990), which at the most fundamental level can lead to ethnic entrepreneurship. From a theoretical perspective, ethnic entrepreneurship is opportunity-based (Alvarez & Barney, 2007), whereby the entrepreneur discovers opportunities for starting a business venture in serving the potential market segment. Scholars (Aldrich & Waldinger, 1990; Zelekha et al., 2014) argue that while ethnic groups affect entrepreneurship, they also adapt to the resources provided by the external environment. Thus, there is a reciprocal relationship between society and entrepreneurship, and this relationship needs careful scholarly attention.

Additionally, scholars have also explored the impact of cultural configuration of society on entrepreneurship. Davidsson and Wiklund (1997) argue that societies that promote individualism, for instance through competition and recognition of personal achievement, tend to have stronger entrepreneurial activity. In contrast, Tiessen (1997) posits that collective societies engage in group-based entrepreneurship, producing "clanlike" affiliated organizations, like keiretsu, which are interconnected with close relational ties. Similarly, social orientation towards uncertainty avoidance and masculinity influences risk-taking behavior, which is associated with activities related to entrepreneurship and innovation (McGrath et al., 1992; Scheinberg and McMillan, 1988; Mueller & Thomas, 2001). Burns et al. (2016) highlight the importance of society for entrepreneurship by emphasizing that entrepreneurs often rely on society to

exploit opportunities and to access resources controlled by resident stakeholders. Entrepreneurs form deep psychological bonds with society and stakeholders to access resources and opportunities that go beyond what can be specified contractually. This allows the entrepreneur to mitigate risk and uncertainty in the process and entrepreneurship and shows positive externalities a society that shares collective value creation may have on business. In contrast, Engelen et al. (2015) argues that firms located in societies with high degrees of individualism, in comparison to firms located in societies with high degrees of collectivism, are more likely to seize and leverage the opportunities offered by turbulent markets.

In a cross-country study, Stephan and Uhlaner (2010) classify societies into socially supportive culture and performance-based culture and associate them with entrepreneurship. They argue that a socially supportive culture promotes entrepreneurship from the supply-side and a performance-based culture promotes it from the demand-side.

In recent years, technological developments have also influenced the way society nurtures entrepreneurship. Societies that have advanced in technological adoption have benefited more. For instance, countries in the US and Europe are active in leveraging online platforms to create an ecosystem that supports entrepreneurs. For instance, platforms like Kickstarter and GoFundMe, along with fintech innovations, have made it easier for entrepreneurs to access funding. Social groups in the US and Europe often support these efforts by promoting campaigns or organizing community-driven investment initiatives and leveraging digital platforms, advocating policies promoting entrepreneurship. Through online campaigns, petitions, and discussions, they push for reforms such as easier access to credit, tax incentives, and more inclusive regulatory frameworks (Lindberg & Sverrisson, 2016).

Institutional configurations and entrepreneurial ecosystems

We build on the entrepreneurship triangle to develop theoretical arguments for how different configurations of state, society, and market institutions help to explain the prevalence of different entrepreneurial ecosystems across nations. Table 2 summarizes these configurations, with high and low state regulatory quality, high and low market efficiency, and high and low society relational saliency (see columns 2, 3, and 4).

We first develop arguments and formal propositions for when we would expect these different configurations to be associated with high- or low-level entrepreneurship or with a mixture of the two (see column 5). These arguments are captured in Propositions 1a (for cases 1 and 2 in the table), 2a (for cases 7 and 8), and 3a (for cases 3–6). Then, we examine how each configuration displayed in cases 1–8 in the table can be captured by a different type of entrepreneurial ecosystem or environment (see columns 6 and 7). The typology of entrepreneurial ecosystems we propose includes High Level Relational Entrepreneurship, High Level Transactional Entrepreneurship, Mixed Level State-Based Relational Entrepreneurship, Mixed Level State-Based Transactional Entrepreneurship, Mixed Level Market-Based Relational Entrepreneurship, Mixed Level Market-Based Transactional Entrepreneurship, Low Level Relational Entrepreneurship, and Low-Level Transactional Entrepreneurship. We describe each of these below in more detail.

Predicting entrepreneurship level: High or low

The contrast between low- and high-level entrepreneurship is not included in Fig. 1, for reasons of economy. The dynamics encapsulated in the figure explain the contrast. Low-level entrepreneurship is contained by market, societal, and state pressures. Low-level entrepreneurship persists where markets are underdeveloped and segmented by cultures, geographies, and ethnic values. Thus, entrepreneurs cannot break out of a small, segmented market because of barriers in reaching wider markets. They are also inevitably constrained by a lack of financing. The financial needs are met by micro lenders at significantly high interest rates and short-term loans. Regular banking institutions will not invest in low-level entrepreneurship when they can see no prospect of the entrepreneur breaking into a wider market. These product and finance market constraints are reinforced by societal norms and by regulatory barriers, where different groups do not join the nascent market for a low-level entrepreneur's product or services because of cultural differences, and where regulatory support from the local or central government is not forthcoming to reduce barriers to trade (regulations, internal or external tariffs, policies inhibiting entrepreneurship). Thus, the reach of our triangle of forces can conspire to keep entrepreneurship at a low level. Equally, market development, societal change, and regulatory reform can allow the transition to high-level entrepreneurship by removing barriers, better protection to intellectual property rights and allowing greater potential market access, thus transforming low-level to high-level entrepreneurship (Acs et al., 2008; McMullen et al., 2008). These dynamics are reflected in Table 1. The technical aspect of entrepreneurship is transformed from low-level to high-level by increased tolerance, greater openness and trust and attitudinal changes of key stakeholders which foster an environment conducive to innovation, risk-taking, and sustained entrepreneurial growth ("moral aspects" in Table 1).

We propose that examining the quality of state and market institutions is sufficient (without considering societal

institutions) to predict whether high- or low-level entrepreneurship (or a mixture of the two) will be prevalent in a business environment. We propose that when regulatory quality and market development are both high (Table 2, cases 1 and 2), entrepreneurship will tend to be at a high level (Ault & Spicer, 2024; Thai & Turkina, 2014; Ace et al., 2008). This occurs because when the rules of the game and expectations are clear both from the part of the government and the market, then innovation and entrepreneurship will be able to flourish at the highest level. For instance, entrepreneurial ventures in the health care industry, such as hospitals, clinics, and care homes, are often high-level. Established in year 2000 by Dr. Devi Shetty, Narayana Health–a prominent heart hospital in India–has benefited from market demand for heart surgery and clear regulations from the Indian government for setting up super specialty hospitals. The hospital gained popularity for its innovation in cost-effective heat surgeries (Gupta & Khanna, 2019). Today, it has over 27 hospitals in various cities in the country.

Proposition 1a: Nations with high regulatory quality, high market efficiency, and either high or low relational saliency will exhibit primarily high-level entrepreneurship, *ceteris paribus*.

On the other hand, we propose that when regulatory quality and market development are both low (Table 2, cases 7 and 8), entrepreneurship will tend to be at a low level. As institutions and expectations are unclear and unstable in such environments, there is much less of an incentive for economic actors to engage in innovative and risky entrepreneurial ventures. In a cross-country study, McMullen et al. (2008) finds institutional arrangements specifically targeted at protecting intellectual property motivating entrepreneurial activities undertaken to exploit opportunities offered by host economies. Therefore, we argue that a lack of necessary institutional mechanisms to protect entrepreneurial interests, such as through contracts on the part of the market and enforcement of those contracts by the state, discourage high-level entrepreneurship because it often involves large capital outlays for building intangible competitive advantages such as brand and innovation, which require protection. We further argue that if such institutional arrangements are weak, entrepreneurship will still take place, as there will still be a need and demand for goods and services, but it will be low-level, as the necessary institutional protections are absent. Entrepreneurship by local artisans in handmade products such as textiles, jewelry, or ceramics serves as an example. Despite demand, artisans often struggle to compete or expand their ventures because of a lack of intellectual property (IP) protections or fair market regulations.

Proposition 2a: Nations with low regulatory quality, low market efficiency, and either high or low relational saliency will exhibit primarily low-level entrepreneurship, *ceteris paribus*.

Finally, when regulatory quality is high and market development is low or vice-versa (Table 2, cases 3–6), there are competing mechanisms on business activities, leading to a mixture of high- and low-level entrepreneurship. When regulatory quality is high and market development is low, regulations are well developed and enforced, but if market institutions are weak, there will be some entrepreneurs who pursue low- and others high-level entrepreneurship. Similarly, when regulatory quality is low and market development is high, the market will typically provide the necessary institutional framework lacking by the state, but this also provides a mixture of incentives, leading to a mixture of high- and low-level entrepreneurship.

Proposition 3a: Nations with either high regulatory quality and low market efficiency or vice versa, with either high or low relational saliency, will tend to exhibit a mixture of high- and low-level entrepreneurship, *ceteris paribus*.

Predicting entrepreneurial ecosystem type

As the arguments above indicate, we propose that examining the interaction between the quality of state and market institutions (i.e., the relationship between the top and bottom right portions of the entrepreneurship triangle on Fig. 1) is sufficient to predict whether high- or low-level entrepreneurship (or a mixture of the two) will be prevalent in a market. However, we suggest that to better tease out the types of entrepreneurial ecosystems, the society component also needs to be considered (i.e., the bottom left portion of the triangle in Fig. 1). We provide the breakdown of proposed entrepreneurial ecosystem types in column 6 of Table 2 and discuss each below.

We propose that high-level entrepreneurship (Table 2, cases 1 and 2) can exist in markets with greater or lesser degrees of involvement by society and that this leads to significantly different entrepreneurial ecosystem types. In both cases, regulatory quality and market efficiency are high. However, in the first case, when relational saliency is high, market operations are highly dependent on social interactions and expectations. We call this ecosystem type *High Level Relational Entrepreneurship* (Table 2, case 1). Examples of this ecosystem type include South Korea, Japan, Taiwan, and Singapore, where market operations are highly dependent on strong state, market, and society institutional structures. In such countries, informal social networks and frameworks such *yongo* in South Korea (Horak & Taube, 2016) and *Wa* in Japan (Alston, 1989) are critical elements

to engage in entrepreneurial or business activity. The Hyundai Group's rise to becoming a global auto manufacturer involved leveraging Yongo networks. Founder Chung Juyung, who hailed from a small rural town, built deep connections with government officials during South Korea's industrialization period. His Yongo-based relationships allowed him to secure government contracts, favorable policies, and even funding during critical points in Hyundai's development, enabling the company to expand internationally.

On the other hand, in the second case, when relational saliency is low, market operations will be much less reliant on societal interactions and expectations, thus being much more transactional in nature. We call this ecosystem type *High Level Transactional Entrepreneurship* (Table 2, case 2). Examples of this ecosystem type include the US, UK, Canada, Australia, and the Scandinavian countries, where market operations are highly dependent on strong state and market institutional structures, but where society institutional structures play a less prevalent role. Entrepreneurship by co-operative organizations and building societies, for instance in the UK, Canada, and Ireland provides useful examples for this type of high-level relational entrepreneurship. In such countries, relationships matter, but to a far lesser extent and transactional collaboration is much more common (Hsu & Saxenian, 2000).

Proposition 1b: In nations with high regulatory quality and high market efficiency, when relational saliency is high, entrepreneurship will be highly influenced by all three pillars, leading to the predominance of High-Level Relational Entrepreneurship, whereas, when relational saliency is low, entrepreneurship will be dependent primarily on state and market rules, leading to High Level Transactional Entrepreneurship, *ceteris paribus*.

Furthermore, we argue that low-level entrepreneurship (Table 2, cases 7 and 8) can occur in markets with greater or lesser degrees of involvement by society and that this will also lead to significantly different entrepreneurial ecosystem types. These cases occur when regulatory quality and market efficiency are both low. Nevertheless, in the first scenario, relational saliency is high, providing a mechanism that somewhat compensates for the lack of the other two. Economic actors in such markets are unable to rely on solid institutional frameworks of the state and market, but having strong relational networks and mechanisms can help offset this to some extent (Stam and Van de Ven, 2021; Alvarez & Barney, 2005). Relationships, such as those based on trust, reciprocal obligation, and ties, provide an informal institutional mechanism whereby individuals can engage in entrepreneurial and other business activity while reducing uncertainty (Webb et al., 2009). Valdez and Richardson (2013) argue such societal value-based relationships also play a significant role in reducing transaction costs and identifying opportunities for entrepreneurship. In the absence of formal mechanisms such as contracts, such informal institutions from society thus provide a means for the market to operate. We call this ecosystem type *Low Level Relational Entrepreneurship* (Table 2, case 7). Examples of this ecosystem type include several social enterprises operating in the Sub-Saharan African nations. Rotating savings and credit associations (popularly known as Chamas) are community-based savings groups in Kenya where members contribute money regularly into a collective pool, which is then distributed to one member at a time. Similarly, in many tight-knit communities where trust levels are high, small shop owners extend credit to local customers based on personal relationships. Customers buy goods with the understanding that they will pay later.

Conversely, when regulatory quality, market development, and relational saliency are all low, entrepreneurial activity will be stifled as business activity will lack the necessary mechanisms to thrive. The situation where all three institutional pillars of the triangle are low occurs when there is a complete breakdown of state governance, market functioning, and social trust. Entrepreneurship and trade will still exist but will be greatly suppressed, as none of the three institutional components provides a foundation for trust in trade and exchange. We call this ecosystem *Petty Trade Entrepreneurship* (Table 2, case 8). Entrepreneurial ecosystem in Somalia, Syria during its current war, the former Yugoslavia during its war, and other war zones mostly fall in this group. For instance, petty entrepreneurship in Somalia operates stalls where they sell airtime and help locals send or receive money through mobile wallets. In northern Syria, particularly in areas close to the Turkish border, small-scale entrepreneurs engage in cross-border trade, importing and exporting goods such as food, fuel, and clothing. This form of trade is often carried out informally due to border restrictions, and many petty traders find a niche in transporting goods across conflict zones.

Proposition 2b: In nations with low regulatory quality and low market efficiency, when relational saliency is high, entrepreneurship will be dependent on social structures and relationships for its basic functioning, leading to the predominance of Low-Level Relational Entrepreneurship, whereas when relational saliency is low, all three pillars will be low, leading to the predominance of Low-Level Transactional Entrepreneurship, *ceteris paribus*.

The remaining cases in Table 2 entail Mixed entrepreneurship, which is a mixture of high- and low-level entrepreneurship (Table 2, cases 3–6). In the first two of these (cases 3–4), regulatory quality is high, while market efficiency is low. However, in the first, relational saliency is

high and in the other it is low. We propose that in nations with high regulatory quality and low market efficiency, when relational saliency is high (Table 2, case 3), there will be competing sets of rules from the state and from society, while rules from the market will bear much less weight. We refer to this type of entrepreneurial ecosystem as *Mixed Level State-Based Relational Entrepreneurship*. Examples of such nations include China (e.g., Guanxi), India (e.g., family ties), and Russia (e.g., Blats/Svyazy). These countries are characterized by strong states and high dependency on ingrained relational norms, while market mechanisms are still developing. Yandex is a prime example of how relational entrepreneurship, combining strategic partnerships, local knowledge, and connections with powerful stakeholders like the government, has played a crucial role in building a large and successful business. Through these networks and relationships, Yandex was able to become a dominant player in Russia's tech ecosystem, expanding into search, e-commerce, AI, and transportation.

On the other hand, we argue that in nations with strong regulatory quality and weak market mechanisms, when relational saliency is low (Table 2, case 4), there will not be competing sets of rules. In such a scenario, the rules will primarily be dictated by the state, with limited influence from the other two pillars of the triangle. We refer to this entrepreneurial ecosystem as *Mixed Level State-Based Transactional Entrepreneurship.* Examples of such nations include Cuba, North Korea, Myanmar, Belarus, and the former Soviet Union and the Soviet bloc. This type of entrepreneurial ecosystem is characterized by an authoritarian regime, where entrepreneurship occurs primarily through state companies and central planning mechanisms. For instance, entrepreneurship in Turkmenistan, an authoritarian and highly centralized state, is limited and heavily regulated by the government. The state's tight control over the economy means that most business activities are dominated by state-owned enterprises, and private entrepreneurship operates within narrow boundaries. In recent years, the Turkmen government has allowed private entrepreneurs to operate in the agricultural sector, especially in cotton and wheat production. This sector is vital to the Turkmen economy, and while large-scale farming remains state-controlled, small-scale farmers have been allowed to lease land and engage in private agricultural activities.

In short, we propose that nations with high regulatory quality, low market efficiency, and *high* relational saliency will be primarily characterized by Mixed Level State-Based Relational Entrepreneurship. Conversely, nations with high regulatory quality, low market efficiency, and *low* relational saliency will be primarily characterized by *Mixed Level State-Based Transactional Entrepreneurship*. We summarize these arguments with the following proposition.

Proposition 3b: In nations with high regulatory quality and low market efficiency, when relational saliency is high, there will be competing sets of rules from the state and from society, leading to the predominance of Mixed Level State-Based Relational Entrepreneurship. On the other hand, when relational saliency is low in such markets, rules will primarily be dictated by the state, leading to the predominance of Mixed Level State-Based Transactional Entrepreneurship, *ceteris paribus*.

Finally, when state institutions are weak, while market ones are strong, there can also be a distinction when relational saliency is high or low (Table 2, cases 5–6). We propose that in nations with weak regulations and strong market mechanisms, when relational saliency is high (Table 2, case 5), there will be competing rules of rules from the market and from society, while rules from the state will be much less influential. We refer to this type of entrepreneurial ecosystem as *Mixed Level Market-Based Relational Entrepreneurship*. Examples of such nations include several present-day Islamic states, for example Syria, as well as the US during the late 18th century. Such nations could be described as characterized by weak states, while having strong and well-established market mechanisms, and high dependency on ingrained relational norms. In such an ecosystem, social entrepreneurship would thrive as society as well as the market forces would support such ventures. Kesh Malek a Syrian civil society organization and social enterprise focused on education and community empowerment in conflict zones. This social enterprise was established in the early years of civil war. It was founded by a group of activists during the Syrian civil war to address the collapse of the formal education system in many parts of the country. Similarly, SouriaLi is an independent Syrian social radio station launched in 2012. It operates as a platform for promoting dialogue, peacebuilding, and social cohesion among Syrians, especially in areas affected by the conflict.

Conversely, we argue that in nations with weak regulatory quality and strong market mechanisms, when relational saliency is low (Table 2, case 4), there will not be competing sets of institutions. In such a scenario, the rules will primarily be dictated by market forces and mechanisms, with limited influence from the other two pillars of the triangle. We refer to this entrepreneurial ecosystem as *Mixed Level Market-Based Transactional Entrepreneurship.* Examples of such nations include Colombia during the heavy drug traffic era and Russia after the fall of the Soviet Union. This type of entrepreneurial ecosystem is characterized by mafia or drug-state entrepreneurship. Mafia in the Niger Delta illegally siphon crude oil or refined petroleum products. The stolen oil is often sold in the black market or shipped abroad; a practice known as oil bunkering.

As such, we propose that nations with low regulatory quality, high market efficiency, and *high* relational saliency, will be primarily characterized by Mixed Level Market-Based Relational Entrepreneurship. In contrast, we argue that nations with high regulatory quality, low market efficiency, and *low* relational saliency, will be primarily characterized by *Mixed Level Market-Based Transactional Entrepreneurship*. We summarize these arguments with the following proposition.

Proposition 3c: In nations with low regulatory quality and high market efficiency, when relational saliency is high, there will be competing sets of rules from the market and from society, leading to the predominance of Mixed Level Market-Based Relational Entrepreneurship. On the other hand, when relational saliency is low in such markets, rules will primarily be dictated by the market, with limited strength from the state and society, leading to the predominance of Mixed Level Market-Based Transactional Entrepreneurship, *ceteris paribus*.

Discussion and conclusion

This paper examined the interplay between the institutions of the state, market, and society, and the entrepreneurial ecosystem in order to understand the context in which entrepreneurial actions take place. Building on institutional economics (North, 1981, 1990, 1991, 2005), the governance triangle (Abbott and Snidal, 2008, 2009), and the concept of high- and low-level entrepreneurship (Buckley & Casson, 1991), it develops the entrepreneurship triangle theoretical model. This provides a systematic theoretical structure for the analysis of entrepreneurial action and the role of policy in shaping entrepreneurial action. The paper also develops theoretical arguments and formal propositions for how different configurations of state, market, and society formal and informal institutions explain the prevalence of different types of entrepreneurial ecosystems across nations. It examines how—depending on the arrangement of state, market, and society institutional mechanisms in place in each nation—we can expect either high- or low-level entrepreneurship, or a mixture of the two.

Moreover, it suggests that the coalignment of the three dimensions of the triangle with entrepreneurial strategy leads to the eight different entrepreneurial ecosystem configurations. Our model considers that the configurations do not necessarily lead to tight coupling or institutional rigidity, as the underlying formal and informal institutions of the three dimensions can and do evolve over time. The model explains that an important purpose of implementing policy interventions in a market is to help move from less desirable to more desirable entrepreneurial ecosystem types, as a means of developing the economy.

Finally, the configurations and causal relationships outlined in this paper mean that our model functions as a 'counter-finality design': a framework where a single outcome emerges from a specific, singular chain of causation. The theoretical structure is restrictive, operating as a closed system that supports counter-finality. This is achieved through a tight, interlocking framework of causality formed by the triad of government policy, market pressures, and civil society constraints, which effectively precludes equifinality of alternative outcomes.

Contributions

This article makes two contributions to the literature on entrepreneurship and public policy. First, it introduces a theoretical framework in the form of the entrepreneurship triangle to analyze the entrepreneurial ecosystem within a country. It argues that the interplay among the three dimensions determines the entrepreneurial ecosystem in each country, and the level of intensity of a dimension vis-à-vis other dimensions determines the type of entrepreneurship. While the role of market and formal institutional framework imposed by the state are well documented in the literature, the theoretical underpinning vis-à-vis their relationship with informal institutions, their bearing on the entrepreneurial ecosystem and entrepreneurial activities are less known. Our theoretical framework reveals these complexities, highlighting the role of cultural, community and ethnic aspects as unique entrepreneurship factors in any country. These aspects present a sharp contrast to the extant theoretical frameworks on entrepreneurship, which ignore or downplay these niche drivers. We argue that cultural, community, and ethnic aspects provide a micro-foundation of entrepreneurship, capable of providing a theoretical extension to the field.

Second, the entrepreneurship literature has focused largely on identifying the determinants of the level, rather than the type, of entrepreneurial activity (Ault & Spicer, 2024; Bowen & De Clercq, 2008). Our paper fills that gap by specifically articulating how the interaction of state, society and market forces affects entrepreneurial activity in each economy. Additionally, the extant literature on entrepreneurship has associated formal education and experience with entrepreneurial traits and orientation. In contrast, we present the cultural, community and ethnic context, within which individual entrepreneurs are embedded, as informal factors that shape their entrepreneurial traits and orientation. Nonetheless, our theoretical device is capable of capturing the impact of all three dimensions at the national and subnational level which can lead to an enhanced understanding of theoretical propositions of entrepreneurship and the practical value associated with it (Hayton et al., 2002).

Finally, our study highlights the distinction between high-level and low-level entrepreneurship and explains why they simultaneously exist in each country. It emphasizes the role of policy in configuring the entrepreneurial ecosystem by changing levers associated with high level and low-level entrepreneurship. We propose that this is a significant contribution with practical value for policy makers, especially in developing countries where low-level entrepreneurship in the unorganized sector is highly prevalent, and policy makers put significant thrust in bringing informal economy into the mainstream formal economy.

The relationship of entrepreneurship with the market, the structure of formal and informal institutions is complex. Empirical studies in this area are limited. Future research should carefully and comprehensively model these relationships. Moreover, opportunities for research occur in comparing national entrepreneurship cross-border, as differences and similarities in the structure of market, formal and informal institutions shape entrepreneurial activities.

We apply the triangle to examine certain key aspects of the entrepreneurial ecosystem in this paper, but future work can go beyond this and use it to examine many other aspects of entrepreneurship, thus providing a lens that can help advance the field. This represents an advance in structuring different theoretical approaches to entrepreneurship. Second, it contributes by developing theory for how different configurations of state, market, and society institutional frameworks can help explain the prevalence and evolution of different entrepreneurial ecosystems across nations.

Implications for policy and practice

This paper provides insights for entrepreneurs and public policymakers by shedding light on the intricate interplay between state, market and societal institutions in shaping entrepreneurship.

It helps entrepreneurs in navigating through the complexity of competing and complementary institutional forces from the state, market, and society, equipping them to develop entrepreneurial ventures that are in harmony with the institutional configuration of their nation. By recognizing how regulatory frameworks, market dynamics, and societal norms interact, entrepreneurs can strategically position their businesses for greater resilience and long-term success.

Relatedly, for international entrepreneurs, this paper provides a comparative framework for analyzing differences in entrepreneurial ecosystems across nations and the types of entrepreneurial ventures that may function more effectively in different nations. It highlights how institutional variations influence the viability of specific business models, enabling entrepreneurs to identify opportunities and adapt their strategies for different markets (Basu et al., 2022).

For public policymakers, the article provides useful notions to help them better understand the interplay of the state, market, and society with entrepreneurship. This can help them consider implementing policies to influence markets and society to work more in coordination with the entrepreneurial landscape desired in their nation. It emphasizes the importance of quality of entrepreneurial ecosystem, particularly the role of state in providing conducive regulatory framework, in converting low-level into high-level entrepreneurship which brings in informal unregulated market activity into formal regulated one.

Mazzucato (2018, 2020) suggests that in the globalized word states need to be entrepreneurial, charged with the mission of boosting the economy, by leveraging the landscape of industrial policy. Mission-oriented industrial policy envisages an enhanced role for government in capitalist societies. The role of government becomes the definer of economic mission that thrives on entrepreneurship by creating a suitable entrepreneurial ecosystem, to be the leader of stakeholder groups to envisage, draw up and implement the appropriate policy to confront, and ultimately to solve the defined mission, just as the USA did in putting men on the moon. This requires a radical re-envisioning of the stance of government vis-à-vis the market and market institutions. "Market shaping" rather than correcting market failure is central to mission-led industrial policies. Market shaping is "the proactive action taken to build a new market and associated ecosystem", involving "investment in the growth of markets- both their rate of growth and their direction", recognizing that markets "result from both public and private activity/investments". (All quotes from Mazzucato, 2020 Table 3, page 174). Such interventionist policies will ratchet up governmental influences on the entrepreneurial ecosystem and reinforce our analysis of constraints and enforced directionality to those countries adopting such industrial policies.

Agenda for future research

This paper has proposed a general theory of entrepreneurship, based on the entrepreneurship triangle whereby entrepreneurial actions co-evolve with government actions, society norms and dynamic market developments. These interactions are across all apexes of the triangle and with entrepreneurial development. This enables entrepreneurship to be seen through the lenses of institutional theory, cultural theories, and economic theories. This is not to suggest that the theoretical program suggested here is finalized. In fact, such theoretical integration is in its infancy.

As such, a pressing research agenda item is to progress this theoretical integration. The analysis of entrepreneurship is perfect for such theoretical development. The

application of this general theoretical machine requires integration with the context. Our approach emphasized first the generality of the theory. In practice, several special theories will be defined for research settings at different levels (e.g., emerging markets, the software industry, particular firms) and different lenses (e.g., female entrepreneurs, family companies, religious companies). The role of context, and setting boundary conditions, is vital for the integrity and applicability of these special theories and it is incumbent on analysts to specify the applicability and range of special theories.

The development of our analysis should facilitate a deeper understanding of new forms of organizing and scaling growth ventures, while also providing insights into context and predictive models of entrepreneurial growth (and potential decline). A careful specification of the pressure and opportunities arising from markets, government and society—as well as the reciprocal impact of entrepreneurial change on institutions, markets and society—we provide a more comprehensive framework for studying entrepreneurship. When considered holistically, entrepreneurship theory can become both theoretically sound and empirically relevant, bridging the gap between abstract conceptual models and real-world entrepreneurial dynamics.

Moreover, it is important to acknowledge several aspects that are beyond the scope of this paper and that can be examined in future work. These include entrepreneurial agency, power asymmetries, technological advances, dynamic elements, equifinality, and other factors. To ensure our claims are precise, we added "*ceteris paribus*" to each of the propositions, to indicate that "all else is held equal", including each of these factors.

Entrepreneurial Agency

The role of individual entrepreneurial agency is important to consider. Within the same entrepreneurial context, some entrepreneurs may be responsive, flexible, resilient, and ultimately more or less successful. Attributes such as education, experience, biases, and personal networks are often the difference between the success or failure of an entrepreneur. However, our arguments suggest that on average (or in the aggregate) in markets with a given entrepreneurial context (i.e., at a given intersection between state, market, and civil society), high-level or low-level entrepreneurship (or a mix between the two) will predominate. For example, the triangle may predict that a given environment will be categorized by low-level entrepreneurship, but there will be some entrepreneurs that thrive to a greater or lesser extent in that environment based on their individual capability and background. Fully incorporating these individual characteristics and agency into the main theoretical model would lead to a much lengthier manuscript and is thus beyond the scope of the paper. To ensure our claims are precise, we have added "*ceteris paribus*" to each of the propositions, to indicate that "all else is held equal", including the role of individual entrepreneurial agency. We also indicate this as an important area for future research.

Power Asymmetries

Power asymmetries between state, market, and society agents may also influence entrepreneurial ecosystems. For instance, in situations where the state tries to forcefully impose its rules and expectations on the market and society, this could lead to an imbalance in the extent to which each of the three influence each other and thus the entrepreneurial ecosystem. Eventually, the market and society would likely push back against the state to seek to address the imbalance, but this may take some time. This is beyond the scope of the paper as it would lead to a much lengthier manuscript. We believe it is best to introduce the entrepreneurship triangle in this article to keep the content clear and succinct, while follow-up papers can examine how such aspects influence the triangle and its effects.

Technological Advances

The role of technology (e.g., AI, digital platforms, etc.) in shaping entrepreneurial ecosystems and how it interacts with the entrepreneurship triangle is also a critical aspect to examine in future work. For instance, technological advances in AI are leading to easier access to relevant and timely information for states, markets, and civil society, which may in turn influence both formal and informal institutional frameworks of each part of the triangle. We see this as a topic that is ripe with potential.

Dynamic Elements

Another important aspect is how entrepreneurial ecosystems evolve over time. For example, future work could examine how they may transition from low-level to high-level entrepreneurship, or vice versa, and what are the intermediary stages.

Equifinality

It is also important to consider the concepts of counterfinality (i.e., that specific outcomes result from singular causal chains) and equifinality (i.e., that multiple pathways can lead to similar entrepreneurial outcomes). Our model examines how particular entrepreneurial outcomes (in terms

of low-level, high-level, or mixed) will predominate in a given entrepreneurial ecosystem. This applies as we hold other aspects constant. However, by considering the aspects above, such as the entrepreneur's individual agency, power asymmetries, technological advances, and other changes over time, entrepreneurial outcomes are not fully constrained by the triangle, as agency and other dynamics can lead to different outcomes than those predicted. As such, future work can examine how these and other different factors can mean that multiple pathways can lead to similar entrepreneurial outcomes.

Other Dependent Variables

In addition, this article employed the entrepreneurship triangle to examine certain aspects of the entrepreneurial ecosystem, such as high- and low-level entrepreneurship. However, future work may apply the triangle to examine other cross-national variations in entrepreneurship. For instance, it could be used to examine different between formal and informal entrepreneurship (Dau & Cuervo-Cazurra, 2014; Thai & Turkina, 2014), high-growth entrepreneurship, opportunity-driven entrepreneurship, export-oriented entrepreneurship (Bloodgood et al., 1996), and so on. Such extensions can provide valuable insights into how the institutional context shapes diverse forms of entrepreneurship across nations, contributing to a more nuanced understanding of entrepreneurial dynamics across nations and further advancing the field.

Sub-Dimensions

Furthermore, this article examined the institutional frameworks of the state, market, and society. Future work may extend this by examining different aspects of each of these and how they interact with each other and with the entrepreneurial landscape of a country. Future work can also analyze the attributes of individual entrepreneurs within the framework of the entrepreneurship triangle. For instance, how individual biases (Kleinhempel & Estrin, 2024), such as confidence, or education and experience (Ganotakis & Love, 2012) interact with the dimensions of the entrepreneurship triangle to influence entrepreneurial activities. This paper suggests a rich research agenda in applying this theoretical framework to several empirical settings and the construction of insightful case studies. Future work may apply to many countries and regions of the world.

Interactions

Moreover, the entrepreneurship triangle may be extended to examine how the interaction of the state, market, and society co-evolve with other important aspects examined in international business, such as firm internationalization, domestic and international strategy, corporate social responsibility/sustainability practices of entrepreneurial ventures.

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