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## Strategies for Creating New Business, a Sociocultural and Institutional Approach

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## Strategies for Creating New Business, a Sociocultural and Institutional Approach

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**Abstract:** *This paper aims to summarize the main theories from socio-cultural or institutional approach to encourage the creation of new businesses. Given this context, it raised the importance of theoretical study of the factors that influence decision making in the development of new businesses and how it affects the environment in which they operate the same business. The research method used was to review the existing literature by analyzing the major theories involved in the creation of companies, emphasizing the socio-cultural approach. The analysis concludes the activity of entrepreneurship to encouraging the creation of companies, being an important factor in economic development.*

### Introduction

Business creation, also known as entrepreneurship phenomenon, has been a growing development area nowadays, thanks to the great contribution in economic development it has generated. That is why we became interested in reviewing the literature in this area, which supports to understand the na-

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ture and characteristics of the entrepreneurial phenomenon and as it has been reflected in the welfare of society. Although this phenomenon has been reflective in the economic improvement of society with the opening of new businesses, some businesses are not set up with the necessary foundation, causing the closure, which is why it is considered worthwhile to widen the scope of the investigation concerning the phenomenon of entrepreneurship.

The entrepreneurship phenomenon has created force to the economic crisis facing the country and the lack of employment opportunities, as a result of these variables many of the citizens have focused on creating their own sources of income through self-management projects, reflecting the creation of new businesses.

Companies and organizations in general, are created for a purpose because of the opportunities available. It is the institutions, through formal and informal constraints, along with the structure of ownership of the community, which determine the opportunities that exist in a society and therefore, the type of companies that will be created. Organizations and businesses are created to take advantage of these opportunities (North 1993a, pp. 15-18).

A literature review of the main theories involved in entrepreneurship emphasizing the socio-cultural and institutional approaches, raised the importance of the factors that influence decision making in the development of new business and how it affects the environment in which operate the same business, this study is aimed at recapitulating the main theories from cultural and institutional approaches that promote the creation of new businesses.

The paper proposes a literature review which provided the various theories that currently exist in relation to the promotion of start-ups from a socio-cultural approach and institutional strategies. As for the structure of this work, it first discusses existing theories in general business creation within the four approaches, giving a brief description of what each approach relates. Secondly, it describes each theory that forms the cultural and institutional approach. Finally the conclusion is addressed in the application of analysis of theories focused on the creation of new businesses.

## **Theories on building companies**

The creation of new businesses has been a fundamental part of solving problems in economic development with job creation, business innovation and economic growth through competitive advantage. Veciana (1999) developed a classification of the main theories on the study of entrepreneurship and business creation (entrepreneurship) in which he groups them according to the focus, resulting in four blocks: integrated economic, psychological approach, socio-cultural approach or institutional and managerial approach.

These approaches are classified in three levels of analysis: micro at individual level, meso at company level and macro at global economy. Veciana (1999) covers the main theories and models for entrepreneurship as it is shown in Figure 1.

**Figure 1.** Theoretical approaches to the study of entrepreneurship and business creation ("entrepreneurship")

Approaches. Level of Analysis.	Economic approach.	Psychological approach.	Socio-cultural and institutional approach.	Management approach.
MICRO (Individual level).	Business function as the fourth factor of production.  Employer's benefit theory.	Theory of personality traits.  Psychodynamic theory of entrepreneur's personality.	Theory marginalization.  Role theory.  Network theory.	Theory of efficiency X of Liebenstein.  Theory of entrepreneur's behavior.  Process models of entrepreneurship.
MESO (Business level)	Transactions costs theory.		Network theory.  Incubator theory.  Evolutionary theory.	Models of success of the new company.  Models of generation and development of new innovative projects.
MACRO (Global level of the economy)	Theory of economic development of Schumpeter	Entrepreneur theory of Kirzner	Theory of economic development of Weber  Theory of social change.  Theory of the ecology.  Institutional theory.	

Source: Veciana (1999, p.16).

The economic approach encompasses theories that attempt to explain the role of the entrepreneur and entrepreneurship on the basis of economic rationality (Veciana 1999).

The psychological approach examines the entrepreneur as an individual who creates a company, i.e. the research is directed toward what has been called an empirical concept of the entrepreneur (Veciana 1999).

The socio-cultural or institutional approach refers to the influence of socio-cultural factors in environmental entrepreneurship, explains what

social and institutional aspects that motivate towards entrepreneurship. So, this propensity can be explained by certain social phenomena such as social marginalization, religion, the family, the reigning ideology, the business environment, culture, etc. (Santos Cumplido 1998). The various theories of this approach conclude that if the business function has flourished, there must be congruence between the ideological-cultural and economic behavior construct (Amit et al. 1993).

The management approach encompasses theories in which the entrepreneurial work is about the process of entrepreneurs creating new companies. Within this approach, there are theories focused on the application of knowledge on the part of employers, framing models useful for the creation of new businesses.

## **Theories With a Socio-cultural Approach or Institutional**

The socio-cultural and institutional approaches encompass theories that explain the social and institutional aspects motivating towards entrepreneurship. Due to its large size, it is focused on talking about theories that are within this approach. The theories that integrate this approach are: marginalization theory, role theory, network theory, theory of the incubator, ecology theory and institutional theory

### *Theory of marginalization*

This theory regards the importance of external factors, mainly negative, which an employer may face in the future. The theory has its origins in a series of investigations where some negative events occurred which allowed the development of new businesses. It was found that individuals are more likely to start their own business from these negative factors. The individuals are marginalized misfits who become entrepreneurs, as a result of a change in their previous lifestyle. This change has also been called ‘role impairment’ (Collins et al. 1964) or trigger event (Shapero 1982).

According to this theory, becoming an entrepreneur requires two conditions to be met (Brunet and Alarcón 2004):

- an incubation period of maturation of the idea for some time,
- a trigger event that triggers the process of starting a business, a factor considered negative.

Such negative events could be the long-term unemployment, firing, lack of job security, rejecting situations ideas, etc (Tervo 2006).

### *Role theory*

The role theory is explained in terms of some factors due to which in some geographical areas there is an increased entrepreneurship activity, while in other areas there is little. An environment with the abundance of a dominant industry or the existence of entrepreneurial role models to follow produces a domino effect that stimulates the emergence of more entrepreneurs (Nueno 1996).

A number of environmental factors that contribute to the creation of new companies according to Veciana (1999) are:

- acts that foster an entrepreneurial culture,
- existence in the market,
- favorable attitude of society towards the entrepreneur figure, rating,
- availability of resources,
- availability of skilled workforce and executives,
- access to external finance and venture capital,
- access to training facilities and advisory services,
- economic and social rewards to business function,
- institutional factors: favorable attitude and media.
- promotion policies.

### *Theory of networks*

The network theory implies that the factor necessary for the development of new businesses is a relationship of entrepreneurs with social networks in order to interact and cooperate with others to obtain the necessary resources. A network is a coordinated system of exchange relations established by different companies specializing in the various activities of the value chain of the product (Fernández, Junquera 2001).

Network theory suggests that the specific set of relationships between various groups or actors provides multiple interconnections and chain reactions, resulting in circulating information and ideas, and enable the entrepreneur to create the company. The networks that constitute relationships are those between the employer, the client, suppliers, banks, government agencies, friends, family, business institutions, etc. Veciana (1988) studies networks in five dimensions: size, density, level of inclusiveness, diversity and centrality of the nodes.

Networks are classified in various ways, depending on the author. Birley (1985), distinguishes between formal networks such as banks, chambers of commerce, and informal i.e. family, friends, co-workers. He states that new entrepreneurs are served more of the latter than of formal networks. Szarka (1990) differentiates between: Sharing networks consisting of companies

and organizations with which the employer does business, communication networks consisting of individuals and organizations with which the employer does not maintain trade links, but we report business aspects and social networks (consisting of family and friends).

Curran, Jarvis, Blackburn and Black (1993) distinguish between compulsory networks, to which the employer must belong in order to survive, and voluntary while not necessary for survival, reinforce its position in the market. Also, Bryson, Wood and Keeble (1993), classified networks as demand networks with clients, new business and contacts, related to the supply networks and cooperation with other supply companies, and networks concerned with providing support from friends and family.

### *Incubator theory*

The need to create and develop businesses has encouraged local and regional governments, universities, chambers of commerce, private companies and even non-governmental organizations, to the establishment and development of incubator programs (OECD 1999). The theory of the incubator has highlighted the importance of organizations such as incubators as elements of business stimulus. According to this theory, the implementation of entrepreneurship is determined by the existence of certain organizations which act as incubators of a business idea for a period of time, until it has matured and demonstrated its feasibility in order to be embodied in a new company.

According to The National Business Incubation Association (NBIA), the largest professional organization dedicated to business incubation and entrepreneurial capacity, a business incubator is an economic development tool designed to accelerate the birth and growth of enterprises through the provision of resources and services that support for the fledgling company. It provides access to appropriate rental space and flexible holiday, business services and support services, technical equipment and assistance in obtaining the financing necessary for company growth.

According to the theory of the existence of certain organizations, i.e. industrial companies, research centers and universities, determine not only the number of new businesses in a given area but their nature as well. The fundamental objective is to develop business incubators to healthy economic development in the region through training, consulting, research and infrastructure, to generate knowledge, develop a sustainable competitive advantage.

### *Theory of population ecology*

The theory of population ecology, or the ecology of organizations, is trying to explain how it influences the environment that determines the life cycle of enterprises; birth, growth and death. This theory is raised by authors such as Hannan and Freeman (1977) and reaffirmed by Baumol (1993), considers that success in entrepreneurship is primarily determined by the environment than by one's ability or decision to be an entrepreneur. Veciana (1988) mentions the basic assumptions of this theory, which are the organizational forms existing at a given time unable to adapt to the changing environment.

Changes in the environment generate new business, and that changes in populations of companies obey to demographic processes of creation and dissolution of these. Bygrave (1993) exposes that population ecology is a theory providing a model for the business function trying to predict the probability of births and deaths within a population of companies.

### *Institutional economic theory*

Institutional theory seeks to explain the social and institutional aspects that determine individuals to undertake a business. While institutions provide the appropriate field for economic growth to take place, the entrepreneur is the mechanism that causes this growth to occur (Boettke, Coyne 2006). The existence of a good institutional framework in a country has allowed a greater number of business creation and economic growth compared to other countries with similar conditions that do not have it (Sobel 2008). Adopting institutions must precede productive entrepreneurial behavior, since institutions are those which allow a proper phenomenon of entrepreneurship to occur (Baumol 2002).

The authors Veblen (1904) and Commons (1934) give rise to institutional theory at the early previous century, which saw the economic importance of the laws, habits and customs that made up the institutional framework in which economic events occurred. But until 1990, when North revived the importance of institutionalism, to explain the change and organizational behavior according to the standards set by the institutions, in order to become the latter variables explaining the degree of business development in countries. Differences in institutions and policy of intervention, involve differences in business development of countries (Acemoglu, Robinson 2000).

The institutional economics of North from 1990 to 2005 explains the economic and institutional changes that arise in determining environment. He mainly analyzes the economic performance in terms of the evolution of institutions and the interaction between the political, economic, social and

educational organizations (North 1993). This theory considers the institutions as the incentives to create a productive economic structure that allows the strengthening of economies. For North (1990), the institutions are those that determine the rules of a society. Building on the metaphor of “the game”, Douglass North, Nobel Prize winner in economics, more formally defines institutions as "humanly planned constraints that structure human interaction".

As for the study of entrepreneurship from the perspective of institutional economic theory, some authors distinguish two types of factors: the formal and the informal; see Figure 2.

**Figure 2.** Dimensions of institutions

Formality grade	Example	Support pillars
Formal institutions	<ul style="list-style-type: none"> <li>• Laws</li> <li>• Regulations</li> <li>• Rules</li> </ul>	<ul style="list-style-type: none"> <li>• Regulators (coercitives)</li> </ul>
Informal institutions	<ul style="list-style-type: none"> <li>• Standards</li> <li>• Cultures</li> <li>• Ethics</li> </ul>	<ul style="list-style-type: none"> <li>• Normatives</li> <li>• Cognitives</li> </ul>

Source: Peng (2010, p. 93).

## Conclusions

In the literature review conducted throughout the article, it was seen as individuals within the entrepreneurship activity encourage the creation of new companies, these being an important factor for the economic development of the country through the creation of jobs and stimulating business innovation.

In this work it has been observed how a set of theories from cultural and institutional approaches can construct a valid theoretical framework for the study of factors that influence the creation of new businesses.

Among the theories that have been the most influential in this area is the marginalization theory, which considers the negative events that allow the development of new businesses. Secondly, the role theory explains the factors that exist in a specific geographic area that enhance business activity. The network theory implies the need to boost the ties in order to interact and cooperate with companies to obtain the necessary resources. The theory of the incubator emphasizes the importance that has incubators organizations such as government, universities and non-governmental enterprises to drive

business stimulus allowing the creation of new companies. The theory of population ecology explains how it affects the environment that sets the lifecycle of business: Birth, growth and death.

Finally, institutional economic theory makes more emphasis on the creation of new businesses, the importance of institutionalism, explains the change and organizational behaviour according to the standards set by the institutions, and analyzes the economic performance depending on the evolution of institutions and interaction between organizations. The socio-cultural or institutional approach provides the influence of socio-cultural factors in environmental entrepreneurship, explains the social and institutional aspects that motivate entrepreneurship. The various theories of this approach conclude that if the function of business has flourished, there must be congruence between the ideological-cultural and economic behaviour.

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